Democracy and Development: 
New Thinking on an Old Question

by
Jagdish Bhagwati, Columbia University

April 1995
(Revised February 1995)

Discussion Paper Series No. 727
Democracy and Development: New Thinking on an Old Question

by

Jagdish Bhagwati

Revised: February 1995

This is the text of the Rajiv Gandhi Golden Jubilee Memorial Lecture, delivered in New Delhi on 22nd October 1994. It is the first of a set of four Lectures on the occasion of the late Prime Minister Rajiv Gandhi's 50th Anniversary, followed by Margaret Thatcher, Mikhail Gorbachev and John Kenneth Galbraith.
Table of Contents

New versus Old Thinking
Echoes of Old Thinking
The Old View: The "Cruel Dilemma" Thesis
Democracy and Development: Bedfellows?
  (A) Ideology
    1. Democracies at Peace Among Themselves
    2. "Safety Valve" versus "Bottling Up"
  (B) Structure

The Quality of Democracy and The Quality of Development
Improving Democracy: Technology and NGOs
Democracy and Markets
The occasion of Prime Minister Rajiv Gandhi’s 50th anniversary is an apt time to recall India’s longstanding democracy: a phenomenon almost unique at one time among the developing countries and a source of legitimate pride to our leaders and our people.

New versus Old Thinking

It is also a fitting occasion to affirm the new thinking on the relationship between democracy and development, more sanguine and optimistic now, that has replaced the old thinking, more despondent and pessimistic then. Many subscribed to the view then (for reasons that I shall presently discuss) that democracy definitely came at the expense of development, so that one had to choose between doing good and doing well. The new thinking is that this trade-off, or the “cruel dilemma” as I called it nearly thirty years ago\(^1\), is by no means a compelling necessity, that one may be able to eat one’s cake and have it: either democracy does not handicap development or, in the best of circumstances, it even promotes it.

Thus, the pursuit of political and civil virtue, as the embrace of democracy implies, need not be at the expense of the drive for economic development. All good things may sometimes go together, just as we have discovered that literacy is good in itself and for development, and that female education emancipates women while restraining the growth of population and enhancing the possibility of greater economic prosperity for smaller numbers.

Echoes of Old Thinking:

The new view represents a nuanced change, of course. Few claim that democracy is necessarily, or even overwhelmingly, better for development, but only that democracy can be consonant with, even promoting, development. In doing so, they keep in mind the witticism, attributed to the Oxford social anthropologist Evans-Pritchard, that the only generalization in social sciences is that there is no generalization, or the Cambridge economist Joan Robinson's mischievous remark that, in Economics, everything and its opposite are true (for you can almost always find evidence somewhere, for some historical period, in support of almost anything).

Indeed, if one eyeballs the postwar performance on growth rates and the prevalence of democracy in the developing countries, it is hard to find a strong relationship between democracy or its absence in a country and its growth rate. Democracy has broken out only in recent years across the developing world: in the last two decades, nearly forty countries have turned to democracy.\(^2\) For the bulk of the postwar period, therefore, we had only India, Costa Rica and Sri Lanka as democracies over a sustained period. True, their growth rates were far from compelling. But then the nondemocratic countries had also an immense variety of performances, ranging from the spectacular in the Far East to disastrous in many nations of Africa. Looking only at the developing countries in the postwar period, therefore, it would be hard to conclude that democracies have had less rapid developmental performance. In fact, if the developed countries are

\(^2\) At the same time, Samuel Huntington has noted, since the early 1970s, only four or five of the new democracies have returned to authoritarian rule. Cf. "The Ungovernability of Democracy", *The American Enterprise*, November/December 1993, p.35.
considered instead, the democracies have done immensely better than the socialist dictatorships that have now happily vanished, at least for the present, from our midst.

To maintain therefore, as did the old view, that democracy necessarily handicaps development whereas authoritarianism aids it, is to argue a case that must explain away these facts by citing other factors and cross-country differences that overwhelm the outcomes. Indeed, democracy and authoritarianism are only one dimension on which countries and their developmental performances differ: and, to develop the more nuanced and new view that is favourable to democracy as compatible with, even conducive at times to, development, I shall address qualitatively and directly the ways in which, and the reasons why, such a happy symbiosis is the likely reality.

But it would be wrong for me to suggest that the old, dismal and deterministic view is necessarily dead. Echoes, amplified by nondemocratic governments with successful developmental performance, can often be heard. It is not uncommon, for instance, to find Prime Minister Lee Kuan Yew talking continually on the theme of democracy's "undisciplined" ways that his "soft" authoritarian rule has prevented from debilitating Singapore and crippling her development. Thus, he has argued:

---

3 A number of statistical and quasi-statistical studies, by economists such as John Helliwell and political scientists such as Atul Kohli, have argued that the evidence does not support the view that the relationship between democracy and growth rates is negative, nor does it support the contrary view. These results are therefore more eclectic and enable us to raise the qualitative questions that are considered in the Lecture. Cf. Kohli, op.cit. and John Helliwell, "Empirical Linkages between Democracy and Growth", National Bureau of Economic Research: Cambridge, Mass., Working Paper No. 4066.

