

Beyond the Crisis: Development Strategies in Asia

Amartya K. Sen

I would first like to say how honored I feel to have the opportunity of giving this year's Asia and Pacific Lecture. I also appreciate the fact that I am being hosted by two extremely distinguished intellectual institutions: the Japan Center for International Exchange and the Institute of Southeast Asian Studies.

I also value the chance of speaking here today on a quintessentially "Asian" subject. I feel particularly privileged for two distinct reasons. There is, first, an entirely personal reason for my satisfaction. My sense of Asian identity is very strong. I was lucky to go to a school that was very keen on educating students about Asia. This was the progressive school, in Santiniketan, established by Rabindranath Tagore, the poet and visionary thinker. In addition to insisting on a good classical education, especially in Sanskrit, the school also offered remarkable opportunities for learning about the history and culture of Asia, including China, Japan, Korea, Thailand, Indonesia, on the one hand, and about Arabic and Persian traditions, on the other. My childhood was spent partly in India (including what later became Bangladesh), but also in Mandalay in Burma, where my father taught for three years when I was a young boy.

Much later, when I went to spend some months in Thailand, there was an immediate sense of being at home, instantly on arrival. There was also a sense of nearness that I experienced when later on I traveled in other regions of Asia, including Japan and China and elsewhere (such as the Philippines and Korea). This was not only because I was constantly reminded of what I had learned about these—and other—Asian countries in my childhood, but also because by the time I was a teenager my sense of Asian identity had taken deep roots.

I am delighted to be in Singapore now, which I have only once visited earlier. It is wonderful for me to see the remarkable economic and cultural achievements of this great country. This country's success in economic development as well as in building a vibrant and harmonious multicultural society has been exceptional. In classical Sanskrit, Singapore is "the city of lion"—the place of the king of the entire animal world. The achievements of Singapore

The arguments presented here draw on my book titled *Development as Freedom* (Alfred Knopf, 1999).

have many lion-like features, including commanding elegance. The themes I will touch on will include concerns of various kinds—familiar ones that demand more support as well as less familiar ones that, I would argue, need further attention. I am delighted to have the opportunity of speaking here tonight.

ASIA AND THE GENERAL UNDERSTANDING OF DEVELOPMENT

The second reason for my feeling so privileged is intellectual, rather than personal. Asia, I would argue, is a great source of understanding and knowledge about the process of development in general. A fuller analysis of Asia's achievements and problems is a good way of assessing the demands and challenges of development itself. Asia has had a variety of experiences, including extremely successful ones, in different fields. The overall result has been a reformulation not only of the answers to standard questions about development, but also of the questions themselves.

Indeed, even the study of the problems and difficulties that the region has encountered can be a rich source of understanding of the demands of the process of development. Development strategies for Asia (with which we are immediately concerned in this conference) do, of course, have a specially local relevance, but ultimately they also have extensive global interest. The subject I have been asked to address, thus, has both regional and universal significance.

Assessment of the Past for Building the Future

Let me begin with a couple of brief remarks on methodology. First, even if our primary concern is with the problems and adversities that the region currently faces, it would be appropriate to begin with an attempt to understand the special achievements—indeed, the very great achievements—of the region and the general strategies that have made that success possible. We may have to look for new departures, but we also have reason to protect and build on the richness and creativity on which the region's accomplishments have been based. I shall argue that, in an important sense, the new has to emerge from the old.

Second, the assessment of strategies—old and new—can be fruitfully pursued at different levels, from the very detailed to the rather general. They can serve different purposes. This talk will have to be (inescapably, in view of the nature of the task) at quite a general level. If that

general understanding proves right, then there are a great many issues of detail, including administrative particularities, that would have to be taken up in due course. But first we have to get the general picture right. At that general level, I shall argue that there is an identifiable philosophy on which the success of this region has been based—even an “eastern strategy” first evolved in Japan and then practised very successfully elsewhere. I shall also argue that in the philosophy underlying the older strategies, there are clues as to how the application of that general approach can be extended and improved, to deal with the problems and difficulties that have recently emerged with compelling force.

Economic Development and Institutional Complementarities

We should begin with identifying special features of the process of economic development that we have seen in this region, beginning with Japan. The world of industrialization and economic development was often assumed, earlier on, to be reserved for the West, and the West only. Japan’s breakthrough in this world was so forceful and sure-footed that it cannot but be an irresistible source of learning and understanding about the nature of economic development in general. When, later on, the remarkable growth achievements of East and Southeast Asia occurred, there emerged another major source of illumination and knowledge on the nature and causation of economic development. Even though many commentators, especially in the West, took these successes to be no more than a confirmation of their prior belief in the productivity of international trade (as if there was nothing new in all this), a fuller analysis shows that the development process in Japan and in East and Southeast Asia had several strikingly new features.

