

WHAT'S THE POINT OF A DEVELOPMENT STRATEGY?*

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Abstract

Standard indicators of economic success leave out many aspects of development that are crucial to the well-being and freedom of citizens. We have to examine critically the ends as well as the means involved in development strategies. The impact of public education, health care, social security, etc. have to be seen both in terms of their direct effects on human capabilities and their indirect consequences on people's lives through raising productivity and earning powers, and through helping to reduce the burden, especially on young women, of high fertility. The two aspects have to be considered together.

Contents:

1. Introduction
2. Public Policy and Development Strategy
3. Welfare Economics, Development and Social Choice
4. Human Beings as Means and Ends
5. Benefits and Costs of Social Development
6. Financial Prudence and Development Strategy
7. Concluding Remarks

References

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WHAT'S THE POINT OF A DEVELOPMENT STRATEGY?

1. Introduction

Is "development strategy" a smart thing to have? It looked like that when development economics was born as a new subject in the late 1940s. A state could do wonders, it seemed, with a well thought out design of development. Many economists - Ragnar Nurkse (1953), W. Arthur Lewis (1955), Paul Baran (1957), Harvey Leibenstein (1957), Jan Tinbergen (1958), Charles Kindleberger (1958), among others - outlined their respective ways of getting development going and making things more rapid. There were, of course, sceptics too, such as Albert Hirschman (1958), who saw development as a less planned and more spontaneous process, often emerging from undesigned chaos rather than from designed order. But the balance of opinion in the circle of development economists was very definitely on the side of "strategists" rather than "anti-strategists."¹

Things have moved on from there. Views have changed. The faith in the government's ability to do good things has dwindled. The increased appreciation of the role of markets rather than of governments also tends to make the reliance on public policy and development strategy deeply suspect. Indeed, development strategy has ceased to be a very attractive term. It is often seen as the airing of Napoleonic ambitions by a bureaucracy with a solid record of bungling, blundering and botching.

¹ Perhaps the most forceful theoretical analysis of development strategy was presented by Sukhamoy Chakravarty (1969).

We must examine and scrutinize the rationale underlying the search for a sensible "development strategy." This rationale can be examined at different levels. The focus of this paper is on the welfare-economic issues underlying the subject. The implicit priorities of an "unfettered" system of market-based growth can involve serious neglect of significant human ends to which we have reason to attach importance. However, in arguing for a departure, we have to identify what these neglects are, why they arise, and how they may be addressed in the choice of a development strategy.

2. Public Policy and Development Strategy

The need for a development strategy can be denied at two rather different levels. First, it could be argued that public policies, in general, do not actually facilitate economic development. Perhaps the government could do better by letting well alone, and by permitting people to pursue their private gains, without let or hindrance. The point is also made that the rich countries today were once poor too, and managed to achieve development without any fancy public policy for economic development.² Why can't the poor countries today do much the same?

Second, even if it is thought that there is a reasonable case for having some public policies for economic development,

² See Bauer (1972, 1991). Albert Hirschman's (1958) scepticism, to which reference was made earlier, did not, however, follow this route. His doubts applied to relying on the market and not just to relying on the government, and he pointed to complex social and political factors that are influential in the process of development.

it could be doubted that these policies should take the form of some great design that the government should try to impose on the economy. The doubt here is not about the need for public policy, but about having it in so grand a form that it could be called, without blushing, "a development strategy." An alternative would be to leave matters to rational microeconomic evaluation and to cost-benefit analysis of projects, and then to accept whatever overall pattern results from such evaluation and analysis. Scepticism of "development strategy" can combine well with an affirmative belief in governmental cost-benefit analysis (well illustrated by the classic "manual" of project appraisal by Ian Little and James Mirrlees 1968).³

These sceptical questions are important to address. In responding to them, it is useful to note that a development strategy need not be particularly despotic, nor be a very grand and neatly designed scheme. It is mainly a question of what a government can sensibly do on a systematic basis, and what approach it should take in deciding on what it can sensibly do. In this context some points seem obvious enough.

First, what is the alternative? What would it be like to have no development strategy at all? No state can exist in a policy vacuum, and public policy in one form or another is inescapable (even if it only takes the shape of governmental non-interference). Even the rallying cry for more "free trade" in radical Manchester was a demand for a particular type of public policy - indeed for a specific type of "development strategy" -

³ See also Dasgupta, Marglin and Sen (1972) and Drèze and Stern (1987).

different from what was then in vogue. Adam Smith's (1776) Wealth of Nations outlines such a strategic departure in some detail.

Second, even the flourishing of profit-seeking private enterprises turns on an established set up of law and order. Indeed, big differences were made in the history of early economic development precisely by governmental machinery that provided the security and stability so strongly needed for efficient and confident functioning of business enterprises. Even if there were no room for positive state activities in promoting economic development, there would surely be some need for the supportive strategy of curbing economic insecurity related to the usurping, commandeering or vandalizing of useful assets and endowments.