"I believe what a country needs to develop is discipline more than democracy. The exuberance of democracy leads to indiscipline and disorderly conduct which are inimical to development."

And indeed the phenomenal success of the Far Eastern economies --- South Korea, Taiwan, Singapore and Hong Kong ---, none of them democracies in a substantive sense⁵, has created for some a sense that the old thinking was right after all, especially when these economic miracles are contrasted with India’s poor economic performance over more than three decades within a democratic framework.

Those who think thus, believing that authoritarianism facilitates more rapid growth (with other suitable policies such as market reforms in place, of course) have also argued that the optimal policy sequencing of markets and democracy in the developing countries, as also in the former socialist countries, must be to get markets first and democracy next. This conclusion is reinforced in their minds by the recent Russian descent from a superpower to a supine status when the sequence she chose was to put glasnost before perestroika while the Chinese, who clearly introduced markets before democracy, clearly did immensely better. Does this not imply that perestroika must precede, not follow, glasnost? If so, this prescription rests on two legs:

* First, it reflects the old view on democracy and development --- that the two are at odds and authoritarianism must be tolerated to facilitate rapid growth.

---

⁵ Hong Kong, while not a democracy, has had more of its attributes than the other three countries.
Second, it invokes the notion, based both on historical experience and the recent evidence that democratic demands have arisen in South Korea and other economically successful countries, that growth will ultimately create an effective push for democracy. The historical experience is substantial and persuasive, starting from Ralf Dahrendorf’s illuminating analysis of Germany⁶ and Barrington Moore’s classic demonstration that the rise of the bourgeoisie led to democracy.⁷

Yet, these proponents of the old view are now outnumbered by those who take the new view. The reason is not necessarily ideological: indeed, social scientists are not proof from the blinkers that blind us to facts that fail to support our beliefs, and it is indeed true that the new view has triumphed when democracy has become both a widespread value and reality, and dictatorship a devalued mode of governance, so that we may be seeing virtues in democracy the way a nomad in the desert finds water in a mirage. The fact rather is that the old view is now seen as having rested on premises that were false, and our thinking on the question has become more nuanced and acute.

The Old View: The “Cruel Dilemma” Thesis

The old view reflected a particular way of looking at the developmental process, fashionable during the 1950s and 1960s. It was also grounded in a specific historical context which defined the constricting assumptions under which the old view gained credence.

The historical context was, of course, the contest between the two

---

⁷ Cf. Barrington Moore, Social Origins of Dictatorship and Democracy, Boston: Beacon Press, 1966. For those who work with regressions, one must then also caution that a strong association between democracy and development may mean, not that democracy promotes development, but that development leads to democracy.
"sleeping giants": China and India. China was totalitarian and India a democracy then; nothing has changed in that regard! In the intellectual eye, trained politically on the Cold War and the arena of the Third World, the developmental success of India, rather than of China, would set the correct example for the Third World nations: democracy would do better and totalitarianism worse, thus putting more nations in the Third World on a course that would favour the Western democracies in their struggle with the Soviet bloc.

The race was, in turn, between two nations that had committed themselves to economic development. This, of course, removed from the intellectual context the question which must be faced if democracy and authoritarian rule are to be contrasted fully: which system is more likely to seek development? The question rather was: once you are committed to development, which political regime, democracy or authoritarian rule, is likely to facilitate the fulfillment of that goal?

To answer that question, one must have a "model" of the developmental process. In fact, one always does, whether explicitly if one is an economist or implicitly if one is not. The model that nearly everyone actively planning for development in the early postwar decades happened to use was attributed to the British economist Sir Roy Harrod and the American economist Evsey Domar. It is called, quite properly, the Harrod-Domar model even though Domar wrote independently about it only several years after Harrod, in contrast to the fiercely cruel practice in the natural sciences where, as James Watson reminded us in his vivid account of the contest for the Nobel Prize in The Double Helix, if you beat your rival to a discovery by an epsilon moment, you have reduced her to the
disappointment of oblivion. Contrary to their subject matter which builds on man's basest, not his noblest, instincts to show how the pursuit of private interest can be harnessed to produce public good, economists can be quite generous indeed!

The Harrod-Domar model, much used then, analyzed development in terms of two parameters: the rate of investment and the productivity of capital. As it happened, for policy-making purposes, the latter parameter was largely treated as "given" as a datum, so that the policy freedom was assigned only to the former parameter, the investment rate. The debate therefore centered only on the question of how to promote investment. This approach, favoured by mainstream economists, coincided with the Marxist focus on "primitive accumulation" as the mainspring of industrialization and also with the cumbersome quasi-Marxist models elaborated in the investment-allocation literature that grew up around the Cambridge economist, Maurice Dobb.

But if the focus was on accumulation, with its productivity considered

---

8 Perhaps the only other influential idea, to be formally modelled only forty years later, was that of Paul Rosenstein-Rodan who, just at the end of the Second World War, argued that several investments would have to be coordinated and simultaneously undertaken in a Big Push with the aid of State intervention to rescue a developing country from a stagnant equilibrium. This idea provided the theoretical impetus for the planning approach to development and to the widespread practice of Five Year Plans in several countries, even though the actual practice went back to the Soviets.