The innovative features included, first of all, an emphasis on basic education as a prime mover of change. Second, they also involved a wide dissemination of basic economic entitlements (through education and training, through land reform, through availability of credit), which broadened access to the opportunities offered by the market economy. Third, the chosen design of development included a deliberate combination of state action and use of the market economy. Going further into fundamentals, these successes were based on an implicit but firm understanding that we live in a multi-institutional world, and that our ability to help ourselves and to help others depends on a variety of freedoms that we respectively may enjoy. The list of

relevant freedoms includes social opportunities as well as market arrangements, and the development of individual capabilities as well as enhancement of social facilities. When, later on, I go into the recent problems and difficulties—indeed, even failures—that this successful region has experienced, I shall argue that in the fuller use of this fundamental understanding (in particular, about the multiplicity and diverse reach of different institutions) lies also the solution of contemporary problems, including ways of preventing similar crises in the future. But this investigation I postpone until later.

Institutions and Freedoms

Individuals live and operate in a world of institutions. Our opportunities and prospects depend crucially on what institutions exist and how they function. Not only do institutions contribute to our freedoms, their roles can be sensibly evaluated in the light of their contributions to our freedoms. Even though different commentators have chosen to focus on particular institutions (such as the market, or the democratic system, or the media, or the public distribution system), there is a good case for viewing them together, for seeing what they can or cannot do, in combination with other institutions. It is in this integrated perspective that all the institutions have to be understood and examined.

The market mechanism, which arouses passion in favor as well as against, is a basic arrangement through which people can interact with each other and undertake mutually advantageous activities. Seen in this light, it is very hard indeed to see how any reasonable critic could be against extensive use of the market mechanism. The problems that arise spring typically from other sources—not from the existence of markets per se—and include such concerns as inadequate preparedness to make use of market transactions, unconstrained concealment of information, or unregulated use of activities that allow the powerful to capitalize on their asymmetric knowledge and command over resources. These have to be dealt with not by suppressing the markets, but by allowing them to function better and with greater fairness. Indeed, the overall achievements of the market are deeply contingent on political and social arrangements.

The market mechanism has achieved great success under those conditions in which the opportunities offered by it could be reasonably shared. In making this possible, the provision of

basic education and essential medical facilities, widely shared command over elementary resources (such as land for cultivators), and so on, demand appropriate public policies (involving schooling, health care, land reform, etc.). Even when the need for “economic reform” in favor of allowing more room for markets is paramount, the development of these vital social opportunities requires careful and determined public action going well beyond the simple fostering of markets.

Japanese Experience: Public Action and Individual Opportunities

In the context of developing countries in general, the need for public policy initiatives in creating social opportunities is crucially important. A wide sharing of these social opportunities makes it possible for the bulk of the people to participate directly in the process of economic expansion. What the Japanese experience, followed by the success of East and Southeast Asia, did was to discredit a common, and often unargued, belief that had been dominant in some policy circles, especially in the West, that human development is a kind of luxury that a country can afford only when it grows rich. Perhaps the most important impact of the type of success that the East Asian economies have recently had (beginning with Japan much earlier) is the total undermining of that implicit prejudice. These economies went comparatively early for massive expansion of education and other ways of broadening the entitlements that allow the bulk of the people to participate in economic transactions and social change. This happened well before breaking the restraints of general poverty; indeed, that broad approach greatly contributed to breaking the restraints of poverty.

Consider Japan. Even at the time of the Meiji Restoration in the middle of the 19th century, Japan already had a higher level of literacy than Europe, even though Japan had not yet had any industrialization or modern economic development, which Europe had experienced for a century. That focus on developing human capability was intensified in the early period of Japanese development, in the Meiji era (1868–1911). For example, between 1906 and 1911, education consumed as much as 43 percent of the budgets of the towns and villages, for Japan as a whole (see Gluck 1985, 166).

In this period in Japan, the progress of elementary education in particular was most rapid, and the recruiting army officers were impressed by the fact that while in 1893 one-third of the

army recruits were illiterate, already by 1906 there was hardly anyone who was not literate. By 1913, though Japan was economically still quite underdeveloped, it had become one of the largest producers of books in the world, publishing more books than Britain and indeed more than twice as many as the United States (see Gluck 1985, 12 and 172). Indeed, the priority to education and human development came very early to Japan, and even though it is massively high today, the important thing to note is that this relative priority goes back more than a century, and has not, comparatively speaking, intensified as Japan has grown richer and much more opulent (Ishi 1995). The fact that human development in general and school education in particular are first and foremost an ally of the poor, rather than of the rich and the affluent, is an understanding that has informed the Japanese strategy of economic expansion throughout its entire modern history.

To a great extent, the same priority can be seen all over East and Southeast Asia, though often this came rather more hesitantly and slowly. South Korea, Taiwan, Hong Kong, Singapore, Thailand, and other countries—most importantly mainland China—have made excellent use of this general approach.