Third, as a matter of fact, positive state activities have played quite a considerable part in the historical process of economic development. This applies even to the early economic development in Europe and America, not to mention the later experiences of Japan, and more recently, east Asia, where the state has been very actively present in assisting industrial development (for example, in Korea).⁴ This has happened not only through deliberate patronage of particular types of economic activities (sometimes initially through protection and then through assisting exports, combined with cheaper finance, as in South Korea), but also through providing suitable social and

⁴ On different aspects of public policy in South Korea, see Hong and Krueger (1975), Amsden (1989), Birdsall and Sabot (1993a), and World Bank (1993), McGuire (1995), and the references cited there.

economic preparation for the seizing of economic opportunities by people (for example, through the spread of literacy and education, land reforms, and so on, as in Japan and much of east Asia).⁵ The question does arise as to what we have learnt from these experiences, and what should the developing countries today do to profit from the lessons of these earlier episodes of policies and strategies.

Fourth, in addition to favouring general economic development, any responsible state has to consider issues of equity and disparity. Even very fast economic development can neglect some people, while others do extremely well, and there is no escape from encountering distributional issues. How the distributional problems are to be tackled by the state, the civil society and social groups remains an important question, but the concern for social justice cannot be brushed aside in thinking about the promotion of economic development.

Finally, there are important questions of ends and means in deciding on the concept of development. Even though it is quite conventional to think of development primarily in terms of the growth of GNP per head, there is need to think about what all this is for. This involves a scrutiny of ideas and strategies of development at a conceptual level. We cannot escape asking what criteria of development should guide our policies and

⁵ Institutional reform, of which land reform is a pre-eminent example, is an important aspect of public policy for development. The underlying issues are discussed in Stiglitz and Mathewson (1986), Stiglitz (1988), Bardhan (1989), Stern (1989), Basu (1990), among other contributions. Another policy area relates to public policies that help to generate and sustain competition; on the importance of this factor in Japanese economic development, see Suzumura (1995).

strategies. This issue is pursued further in the next section.

3. Welfare Economics, Development and Social Choice

Traditional welfare economics is founded on the principle of assessing states and decisions in terms of individual preferences and values. Preferences can be seen rather narrowly as the desires that guide our day-to-day choices in markets (for example, when we buy commodity bundles for personal use according to our taste), or in very broad terms (including, *inter alia*, the role of individuals as citizens deciding on the kind of society we would like to have). While there is a strong case for using the broadly-defined preferences as the basis of public judgments and decisions (on this see Arrow 1951), traditional welfare economics has typically focused on narrower characterization of preferences.

Furthermore, given the fact that "utility functions" based even on these narrow preferences are hard to identify in practice, standard welfare-economic analysis has tended to concentrate on market valuation of commodity holdings in assessing individual preference-fulfilment and also social welfare. The result has been the practice of judging economic success and failure in terms of movements of "real income" - representing the valuation of commodities produced or consumed at constant prices - prices that reflect conditions in the market (or as it would be in some appropriately imagined market).

Indeed, for an individual with given preference, there is a functional relation here which can take us from comparative statements in the commodity space to those in the space of achievements (or "utilities", as the generic indicator of

achievement is sometimes called). However, in making comparisons of achievements of different individuals or different communities, relying only on comparative holdings of commodities and their aggregate valuations in terms of "real income" can be very deceptive. Much would depend on other factors that influence the parametrically variable correspondences between real incomes and individual achievements (and between commodity holdings and the capability to achieve).⁶

The relationship between commodities owned and the lives that people can lead may vary with individual circumstances (such as age, disability, proneness to illness, etc.) as well as social conditions (such as epidemiological situations, prevalence of crime, availability of social services, etc.).⁷

Variations in social conditions is particularly relevant for public policies, since they not only influence real incomes, but also the conversion of real incomes into good living conditions. Comparisons of real incomes can, thus, be very deceptive in examining the quality of life - indeed even the "quantity" of life in the sense of longevity. It can, for example, be shown that compared with the people of China, Sri Lanka, or the Indian state of Kerala, the inhabitants of the Harlem district of the prosperous city of New York have systematically lower chances of

⁶ The assumptions that would remove this parametric variability (making the commodity basis of real income more cogent for judging well-being) are identified and examined in Sen (1979, 1985).

⁷ There can also be variations related to natural conditions such as the physical climate, or the likelihood of cyclones and flooding (over and above the influence that these factors can have on the volume of commodity production and the size of real incomes).

surviving to a ripe, old age. So do African Americans in general in the United States; see Chart 1.⁸ And yet the residents of Harlem and African Americans generally have incomparably higher levels of real income per head than the average Chinese, Sri Lankan or Keralite. The differences in achievements of survival rates relate to factors other than personal incomes, such as the nature of elementary health care, the opportunities of basic education, the preservation of local peace and order, the role of family life, and so on. These factors too are influenced by development strategies, and it would be, thus, a mistake to make the strategy of development relate only to the enhancement of real incomes.

