

Finding the facts; Five months ago, the World Bank set up a Commission...

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Five months ago, the World Bank set up a **Commission on Growth and Development**. Its chairman, the Nobel-winning economist Michael Spence, was in Delhi this past week. At a meeting with Delhi-based economists, organised by the Indian Council for Research on International Economic Relations (Icrier), Spence mentioned that, since World War II, there have been 11 economies that have seen rapid growth. Asked whether any of these countries had failed to achieve significant poverty reduction, he and the vice-chairman of the Commission (the World Bank's Danny Leipziger) said there were none. In short, the evidence of the past 60 years shows that the route to poverty reduction is rapid economic growth. Period.

The debate turned to having more than the single objective of economic growth, and the additional goal of making growth "inclusive" which is the UPA government's product differentiation buzzword. When Leipziger said many countries that had seen rapid growth had also seen an increase in inequality, he was challenged by one of the Indian economists present, and someone suggested that the same data might be interpreted differently. And when asked to comment on the politicians' penchant for spending large sums of money on government programmes that are known to be ineffective and mostly wasted effort, Spence felt it might be considered part of the unavoidable cost of running a (democratic?) system.

It was an illuminating discussion that has a direct bearing on the central political economy questions in India. For instance, every rapidly growing economy has increased its integration with the rest of the world economy. In other words, inward-looking policies don't help. Rules, systems and institutions (the soft infrastructural issues on which India perhaps scores over China) are the other essential ingredient, it seems. There was also a mention of the role of democracy in **development**, where the available literature suggests that autocratic systems can do very well (China) or very badly (North Korea, Zimbabwe), while democracies seem to guarantee a minimum level of performance (presumably because those in power have to face voters) but do not guarantee rapid growth (because of the compromises that have to be made). One of the questions at the Icrier meeting was why inequality had increased in China over the last quarter century, even though its economic surge in that period had been made possible by rapid growth in both agriculture and labour-intensive industry. Spence gave a

sensible statistical explanation (when some people first move out of the low-income trap, by definition inequality has to increase, until the others catch up).

Growth, poverty, inequality, democracy_what bigger themes can anyone dwell on? The thought with which one left the meeting was that the last 60 years have given the world a multi-country database on the basis of which to test almost any hypothesis on the relationship between these four big words. That leads to the obvious question: if one can avoid disagreements over data analysis, why is it not possible to settle the big questions empirically, rather than ideologically? This is not to suggest the equivalent of an "end of history" argument, or a successor to the Washington Consensus (a set of good economic policies for macro-economic stability): i.e. if all countries follow an empirically-derived set of policies, the results in terms of growth and poverty reduction can be guaranteed. Rather, it is to suggest that politicians should be asked to substantiate what they say on any big issue, with facts and figures.

In India's own case, when Manmohan Singh began opening up the economy in 1991, the critics said it would lead to de-industrialisation and economic disaster. Where are they today? Private insurance companies were opposed tooth and nail, but have they increased choice and the spread of insurance, or not? When Delhi's power distribution system was privatised, it was criticised on many counts, but the efficiency gains achieved are dramatic. We can see improvements in the Delhi and Mumbai airports, within weeks of private companies taking charge. When the airports are transformed, where will the critics of this privatisation be? My suspicion is that they will have found some other issue on which to try and halt progress. As for empiricism, what's that?.