HUMAN DEVELOPMENT: AN EASTERN STRATEGY

We may ask, what does human development do? It helps the lives of people in several different ways. We may see some of its contributions in terms of its role in the formation of “human capital,” but the reach of human development goes well beyond what can be adequately captured within that narrow framework.

First, the creation of social opportunities makes a direct contribution to the expansion of human capabilities and the quality of life. Expansion of education, health care, and so on contribute directly to the quality of life and to its flourishing. There is every evidence that even with relatively low income, a population that guarantees health care and education to all can actually achieve remarkable results in terms of the length and quality of life of the entire population. This is borne out particularly by the achievements of pre-reform China prior to 1979, by which time China already had quite a high life expectancy at birth, preceding the industrial and agricultural expansion that would occur following the reforms.

Indeed, the highly labor-intensive nature of health care and basic education—and human development in general—makes them comparatively cheaper in the early stages of economic development, when labor costs are low. There is a very important consideration of “relative costs” here, which is sometimes missed in development analysis. It is often asked, How can a poor country, before much economic development, “afford” to finance expansion of basic education and medical care? This question, which is a good one to ask, does also have a good answer. A poor country has lower wages, and labor costs are relatively moderate (often by a very long margin in comparison with the richer countries). Since basic education and medical care are also exceptionally labor-intensive activities, they are also much cheaper in the poorer countries than in the richer ones. The poorer economies, which have less money to spend on public services, also need less money to spend in achieving the same development of basic education and medical care compared with the richer countries (see Drèze and Sen 1987).

So the first thing to note is the direct contribution of this strategy (what we may call the “eastern strategy”) of going early for human development, focusing on the enhancement of basic human capabilities. It has two major effects. First, it contributes to the quality of life (through more literacy, the expansion of life expectancy, reduction of morbidity rates, and so on), even in the absence of its impact on economic and industrial expansion. This must be recognized first, since the object of public policy must ultimately be the enhancement of human life and freedoms. There is, however, also a second effect. Human development in the form of basic education, health care, and so on also greatly facilitates economic and industrial expansion, and improves the efficiency and wide reach of the market economy. And these, in turn, can feed back on raising the quality of life. There are, thus, both direct gains and indirect ones.¹

Indeed, the rewards of human development go well beyond the direct enhancement of quality of life, and include also its impact on people’s productive abilities and thus on economic growth on a widely shared basis.² Literacy and numeracy help the participation of the masses in the process of economic expansion. To use the opportunities of global trade, particularly in industrial output, “quality control” as well as “production to specification” can be quite crucial, and this is hard for illiterate or innumerate laborers to achieve and maintain. Furthermore, there is considerable evidence that improved health care as well as nutrition also makes the work force more productive and better remunerated (see Behrman and Deolalikar 1988).

The so-called East Asian miracle was, to a great extent, based on the reach and force of the “eastern strategy” of focusing on human development and, more broadly, on acknowledging a fundamental complementarity between the state and the market. The connection between economic expansion and human development, while ignored for a long time in Western public discussion, is now more fully acknowledged. The World Bank, which had been rather skeptical in the past of these connections, has moved in recent years in the direction of greater recognition of these linkages. An important step, particularly emphasizing the role of public education, is well documented in the book *The East Asian Miracle*, published in 1993, even though there was evidently still a residual reluctance to see more fully the larger understanding of the interlinkages of different institutions and the complementarity between the state and the market (of which public education is only one part) (World Bank 1993). In more recent years, particularly under the leadership of President James Wolfensohn (and the research guidance of Joseph Stiglitz), the broader interinstitutional connections have become much more fully seized (see Wolfensohn 1999; Stiglitz 1998). We have to see how far the far-reaching implications of this crucial recognition will be reflected in the day-to-day working of the Bank (and other institutions, such as the International Monetary Fund [IMF]).

Third, there is much confirmation in the contemporary empirical literature of the impact of education, especially female education, on reducing fertility rates (along with decreasing child mortality rates). High fertility rates can be seen, with much justice, as adverse to the quality of life, especially of young women, since recurrent child bearing and rearing can be detrimental to the well-being and freedom of the young mother. Indeed, it is precisely this connection that makes the empowerment of women (through more outside employment, more school education, and so on) so effective in reducing fertility rates, since young women have a strong reason for moderating birth rates, and their ability to influence family decisions increases with their empowerment. I have argued elsewhere that even China’s achievements in reducing fertility rates does not really show the effectiveness of its draconian legal restrictions (“one-child family” and others), economic penalties, and other punitive rules introduced in 1979. They are also, to a great extent, the result of the expansion of women’s education and employment.