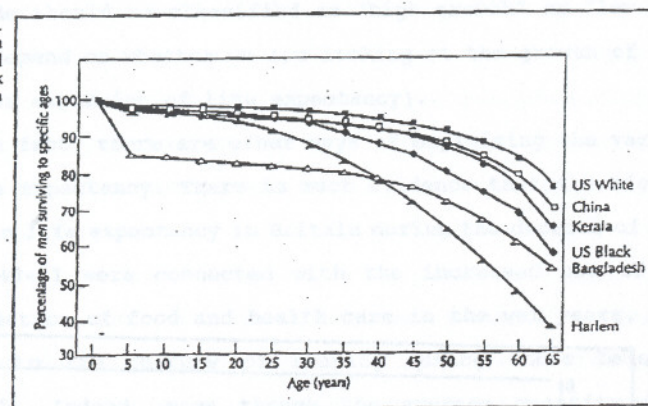
To take another example to illustrate this point, consider the decadal growth of real gross domestic product per capita in the U.K. for each of the first six decades of this century, and also the decadal increases in life expectancy at birth for each of these six decades. Chart 2 present the two sets of figures, and they are, to say the least, not close.⁹ Even if the argument were to be made that life expectancy is ultimately dependent mainly on GDP per head with a decadal lag (a hypothesis that is not contradicted by this chart, but does not stand up well to further critical examination), we must still accept that the growth experiences of the respective decades are quite different

⁸ See Sen (1993), which also discusses the sources of data and the methods used.

⁹ See Table 10.2 in Drèze and Sen (1989), which also gives the sources of data. The relevance of this comparative picture is also discussed in my oral presentation at the International Economic Association Round-table Conference on "economic growth"; see Pasinetti and Solow (1994), pp. 363-8.

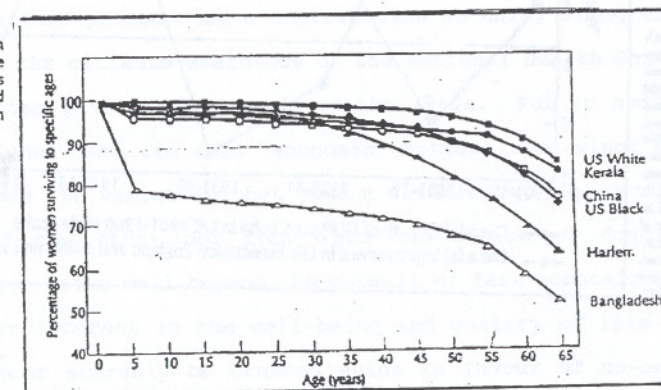
CHART 1

Variations in
Male Survival
Rates by Sex
and Region



Male Survival Rates

Variations in
Female
Survival Rates
by Sex and
Region



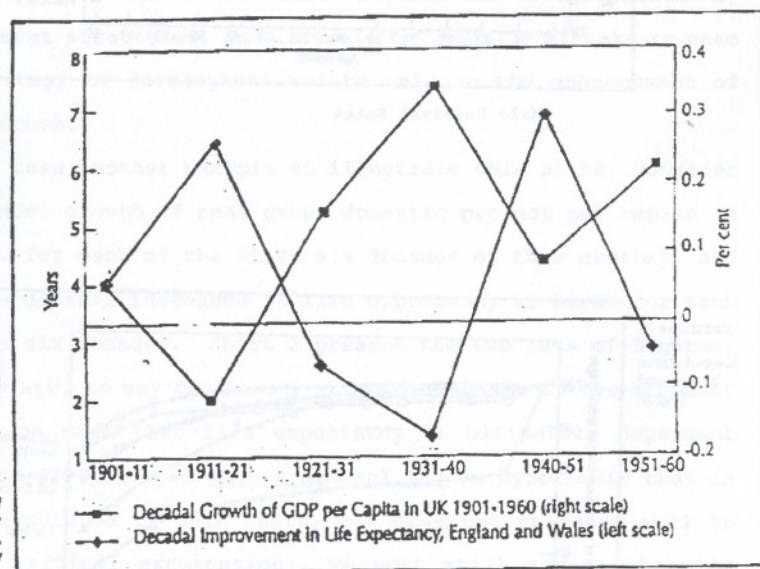
Female Survival Rates

Source: see Sen, A.
"The Economics of
Life and Death",
Scientific American,
May 1993, which
also explains the
data sources.

CHART 2

Decadal
Growth of Real
Per Capita
GDP (UK) and
Decadal
Increases in
Life
Expectancy at
Birth (England
and Wales),
1901-1960.

Sources: The growth
figures are from:
Madison, A., *Phases
of Capitalist
Development*, Oxford
University Press,
New York, 1982; life
expectancy
information is from:
Preston, S., N.
Keyfitz and R.
Schoen, *Causes of
Death: Life Tables for
National Populations*,
Seminar Press, New
York, 1972.



depending on the variable on which we choose to focus (whether a decade should be classified as "high growth" or "low growth" would depend on whether we are looking at the growth of GDP per head, or expansion of life expectancy).

In fact, there are other ways of explaining the variations in life expectancy. There is much evidence that the big upward jumps in life expectancy in Britain during the decades of 1911-21 and 1940-51 were connected with the increased use of public distribution of food and health care in the war years, related partly to the culture of sharing during those beleaguered times.¹⁰ Indeed, even though the average quantity of food consumed in Britain during the war years fell significantly, cases of acute undernourishment virtually disappeared in the same period, because of the guaranteeing of minimal nutrition through public distribution systems.¹¹ Also, a better sharing of health care in this period made a contribution to this, along with its role in the ultimate emergence of the National Health Service in the latter part of the decade of the 1940s. Public health and nutritional care are also "economic" matters, and since they do influence the variables that make a difference, why should that part of the story not come into the choice of development strategy, going well beyond the pursuit of fast economic growth?

Our interest in the well-being and quality of life of the people can scarcely be brushed aside in favour of no-nonsense

¹⁰ On this see Drèze and Sen (1989), Chapter 10, and the literature discussed there.

¹¹ See the references cited in Drèze and Sen (1989), in particular Hammond (1951). On this general issue, see also Winter (1986).

growth of GNP per capita, and that immediately calls for discussion of development strategies. This is inescapably valuational. Normative questions also arise in many other contexts, for example, concerning the protection of the environment and the safeguarding of the interests of those not yet here. There are irreducible elements of "social choice" in all these exercises.¹²

The nature of development strategies relates ultimately to the public evaluation of ends as well as the assessment of economic and social means. The case for seeing preferences in the broader form is particularly important in this context. We have to discuss what priorities to attach to different goals. For example, there may be much general agreement that raising life expectancy is terribly important when it is very low, but it may not be seen as a top priority when people live very long anyway.¹³ In the latter context, the focus on "quality" of life

¹² The theory of social choice had its origin in the systematic work done by French mathematicians in the eighteenth century, led by Condorcet and Borda, on social or group decisions. They were concerned with processes of election and the derivation of agreed decisions despite differences in preferences and interests. Over the last half a century, quite an extensive technical literature has developed in this field, following the pioneering work of Kenneth Arrow (1951); see also Sen (1970, 1986), and Suzumura (1983). The subject of public participation in social decisions belongs solidly to this field, and a number of technical results have clear bearing on what is or is not possible to do in arriving at acceptable decisions despite differences in interests and judgements.

¹³ There is no need to assume "linearity" of a kind that would rule out variable weights on longevity, even though some rough and ready indicators (such as the Human Development Index of the UNDP 1990) have taken that simple route. The focus on longevity makes much more sense for countries with low life expectancy and high mortality rates at lower age groups. It must not, however, be assumed that for the rich countries in general, the problem of years of living is no longer a serious concern. It can be an especially serious issue when dealing with

may even be in conflict with the "quantity" of living that a person does, since old age can be uncomfortable and painful. The value to be attached to additional years of life would tend to vary with the actual age, and also must be put against other aspects of human life, and all this calls for serious judgments by people as citizens. The same applies to other social goals, such as giving priority to the removal of poverty, or the social commitment to preserve the environment.

Open discussion on public policies and governmental strategies remain crucial even in a world that is increasingly doubtful about bureaucracy and the ability of the state to be efficient and useful.¹⁴ Policy alternatives have to be scrutinized and social opportunities have to be assessed, and ultimately the market as well as the government has to stand the test of democratic critique.¹⁵ Scepticism of governance is not ground enough for limiting public participation only to the market.

4. Human Beings as Means and Ends

In recent years there has been a significant transformation in the analysis of economic growth and development in terms of

inequalities within the rich countries, for example, between blacks and whites in the US, or even between the south and the north in Italy. However, the importance of life expectancy is clearly more central for low-longevity countries than for long-lived nations.

¹⁴ Systematic availability of information is very important for public discussion, and the broadening of evaluative concerns calls for regular reporting on phenomena in which citizens have reason to be interested. For example, Atkinson (1996) has cogently discussed "why we need an official poverty report."

¹⁵ On this general question see Nicholas Stern (1989).

much greater recognition of the role of what is called "human capital", as opposed to physical capital. This is, in many ways, a return to an earlier approach to economic development - an approach championed particularly by Adam Smith's (1776) Wealth of Nations. The focusing on the development of human ability and competence, and the emphasis on exchange and on economies of scale in supporting skill formation, were among the central points of departure in Smith's analysis of the expansion of the wealth of nations. That perspective was rather neglected in the early models in the post-world-war revival of growth theory, for example, in the so-called Harrod-Domar model, and even in early neoclassical analysis of the process of growth and trade (often in very Ricardian lines).¹⁶ However, more recent works give more recognition to the far-reaching role of human skill, and they have had the effect of re-establishing an old tradition that had been temporarily overshadowed.¹⁷

By now there is fairly abundant acknowledgement of the importance of human capital in economic development. The typical readings of the experiences of the more successful east Asian economies - and increasingly of some south-east Asian economies as well - have tended to put a lot of emphasis on this causal influence in the process of achievement of these countries. Even the World Bank - not invariably the quickest to notice a fresh

¹⁶ However, one of the most influential findings of neo-classical growth theory was Robert Solow's (1956) identification of how much remained to be explained, within the interpretative structure of that theory, after taking full note of the accumulation of capital and labour.