Indeed, in those parts of India where female education and empowerment are more advanced than in China (in Kerala, in particular), the fertility rate is significantly lower than in China, despite there being no compulsion whatever. Even the rate of fall of the fertility rate has

been much sharper in those parts of India in which female educational expansion has been faster than in China. For example, the Indian state of Kerala (the various districts of which add up to a total of 30 million people) has had a much faster expansion of female education than China. It has also, correspondingly, experienced a substantially faster decline in the fertility rate. While the Chinese fertility rate fell from 2.8 to 2.0 between 1979 (when the “one-child policy” and other coercive measures were instituted) and 1991, it fell from 3.0 to 1.8 in the same period in Kerala. Kerala has kept its lead over China both in female education and in fertility decline (currently, Kerala’s fertility rate is below 1.7, and China’s is about 1.9). Also, thanks to the process of fertility decline being freedom-based rather than coercive, the infant mortality rate has continued to fall in Kerala in a way it has not in China. By the middle of this decade, Kerala’s infant mortality rate (16 for girls, 17 for boys) has become much lower than China’s (33 for girls and 28 for boys), even though both regions had similar infant mortality rates around the time, in 1979, when the one-child policy was initiated in China.

Human development has extraordinary social and demographic reach, in addition to its contribution to economic development and directly to the quality of life. China should get more credit for what it has achieved through human development, rather than coercion, and less admiration for its coercive policies. The fact that, in contrast with the human development-oriented states like Kerala, the rest of India, especially the north of the country, has done so little for human development is the primary explanation for India’s low performance in social as well as economic fields.

The Eastern Strategy and the China-India Contrast

Since I have already commented in passing on the China-India contrast, let me go on to pursue the comparison a bit further. Indeed, it is useful to see the wisdom of the eastern strategy as a point of difference with the restricted approach adopted in India. The importance of basic education and other central features of human development has been persistently neglected in India. As a result, even now nearly half the adult population of India is illiterate. It is not easy to make use of the opportunities of globalized trade if illiteracy makes it hard for the common man and woman to participate in production according to international standards and specifications, or even to have quality control.

India has also had an overpowering bureaucracy—not a good way of building the complementary relation between the state and the market. Despite the economic reforms introduced in 1991, that problem has not yet been adequately resolved. But while the need for more market-friendly policy has been much acknowledged in India, even by the government, the disastrous failure in human development has not yet received the concentrated attention it strongly needs. The advocacy of economic reforms in India in 1991 made “liberalization” the one crucial issue, and while this was certainly an important matter, the fuller nature of what I have been calling the “eastern strategy” was badly missed in Indian policy making. There is, in fact, a deep complementarity between reducing, on the one hand, the overactivity of the state in running a “license Raj,” and, on the other, removing the underactivity of the state in the continuing neglect of elementary education and other social opportunities (see Drèze and Sen 1995; Sen 1982).

The contrast of India with China is relevant here. China too had a very bureaucratic economy prior to the economic reforms of 1979, but it had expanded—in line with its political commitment—facilities for basic education and health care much more extensively in the pre-reform period than India had. After the economic reforms of 1979, China could make excellent use of what it had already achieved in the field of educational and human development. Post-reform China greatly benefited from that part of the eastern strategy that China had already used in the pre-reform period; the rest of the eastern strategy could be, then, added on to what had already been achieved.

In contrasting contemporary India with contemporary China, it is often pointed out rightly that China has done more to make use of the efficiency of the market than India has. This is certainly true since the Chinese economic reforms of 1979. But what is also true is that already by 1979 China had done a great deal in general human development. This was socially helpful right from the start and also provided strong support for economic development when the reforms came in 1979. Indeed, India’s underdevelopment in basic education and health care, aside from reducing the quality of life of its people, is also a very big barrier to its use of the opportunities of global trade and exchange.

To be sure, India has an extensive higher educational sector (in fact, for every university-educated person in China there are approximately six in India), and certainly India can make good use of those parts of trade and commerce that depend on highly educated skill. For

example, Bangalore has become a major center of electronic and technological activities in the world. And yet, while China is quite close to universal literacy, especially among the young, India is still very far away from it, and this is perhaps the single most important barrier to India's participation in the global economy. Even a hundred Bangalores and all the developments of modern science and technology of which India can be genuinely proud will not be able to penetrate the depth of rural poverty in India. I have written about this contrast elsewhere, and I shall not go more into this now (see Drèze and Sen 1995). What I want to particularly emphasize here is that this deficiency of Indian economic and social policy is a failure to learn more from the success of the eastern strategy in Japan and East and Southeast Asia. The remedy cannot lie only in expanding the markets and reducing the bureaucracy (important as they are). They also call for a fuller use of the development of human capability and of the complementarity between multiple institutions, so central to the eastern strategy.

Transient Crisis and Endemic Deprivation

The time has come for me to shift gears a little and to look not only at long-run success but also at short-run problems, which may be transient but which can play havoc in an otherwise successful experience of long-run growth. As it happens, here too the India-China contrast is relevant, but in quite a different way—not entirely unfavorably to India.