¹⁷ See, for example, Romer (1987), Lucas (1988), Helpman and Krugman (1990). See also Jorgenson (1995).

and innovative idea - seems to have come much to terms with the new lionizing of human capital in the process of development.¹⁸

There is much to appreciate here, but we have to ask whether the recognition of the role of "human capital" is adequate for understanding the importance of human beings in the process of development. If development is seen as the expansion of the capability of people to do the things they have reason to value and choose, the glorification of human beings as "instruments" of economic development cannot really be adequate.¹⁹ There is a crucial difference here between means and ends.²⁰ Seeing human qualities in terms of their importance in promoting and sustaining economic growth, significant as it is, tells us nothing about why economic growth is sought in the first place, nor much about the role of enhanced human qualities in making it directly possible for us to lead freer and more fulfilling lives.²¹

If we take instead a less partial view of human beings in the process of development, we have to note that an expansion of health care, education, or social security must directly count as "developmental", since they help us to lead longer, freer, and more fruitful lives, whether or not that expansion also increases

¹⁸ See especially the World Bank (1993).

¹⁹ This issue is discussed in Sen (1985).

²⁰ On this see also Anand and Ravallion (1993), Nussbaum and Sen (1993), Desai (1995), among other writings.

²¹ There is some evidence that the effectiveness of economic growth in expanding such basic achievements as longevity depends on particular aspects of the economic expansion, such as the increase in income going to the poorest sections and expansion of public health services; on this see Anand and Ravallion (1993).

labour productivity or the actual production of commodities (reflected in such indicators as the GNP). When human development is seen in this broader way, the direct impact (on human welfare and freedom) of public activities in health, education, etc., has to be taken into account, in addition to seeing their role in the formation and use of human capital, in terms of raising productivities and expanding actual commodity productions.²² Indeed, even as far the expansion of commodity productions is concerned, it has to be borne in mind that they are valued, ultimately, not for their own sake, but as means to human welfare and freedom.

In this context, it is important to discuss some fears that are understandably aired about "broadening" the criteria of success and failure. The constituent elements of quality of life are diverse, and there is no escape from the problem of relative valuation. In comparison, the use of such standard indicators as GNP per head may seem unproblematic. While there is also a problem of "weighting" of different commodities, it has been pointed out that there is "an operational metric for weighting commodities - the metric of exchange value."²³ Important questions have been raised about whether a broadening of focus to take note of the achievement of some basic quality of life (or of the enhancement of human capability to live longer and better) would be "operational," and it has often been pointed out that value judgments would have to be made in accommodating such

²² On this question, see Sen (1980, 1985), Streeten et al (1981), Stewart (1985), Drèze and Sen (1989), UNDP (1990), among other writings.

²³ See Sugden (1993), p. 239; see also Srinivasan (1994).

concerns.

There certainly is no escape from making explicit value judgments on the relative importance of various aspects of quality of life, or of the relative importance of various basic capabilities. But are such value judgments absent in using the GNP or the real income? We must distinguish between (1) the availability of externally given weights to calculate the GNP, and (2) taking those weights to be appropriate in judging development, or in evaluating the economic or social progress of a nation. Just because the former is simply given to us to calculate market values (in the form of "the metric of exchange value"),²⁴ it does not follow that we must find those very weights to be just right for judging development. The need for an evaluative judgment is inescapable in this exercise, and anyone who values public scrutiny must be under some obligation to make clear that a judgment is being made in using the GNP (and the weights implicitly present in its construction).

For example, the GNP puts the same weight on each dollar of a person in great poverty as it does on every dollar of a millionaire. It also puts a zero weight - not any more than that - on the length of life and the level of education, given the level of GNP per head. Rather than brushing the whole issue under the carpet of a technical definition of something else (as many devotees of the GNP do, as if a technical definition of an

²⁴ Even this is not fully the case, since the "base" prices have to be selected for constant-price comparisons. Also the prices and marketing conditions can vary with neighbourhoods and communities, even within a given country (on the importance of taking note of such variations for welfare-economic analysis, see Atkinson 1995).

exchange-value metric gives it automatically an evaluative status), we can explicitly present social judgments based on broader concerns, which can then be subjected to discussion and debate. As an approach it is much more open to public scrutiny. This is appropriate since the use of any indicator in judging development requires inevitably an evaluative judgement. The GNP, which is not particularly plausible as an indicator of development (or of the quality of life), does this implicitly, and its ability to get away with its severe imperfections (as an evaluative indicator) has much to do with this implicitness.

In any choice of criteria for evaluative purposes, there would not only be value judgments, but also some that many would question. This is inescapable in the making of public policy, and the real issue is whether we can use criteria that would have greater public support than the use of GNP alone, for evaluative purposes. If we do not insist on completeness, substantial agreements can be found around some specific judgments. Also, the process of public discussion and interaction can generate limited consensus which can be the basis of public policy.²⁵

The thing to look for is not some grand "social objective function" which generates a complete ordering of all alternative social states, but the presence of sufficient agreement that points to partial orderings based on agreed priorities (on this see Sen 1970, 1995). The fact that the American blacks have a lower chance of surviving to an older age than do the immensely poorer - in terms of income per head - population of many third-

²⁵ On this see particularly Knight (1947) and Buchanan (1954, 1986).

world countries would be seen as a matter of serious concern by many, and this concern cannot be made to disappear simply by pointing to the alleged "operational" advantage of relying exclusively on income per head because they generate a complete order. The central issue is how far we can go on the basis of widely agreed judgments to arrive at some policy guidance, and it is this problem of practical reason that has to be our basic concern.

5. Benefits and Costs of Social Development

In the light of the preceding discussion, it is useful to distinguish between two types of influences of social development (education, health care, etc.) through expanding human capabilities:

- (1) a direct impact of these social programmes in expanding personal capabilities and in enhancing well-being and effective freedom;
- (2) an indirect impact that works through raising productivities and incomes, with the increases in real incomes serving to expand capabilities and well-being further.²⁶

The traditional use of human capital tends to concentrate on the second (particularly, income generation), which is important

²⁶ Another "indirect" effect (involving a different type of instrumental role) of social development relates to the impact of health care and of basic education (especially of women) on fertility rates; on this see Drèze and Sen (1995) and the literature cited there.

enough.²⁷ But it needs supplementation by the first - "direct" - process. The broadening that is needed is, in this sense, additional and cumulative, rather than being an alternative to the "human capital" perspective.

This broader view of human development also permits us to include the far-reaching distributional impacts of expansion of education and health care that are lost in the aggregative perspectives. Expansion of education, especially at the most basic level, can act as a major force in the direction of generating economic equality, in addition to its immediate role in enhancing educational equality itself.²⁸ Nutritional improvements can also influence productivity and earning power.²⁹

Such distributional considerations apply to differentiations not only according to class, community and location, but also to gender inequalities. Indeed, greater education and health opportunities can make women's lives both directly richer and also substantially expand their ability to seek and find employment and income. Furthermore, greater economic independence of women can, in its turn, also reduce inequalities

²⁷ For example, in the 1995 World Development Report of the World Bank, there is plenty of emphasis on "the skills and capabilities of workers," but almost entirely in the context of commodity production and income earning.

²⁸ For empirical analysis related to the Asian experience, see Mingat (1995), Gertler (1995), Ishi (1995). See also the case studies of Japan, Republic of Korea, Taiwan, Singapore, and others. For a general discussion of the underlying approach, see also the discussion of "growth-mediated" development processes in Drèze and Sen (1989).

²⁹ See Bliss and Stern (1978), Dasgupta and Ray (1987, 1988), Osmani (1992), Dasgupta (1993).

in power and authority within the household.³⁰ Thus, the indirect route may involve several distinct steps, but the overall result for women (in particular, greater economic opportunity and independence, on the one hand, and a better relative position within the household, on the other) can very powerfully reinforce the gain that is directly made in the welfare and freedom of women because of better health and more educated living.

In addition to these considerations, attention must also be paid to the impact of health, education, and other social achievements on fertility behaviour, in assessing the role of human development. Since frequent child bearing tends to have the most immediately adverse impact on the lives of young women, one effect of greater gender equality is to reduce the fertility rate sharply. This has been observed extensively in inter-country comparisons.³¹

The same relationship has also emerged very clearly in the inter-district contrasts within India, which has been extensively investigated recently by Mamta Murthi, Catherine Guio and Jean Drèze (1995). When the comparative statistics from the different districts of India are analyzed, it turns out that among all the usual candidates for causal influence, the only ones that are

³⁰ This last connection has been analyzed in Sen (1990, 1992). Land ownership can also be an important factor in this; see Agarwal (1995).

³¹ See the set of papers in Lindahl-Kiessling and Landberg (1994), especially the articles of Nancy Birdsall and Robert Willis which take up this issue. See also Easterlin (1980), Schultz (1981), Birdsall (1988), Barro and Lee (1993), Dasgupta (1993), Cassen (1994), Gita Sen et al (1994), among other contributions.

seen to have a statistically significant effect in reducing fertility are (1) female literacy, and (2) female labour-force participation.³² The importance of social and economic freedom of women emerges forcefully from this analysis, especially in comparison with the weaker effects of variables relating to economic development on its own.

In terms of the Murthi-Guio-Drèze analysis, economic development may be far from "the best contraceptive" that it is sometimes described as. On the other hand, social development - especially women's education and employment - can be very effective indeed. Many of the richest Indian districts in, say, Punjab and Haryana have very much higher fertility rates than the southern districts with much lower per capita income but with much higher female literacy and female job opportunities. Indeed, in this inter-district comparative picture, the level of real income per capita has almost no impact (once the effects of female education and female employment are already accounted), compared with the sharp and effective difference made by women's education and women's economic independence. The importance of social development, particularly in promoting gender equality, can thus be crucial in the demographic transition to a low-fertility-low-mortality society.

I have been paying particular attention to the importance

³² Murthi, Guio and Drèze (1995). The data they use relate to 1981, which is the last year for which adequately detailed statistics are available (from the 1981 census). The 296 districts covered in this study are all the ones from the 14 major states for which data were available; the state of Assam missed out on the census of 1981 because of political turmoil. Those 14 states account for 94 percent of the total population of India.

of "social development", broadly speaking, within a development strategy, since these "social" factors are often neglected in economic analysis. The point, however, is sometimes made that a poor country cannot afford much expenditure on social development because of lack of resources, and for this reason priority has to be given to economic development first - to build up the resources.