The challenge of development includes both the elimination of persistent and endemic deprivation, and the prevention of sudden and severe destitution. The respective demands on institutions and policies of the two can be somewhat distinct and even dissimilar. Success in one field may not guarantee success in the other. For example, consider the comparative performances of China and India over the last half a century. It is clear that China has been much more successful than India in raising life expectancy and reducing mortality. Indeed, its superior performance goes back, as I have already commented, to well before the economic reforms of 1979. India is a much more diverse country than China, both because of variations of language and tradition and because of regional differences in politics (combined with a more “federal” structure of Indian administration compared with the Chinese system). As was discussed earlier, there are parts of India (such as Kerala) in which the expansion of human development has been

much faster than in China. Nevertheless, for the two countries as a whole the comparison of human development is largely in favor of China.

And yet, despite these achievements, China also experienced the largest recorded famine in history, when 30 million people perished in the famines that followed the failure of the Great Leap Forward, during 1958–1961. In contrast, India has not had a famine since independence. The prevention of famines and other disastrous crises is a somewhat different discipline from that of overall increase in average life expectancy and other achievements. I shall presently argue that in ensuring security in the form of avoidance of disaster—whether originating in natural calamities or in policy blunders—democracy and participatory politics have important roles to play.

Inequality is a crucial feature of development of famines and other severe crises. Of course, the absence of democracy is in itself an inequality, in this case of political rights and powers. But we have to see particularly the relation between (1) political inequality in the form of nondemocratic governance and (2) famines and other unequal deprivations that thrive on the basis of severe and sometimes suddenly increased economic inequality. The role of economic inequality in the development of famines is illustrated by the fact that famines can occur even without a large—or even any—diminution of total food supply, because some groups may suffer an abrupt loss of market power (through, say, sudden and massive unemployment), with starvation resulting from this new inequality. Famines are very divisive phenomena.

THE RECENT CRISES IN EAST AND SOUTHEAST ASIA

Similar issues arise in understanding the nature of economic crises, such as the recent ones in East and Southeast Asia, with the accompanying feature of selective but massive destitution and misery. Let me now turn to that.

In their foreword to the volume *The Asian Crisis and Human Security*, Yamamoto Tadashi and Chia Siow Yue point out that “Asia approaches the new century in an introspective and apprehensive mood” (1999, 7). There are indeed good grounds for caution and for critical reflection. The future can be faced with greater strength and skill, if we try to understand what these grounds for apprehension and introspection are. I shall argue that there are distinct elements in this overall picture that have to be clearly distinguished. We can find solutions to

problems if we know exactly what the problems are. In looking for new development strategies for Asia, much of the work would have to be done through transparent identification of the problems that Asia faces, to which inadequate attention may have been given in the past.

Vulnerability and Non-monotonic Progress

Perhaps the most obvious problem relates to the recognition that the heady days of unmitigated success, with things going up and up and nothing ever falling down, are over. Even though much of Asia is already well on the way to recovery from the crisis that hit it two years ago, the sense of invulnerability has not survived. It could not have. Indeed, it is clear that severe economic crises can occur and disrupt the rushing stream of unobstructed economic progress that many Asian countries took for granted.

This is an important understanding, even though it can hardly be seen as a profound recognition. Even a modest study of economic history brings out the fact, observed everywhere in the world, that economic progress is rarely monotonic. Indeed, rifts have appeared with unflinching constancy to interrupt what previously looked like the promise of an unending and unbending forward march of the economy. Asia does not have a special exemption from vulnerability. This is not a kind of Murphy's Law, a grand claim that if things can go wrong, they will. Rather, it is a very modest claim that dangers of interruption are omnipresent, and no matter how robust things may look, they can, and sometimes will, go wrong. Belief in invulnerability is, in fact, a childish thought: like the way teen-age car drivers often assume that accidents cannot happen to them in particular.

Even though the recognition of vulnerability is not profound, it is, in fact, extremely important to see the far-reaching implications of this simple acknowledgment. In particular, it makes it absolutely obligatory to see security as a central part of development. A view of development that judges progress by long-run growth averages and by the strength of upward trends misses something truly central to the process of development, that is, protection against downside risk at a given moment of time. Today's miseries may coexist easily enough with speedy progress experienced yesterday and the rapid advance that may occur tomorrow.

Divided We Fall

The second point is also simple enough, even though it too is missed often enough. Even when different groups can all benefit simultaneously when rapid progress is occurring, and in this sense the interests of the different groups are substantially congruent, when a crisis hits, different groups nevertheless can have very divergent predicaments. United we may be when we go up and up, but divided we fall when we do fall. The false sense of harmony may be torn severely asunder when things start unraveling and coming down.