Is this argument sound? I do not believe it is, for three distinct reasons. First, as has been already discussed, social development can be very crucial for enhancing economic development too, so that it is not a question of choosing one or the other, nor of deciding which to do first. We need to integrate the analyses of development strategies.

Second, even when a country is poor, there is a need to worry about the welfare and freedom of the individual members of the society. Indeed, these concerns may be even more acutely important when people are generally poor and deprived. Preventing terrible deprivation is not a luxury that can be easily postponed.

Third, when an economy is poor, its labour costs are lower too, and so are the real expenses of providing some of the basic social services, including elementary education and health care, which are highly labour intensive activities.³³ Indeed, this explains how poor economies with committed governments have been able to carry out quite ambitious programmes of social development, including broad provisioning of health care and basic education. Cost-benefit analysis of social development has

³³ This issue is discussed in Drèze and Sen (1989).

to take note not only of the benefits of social programmes but also the comparatively lower economic costs of having these programmes.

6. Financial Prudence and Development Strategy

The point of noting the lower economic costs of social development in the poorer countries is not at all to dismiss the concern for financial prudence in early stages of development - far from it. The need for financial carefulness is a different issue altogether. The relatively low cost of social programmes at the early stages of development is a factor to be taken into account in assessing costs and benefits of different development strategies, but it is not an invitation to ignore the general constraints on resource allocation.

We may however ask: why is financial prudence so important for determining development strategies anyway? The answer relates to the likely effects of financial overspending. The basic issue to be faced is the consequential importance of macroeconomic stability. The case for financial conservatism lies in the recognition that immoderate inflation brought on by fiscal indulgence and irresponsibility can extract a heavy price on the real economy.

In an illuminating critical survey of international experiences in this area, Michael Bruno (1995) notes that "several recorded episodes of moderate inflation (20-40 percent [price rise per year]) and most instances of higher rates of inflation (of which there have been a substantial number) suggest that high inflation goes together with significant negative growth effects." And "conversely, the cumulative evidence

suggests that sharp stabilization from high inflation brings very strong positive growth effects over even the short to medium run."³⁴ But Bruno also finds that "the growth effects of inflation are at best obscure at low rates of inflation (less than 15-20 percent annually)", and goes on to ask the question: "why worry about low rates of inflation, especially if the costs of anticipated inflation can be avoided (by indexation) and those of unanticipated inflation seem to be low?" (Bruno 1995, pp. 7-8).

The real problem, in Bruno's analysis, lies in the fact that "inflation is an inherently persistent process and, moreover, the degree of persistence tends to increase with the rate of inflation." Bruno makes the lesson graphic with an analogy: "chronic inflation tends to resemble smoking: once you [are] beyond a minimal number it is very difficult to escape a worsening addiction." In fact, "when shocks occur (e.g. a personal crisis for a smoker, a price crisis for an economy) there is great chance that the severity of the habit....will jump to a new, higher level that persists even after the shock has abated," and this process can repeat itself (Bruno 1995, pp. 8, 56).

The case for financial prudence must not, however, be identified with the demand for what I would call "anti-deficit radicalism", which is often confused with financial conservatism.

³⁴ See Bruno (1995)'s Baffi Lecture at the Bank of Italy pp. 7-8.

The case made is not for eliminating budget deficit altogether.³⁵ Nor indeed is it for getting to zero inflation at any cost - irrespective of what has to be sacrificed for that end. Rather, the lesson is to keep in view the likely costs of tolerating deficits and their inflationary impacts against the sacrifices that have to be made in eliminating deficits.³⁶ The critical issue is to avoid the dynamic instability that even seemingly moderate and stable inflation may have, if it is above a low figure. What has to be avoided is not just high inflation, but - because of dynamic instability - even moderate inflation. But radicalism in the cause of zero inflation or zero budget deficit does not emerge here as the appropriate reading of the demands of financial prudence.

In arriving at development strategies, it is necessary to take note of the rationale of financial prudence along with

³⁵ The "clouding" of distinct issues is seen clearly enough in the on-going debate on balancing the budget in the United States at this time, with occasional "shut downs" of parts of the U.S. government. While financial conservatism must tend to demand that a reduction of budget deficit takes place, this is not to be confused with the "radicalism" of eliminating budget deficits altogether within a few years, no matter what the social cost of this might be. There is not much of a strong inflationary pressure in the U.S. economy at the present time, and the present level of U.S. budget deficit - the lowest among the G-7 countries - would not seem to be pressing the United States on to the edge of what Bruno identifies as the prospects of "dynamic instability."

³⁶ In the context of the European union, a different and partly political set of constraints is imposed by the agreed criteria of deficit reduction, laid down in Maastricht, as a part of the process of monetary union by 1999. I have tried to discuss elsewhere (Sen 1996) the problems of using such "criteria", which are really arbitrary rules of thumb, without an adequate process of "social choice" involving participatory public discussion, including the importance of unemployment reduction (along with anti-inflationary precaution) and the need to scrutinize different types of public expenditure (military as well as civilian and social).

giving adequate recognition to the far-reaching importance of social development. Financial prudence demands that we must take note both of (1) the identified economic costs of budget deficits and their likely inflationary implications, and (2) long-run risks of macro-economic instability, and that can be done in assessing alternative choices of development strategies, paying full attention to the direct as well as indirect effects of social development, in terms of their overall impact in enhancing the lives of people. The costs associated with the budget constraint will apply to all alternative avenues of public spending, and the case for social development has to meet that test of doing comparatively well.

The point of "development strategy" must not be seen as evading comparative scrutiny in resource allocation. But it is possible to get useful indications of likely directions of success by looking at the history of economic development. Perhaps the most important "strategic" lesson that has emerged from the type of success that the east Asian economies have had - beginning with Japan - is the importance of social development both in facilitating economic growth and in directly raising the quality of life. All these economies went comparatively early for massive expansion of education, and later also of health care, and this they did, in many cases, before they broke the restraints of general poverty. They have reaped as they have sown. Indeed, in the case of Japan, as Hiromitsu Ishi (1995) has argued, the priority to human resource development applies particularly to the early history of Japanese economic development, beginning with the Meiji era (1868-1911), and that

focus has not in any way intensified - rather the reverse - as Japan has grown richer and much more opulent.³⁷ Development of social programmes is first and foremost an ally of the poor, rather than of the rich and the affluent. Much the same lessons emerge from the study of the other east Asian economies.³⁸

7. Concluding Remarks

I shall not try to summarize the paper, but make a few general remarks. First, a government cannot avoid having a public policy or a development strategy (any more than M. Jourdain could escape talking prose). Whatever approach a government chooses to take reflects, in some sense, a "policy" and a "strategy", even if it is one of doing nothing much for anybody. Neither the idea of "public policy" nor that of "development strategy" need be inescapably "statist" or "militant." States do exist, and governments do some things and abstain from others, and there is an important need to decide what, if any thing, they should do regarding development. The point of having a conscious development strategy is to subject the implicit choices to explicit scrutiny.

Second, there is much to scrutinize. The apparent absence of a development strategy is often no more than a simple reliance on what the markets would deliver. But even the performance of the market may crucially depend on many public policies, beginning from the preservation of legal guarantees and support

³⁷ See Ishi (1995).

³⁸ See the papers presented at the International Conference on Financing Human Resource Development of the Asian Development Bank in November 1995.

for orderly commerce to providing opportunities of productive work through "enabling" social developments (such as elementary public education) and favourable institutional structures (such as land reforms). Considering the relation between markets and governance is essential for reasoned assessment of public policies, even when the markets are to be much used.

Third, the standard indicators of success, such as the GNP per head, leave out many aspects of development that are crucial to the well-being and freedom of the citizens. There is a need to examine the ends as well as the means that are implicitly promoted in having development strategies of different kinds. There is need for public discussion of the priorities and values underlying policy decisions, and this includes the values that are implicitly used in relying exclusively on GNP per head. That evaluative system puts a zero weight on other concerns such as longevity and the quality of life (given the value of GNP per head), and since the connection between GNP and these human achievements is far from tight, the result is to leave out some of the most basic concerns of human beings and citizens of a modern society. What is needed is not an alternative system of elaborate weighting procedures that would produce another complete ranking of all options (different from - but just as complete - as the one produced by crude indicators such as GNP per head), but to use the social agreements that may exist - or may be generated by discussion and political participation - to get adequate guidance for the general direction of development

strategies.³⁹

Fourth, the role of programmes of social development has to be appraised in broad welfare-economic perspective. The framework of "human capital" provides some insight, but leaves out others, since it treats people primarily as "means" (what they contribute to production as "capital") rather than as "ends" (what kind of lives they are able to live). Adam Smith had voiced some grievance, in a different but related context, about the tendency to judge a human being by his usefulness, or - as he put it - for "that for which we commend a chest of drawers" (Smith 1790, p. 188).

The impact of education, health care, social security, etc., have to be seen both in terms of their direct effects on human capabilities and their indirect consequences on people's lives through raising productivities and earning powers, and through reducing the burden of high fertility and frequent childbirth. Issues of gender equity as well as of demographic transition to low-mortality-low-fertility societies relate closely to social impacts of such human development, and this takes us beyond the limited focus of instrumental concerns exclusively on the generation of economic growth (through the use of "human capital").

Fifth, the need for financial discipline and prudence is not inimical to the broader evaluations advocated in this paper. Social programmes have to compete with other uses of public resources for comparative assessment. In doing these comparisons

³⁹ Formally, this involves relying on partial orderings rather than complete orders, and building on partial social agreements; on this see Sen (1970, 1985, 1995).

note has to be taken not only of the scarcity value of public funds, but also of the lower cost of labour-intensive social programmes at early stages of development and of the direct as well as indirect impacts of such programmes on the life and death of the citizens.

Finally, there is much to learn from the experiences of successes and failures of different countries, but the most important motivating issue is an interest in human life rather than only in some indicators of commodity production and supply. The point of explicitly discussing development strategies is to promote discipline in our thinking about ends and means. We could do worse.

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