The issue of divisiveness of downturns (even when upturns are harmonious) is one of the central lessons to emerge from the study of crises, often much more catastrophic than those East and Southeast Asia have recently experienced. Even when a terrible famine occurs, it may be a situation in which most groups of people in that country have no difficulty whatsoever in getting enough to eat (see Sen 1981; Drèze and Sen 1987). A famine rarely affects more than 5 percent of the population and almost never more than 10 percent. That is one reason why famines cannot really be analyzed helpfully in aggregative terms—neither in terms of total food supply nor in terms of average gross national product or gross domestic product per head. The focus of causal analysis has to be the respective entitlements of different groups of people, their particular and specific abilities to buy food and other necessities and to save themselves from sudden deprivation. The entitlements of some groups can collapse severely even when other groups have only mild problems or even remain quite unharmed and unaffected.

Exactly the same thing applies in a crisis like the one that hit East and Southeast Asia two years ago, even though the extent of deprivation was far from that of a famine or a massive disaster. Take, for example, the crises in Indonesia, or in Thailand and, earlier on, in South Korea. We may wonder why should it be so disastrous to have, say, a 5 or 10 percent fall in GNP in one year when the country in question has been growing at 5 to 10 percent per year for decades. Indeed, at the purely aggregate level this is not quintessentially a disastrous situation. And yet, if that 5 or 10 percent decline is not shared evenly by the population, and if it is heaped instead largely on the poorest part of the population (the jobless and the marginalized, and their families), then that group may have very little income left no matter what the overall growth performance might have been in the past. Such general economic crises, like famines, thrive on the basis of the Devil taking the hindmost.

This is why “protective security” is such an important instrumental freedom, and why social arrangements for safety nets are an integral part of development itself. Even the otherwise highly

illuminating literature on “sustainable development” often misses the fact that what people need for their security is not only the sustainability of overall development, but also the need for social protection when people’s predicaments diverge and some groups are thrown brutally to the wall while other groups experience nothing like that.

Security and Equity

I now turn to a third lesson, which is, in fact, closely related to the second, that is, to the issue just discussed of divided fortunes in a downturn. There is an important need to think of equity and economic inequality in a quite different way in the context of security from the way they are treated standardly in the development literature in the context of long-run growth. In an obvious sense, the problem of contrasting predicaments is, of course, one of inequality. There is clearly much inequality when one group falls to pieces while other groups do just fine; this reflects, in an obvious sense, a violation of equity. But it is important to recognize that this is not the same problem as the more commonly discussed challenge of “growth with equity.”

That large literature, which is conceptually rich and practically important, is particularly suited to analyze the big—but different—problem of eliminating endemic poverty. The problem of sudden destitution can have a very different nature and may involve quite disparate causal processes from persistent deprivation and endemic poverty. For example, the fact that South Korea has had economic growth with relatively egalitarian income distribution has been extensively, and rightly, recognized.³ This, however, was no guarantee of equitable influence in a crisis situation.⁴ In particular, South Korea did not have, when the crisis hit it, a proper system of social safety nets, nor any rapidly responding system of compensatory protection. The emergence of fresh inequality and unchallenged destitution can coexist with a very distinguished past record of “growth with equity.” Different problems call for distinct analyses and understanding.

Role of Democracy

I turn now to a fourth issue, that of political democracy. It is, of course, entirely in line with the fundamental approach of the complementarity between the state and the market to see that democracy has a vital role, without that being in any way a barrier to the use of the market

mechanism. Indeed, Japan's own experience in combining democracy with the functioning of the market and other institutions illustrates this well, as do the recent experiences of more and more countries in this region. The often-repeated belief that authoritarian regimes are better in fostering economic growth (a claim largely based on selective evidence) has not received any serious general empirical support in extensive intercountry comparisons (see, for example, Przeworski 1995; Barro 1996). Indeed, two decades of empirical work bring out very clearly that the success of a market economy is facilitated by a supportive economic environment, rather than by the harshness of the political climate.

How does the issue of democracy relate to the problems of deprivation, security, and crises that I am currently discussing? The most immediate connection lies, of course, in the fact that a denial of basic political freedom and civil right is itself a deprivation. Prime Minister Obuchi Keizo, in his insightful opening remarks to the first Intellectual Dialogue on Building Asia's Tomorrow, held in Tokyo in 1998, emphasized the need to take a broad view of security: "It is my deepest belief that human beings should be able to lead lives of creativity, without having their survival threatened or their dignity impaired. While the phrase 'human security' is a relatively new one, I understand that it is the keyword to comprehensively seizing all of the menaces that threaten the survival, daily life, and dignity of human beings and to strengthening the efforts to confront these threats" (Obuchi 1999, 18–19).

We human beings have reason to value liberty and freedom of expression and action in our lives. This can be central to our creativity as well as dignity. And it is not unreasonable for human beings, the social creatures that we are, to value participation in political and social activities without restraint. Also, informed and unregimented formation of our values requires openness of communication and arguments, and political freedoms and civil rights can be central to this process. Furthermore, to express publicly what we value and to demand that attention be paid to it, we need free speech and democratic choice.

Democracy and freedoms of association and participation, thus, have a constructive role as well as intrinsic importance. In addition, there is a fundamental connection between democracy and security. The instrumental role of democracy (including elections, multiparty politics, a free media, etc.) in making sure that the government does respond to people's needs and predicaments can be of great practical significance.⁵ In analyzing this connection, we have to consider the political incentives that operate on governments and on the persons and groups who

are in office. The rulers have the incentive to listen to what people want if they have to face their criticism and seek their support in elections.

It is, thus, not astonishing at all that no substantial famine has ever occurred in any independent country with a democratic form of government and a relatively free press (see Sen 1983; Sen 1987). They have occurred in ancient kingdoms and contemporary authoritarian societies, in primitive tribal communities and in modern technocratic dictatorships, in colonial economies run by imperialists from the North and in newly independent countries of the South run by despotic national leaders or by intolerant single parties. But they have never materialized in any country that is independent, that goes to elections regularly, that has opposition parties to voice criticisms, and that permits newspapers to report freely and question the wisdom of government policies without extensive censorship. Right at this moment, the two countries that are experiencing severe famines, North Korea and Sudan, are quintessentially authoritarian regimes.

Security, Asian Crises, and the Voice of the Poor

When things are routinely good and smooth, the protective role of democracy may not be desperately missed. But it comes into its own when things get fouled up, for one reason or another. And then the political incentives provided by democratic governance acquire great practical significance. There may be some important economic as well as political lessons here. Many economic technocrats recommend the use of economic incentives, which the market system provides, while ignoring political incentives, which democratic systems could guarantee. But economic incentives, important as they are, are no substitute for political incentives, and the lacuna of the absence of an adequate system of political incentives cannot be filled by the operation of economic inducement.

The recent problems of East and Southeast Asia bring out, among many other things, the penalty of limitations on democratic freedom. This is so in two striking respects, involving the neglect of two important instrumental freedoms, namely, “protective security” and “transparency guarantee.”

First, when the financial crisis in this region (from 1997 onwards) led to a general economic recession, the protective power of democracy—not unlike that which prevents famines in

democratic countries—was badly missed in some countries in the region. Those who were newly dispossessed in, say, Indonesia or Korea did not get the hearing they needed. Even though a fall of 5 or 10 percent of total national income (or of GNP) is comparatively moderate, it can decimate lives and create misery for millions, if the burden of contraction is not shared together but allowed to be heaped on those—the unemployed or those newly made economically redundant—who can least bear it. The victims in Indonesia may not have taken very great interest in democracy when things went up and up. But when things came tumbling down for some parts of the population, the lack of democratic institutions kept their voices muffled and ineffective. The protective umbrella of democracy is strongly missed exactly when it is most needed. Not surprisingly, democracy became a major issue precisely at a time of crisis, when the economically dispossessed felt strongly the need for a political voice. As the positive experience recently of South Korea shows, the workings of a democracy, even when revived only under an economic emergency, can confront, with commendable speed, severe problems of privation and insecurity.

The issue of democracy relates also to a second connection, that between the lack of democracy and the nature of the recent economic crisis. The financial crisis in some of these economies (such as Korea or Indonesia) has been closely linked with the lack of transparency in business, in particular the lack of opportunity of public scrutiny in reviewing financial and business arrangements. An effective democratic forum could have been influential in preventing malpractice, especially at the top (involving, for example, underhand arrangements between high-ranking government officials and business families). Efficient arrangements for public scrutiny of the activities and influences of selected families or groups could have made a big difference.

It is not hard to understand the motivation behind the discipline of financial reform and accountability that the IMF tried to impose on the economies in default. Indeed, it was, to a great extent, necessitated by the lack of openness and disclosure, and the involvement of unscrupulous business linkages, that was characteristic in parts of these economies. These characteristics connect strongly with a system of nontransparent commercial arrangements. When a depositor places his or her money in a bank there may be some expectation that it will be used, along with other money, in ways that would not involve undue risk and which could be openly disclosed. Since this trust was often violated, the financial arrangements needed changing. I am not

commenting here on whether the IMF's management of the crises was exactly right, or whether the insistence on immediate reforms could have been sensibly postponed until financial confidence had returned in these economies. But no matter what tactics might have worked best, the role of "transparency freedom" —or rather its absence—in the development of the Asian crises cannot be easily doubted, and the need for change was certainly strong.

Financial arrangements have many complexities, and the problems faced in different East and Southeast Asian economies are by no means the same. But there is evidence that in some of these economies, such as Indonesia or South Korea, the pattern of extraordinary risks and improper investments could have been placed under much greater scrutiny if democratic critics had demanded that. But of course neither Indonesia nor South Korea had, over the relevant decades, a functioning democratic system that would have allowed such demands to come from outside the government. The unchallenged power of governance was easily translated into an unquestioned acceptance of the lack of accountability and openness, often reinforced by strong family links between the government and the financial bosses. In the emergence of the economic crises, the undemocratic nature of some governments played an important part.

A CONCLUDING REMARK

Time to end. In this lecture I have tried to see the Asian experience in a broad framework, dealing both with successes and failures. I have seen development as a process of enhancement of human freedoms of various kinds, which are intrinsically important in themselves and which are mutually supportive of each other. They call for a multiplicity of working institutions, of which the market is an important part, but which needs extensive and many sided supplementation.

The arguments presented in this lecture have drawn on a somewhat fuller analysis pursued elsewhere, in particular in my book titled *Development as Freedom*. That work investigates the diversity, importance, and far-reaching roles of different types of freedoms that relate with each, and which demand a multiplicity of institutional developments. I have tried to argue here that the nature and effectiveness of the "eastern strategy" can perhaps be more satisfactorily understood in this general perspective. Indeed, this perspective has something to offer in explaining both (1) the successes of the East and Southeast Asian economies and (2) the nature of the problems and

difficulties this region faces. Freedoms have to be seen both as the primary ends of development as well as its principal means.

The distinct but interconnected roles of various instrumental freedoms require particular attention, covering, among other demands, economic facilities, political freedoms, social opportunities, protective security, and transparency guarantee. The book, incidentally, was based on a series of lectures given at the World Bank in November 1996, just before the Asian economic crisis erupted. It was depressing to see that the worst fears expressed in these lectures were realized with alarming rapidity.

The “old strategy” on which the major successes of East and Southeast Asia have been based is the use of the complementarity of different institutions, and in particular the creation of social opportunities through public policy that crucially supplement the functioning of the market. In this radical approach, Japan led the way, followed by the successful East and Southeast Asian economies. This was not only new in the world, but those economics even in Asia that did not seize the wisdom of this broad approach (involving the creation of social opportunities as well as allowing the market to function efficiently) suffered substantially from that neglect. My own country, India, is a good example of that.

But development is not only a matter of long-run growth, nor just a matter of long-run growth with long-run equity. Even successful economies can have sudden and severe problems, and when they occur, sections of the population may suffer from divisive fortunes. This is why security is a distinct and significant concern, which is not subsumed by the usual demands of “growth with equity.”

In looking for new strategies for the future of this region, the need for protective security has to be firmly seized. This is important in broadening the “eastern strategy” for use in Asia, or anywhere else. The issue of democracy is also quite central, both because the denial of political and civil rights is itself a deprivation, and also because the political incentives provided by a participatory and open political system can be crucially important. These incentives give voice to the dispossessed, and this in turn encourages protective security. In addition, democratic and contested political systems help accountability and the prevention of the kind of financial irregularity that played a significant part in the recent Asian crises. If these lacunae point to the need for Asia to have a modified economic and social strategy, it is important to recognize that

this involves, in some ways, an intensification of the basic wisdom of looking for complementarity between different institutions.

Asia has made good use of a philosophy of development based firmly on institutional complementarity. It can make better use still of that philosophy, by applying the same broad vision to the problem of security. The case for a “new strategy” can be fitted into the basic wisdom underlying the old strategy (in particular, on the understanding of the need to take serious note of complementarity of different institutions), but applied even more broadly, covering inter alia protective security, participatory politics, and transparent accountability.

In the ninth century, the Chinese poet and literary critic Ssu-k’ung T’u put very well the general issue of the integration of the old with the new: “You join with the old and produce the new.”⁶ This was in his classic work, *The Twenty-Four Categories of Poetry*. Of course, Ssu-k’ung T’u was talking about literary creations, not social and economic development. But the same integrative message—more than a millennium old—applies to economic and social arrangements as well. I have argued that in the present context, we need to retain the old and important understanding, particularly about the complementarity of institutions, and give it a new form to extend the reach and coverage of that complementarity. So let me end by echoing Ssu-k’ung T’u, and suggest that we join with the old and produce the new.

NOTES

1. These issues are more fully discussed in Sen (1999).
2. The nature of this connection is discussed in Drèze and Sen (1987).
3. See Persson and Tabellini (1994); Alesina and Rodrik (1994); and Fishlow, Gwin, Haggard, Rodrik, and Wade (1994). See also the contrast with India, and South Asia in general, in Drèze and Sen (1995).
4. Indeed, as You Jong-il (1998) has pointed out, in these countries, including in South Korea, “low inequality and high profit shares coexisted primarily due to the unusually even distribution of wealth.” In this achievement, prior land reforms, widespread development of human capital through educational expansion, and other influences reducing inequality in basic wealth were important. But all this does not, in any way, ensure a commitment to

protective security when a crisis develops. Participatory politics can be an important influence in that direction.

5. These issues are more fully discussed in Sen (1999).
6. English translation from Owen (1992, 309).

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