9 The idea is perfectly simple. The increment in income, which naturally determines the growth rate of income, must obviously depend on how much you invest and how much you get out of it. The two parameters in the text are precisely what will tell you the magnitudes of these determinants of the growth rate.

10 Interestingly, some economists such as Gunnar Myrdal thought at the time that the socialist countries would be able to grow faster than capitalist countries also because they would be able to increase the productivity of investment, reducing the capital required to produce output (and thus reducing the marginal capital-output ratio in the denominator of the Harrod-Domar growth equation which can be written to equate the growth rate of income with the average savings ratio divided by the marginal capital-output ratio), by technological innovation in things like prefab housing. How wrong they were: for, as discussed in the text, they failed altogether to consider the question of the incentives to innovate and to produce efficiently in these regimes that had neither markets nor democracy.
a datum, it was evident that democracies would be handicapped vis-a-vis authoritarian regimes, when both were similarly wedded to accelerating development. For, it seemed natural to assume that the authoritarian regimes would be able to extract a greater surplus from their populations through taxation and “takings” and be able therefore to raise domestic savings and investment to higher levels than would democracies that had to woo voters to pay the necessary taxes and accept the sacrifices more willingly. The economist Richard Cooper of Harvard University has an amusing but telling analysis of the remarkable association between the fall of Finance Ministers and the fact that they had devalued their currencies: I have little doubt that the Finance Ministers who have wittingly or unwittingly crossed the line through tough taxation have fared no better, being scapegoated and sacrificed by their Prime Ministers or dumped by irate voters at the polls soon after. Hence I wrote in the mid-1960s of “the cruel choice between rapid (self-sustained) expansion and democratic processes”.

But this thesis was to be proven false for three reasons that have a bearing on the new view:

* the argument that the state would generate the necessary savings through tax effort, to accelerate development, has simply not held true: public sector savings have not been one of the engines of growth since public sector profligacy and deficits, rather than fiscal prudence and budget surpluses, have been the norm;

* savings rates have risen substantially in the private sector instead, when many thought that they would be relatively unimportant, suggesting

---

11 Bhagwati, *op.cit.*, 1966, p.204. Also see Kohli, *op.cit.* p.156.
that where incentives to invest have increased dramatically, so has the necessary savings to exploit those opportunities, in a virtuous circle that has taken savings and investments to higher levels in both democracies (including India) and authoritarian countries (such as the Far Eastern superperformers whose savings rates are higher than those of India); and

* the differential performance among different countries seems to have reflected, not so much differences in their investment rates as the productivity of these investments, and this in turn surely has reflected the efficiency of the policy framework within which these investments have been undertaken.

I would say that, by the 1980s, it was manifest that the policy framework, in its broadest sense, determining the productivity of investment (and possibly even increasing saving and investment themselves through incentive effects) was absolutely critical, and that winners and losers would be sorted out by the choices they made in this regard and indeed quite differently from the way we thought in the 1950s.\(^\text{12}\)

Incentives promoting development, not the ability to force the pace through draconian State action, became the objects of a key shift in focus. And here democracy was far from being the obvious loser; in fact, it seemed, at least at first blush, to be at an advantage instead. For who could doubt that democracy would relate development to people and build on incentives rather than compulsions? Yet, this can only be the starting point for a fresh inquiry into the relationship between democracy and development, a question that is now seen to be more complex and difficult

and yielding an answer that is arguably more favourable to democracy than we thought earlier.

Indeed, reflection on the problem suggests three plausible and profound propositions that I will presently address:

* for ideological and structural reasons, democracy may well dominate authoritarianism as a political system that produces economic development;

* the quality of development also can be expected generally to be better under democracy; and the better the quality of the democracy itself, the greater is likely to be the quality of development; and

* the dividends from political democracy are likely to be greater if it is combined with economic markets: the combination of democracy and markets is likely to be a powerful engine of development.

These propositions are stated in terms of likelihoods rather than certainties because the argument must proceed at times in terms of the balance of contrary forces and a judgment of their relative importance. The apparent contradiction nonetheless between them and reality must also be resolved by observing that, in the real world, one cannot expect the factors that suggest the plausibility of these propositions to be proof from the invasion of other countervailing events. Thus, for instance, even if democracy were expected to generate more development, initial conditions conducive to growth may be more favourable in an authoritarian country than in a democracy, leading to more development in the former: as indeed may have been the case with the authoritarian superperforming Far Eastern
economies which inherited both egalitarian land reforms and remarkably high rates of literacy: two factors that are widely considered by economists today to stimulate development.

Democracy and Development: Bedfellows?

Democracy, considered to consist of the troika: the right to vote and turn out governments, an independent judiciary and a free press, defines both an ideology and a structure. The ideology is that of the process of governance: by consent. The structure consists of the institutions by which this ideology is implemented. Both the ideology and the institutions of a democracy can be argued to contribute to development, though there are some downsides as well.¹³

(A) Ideology:

The most plausible arguments in favour of democracy as being conducive to development on grounds of its ideological or process-of-consent content are twofold. One, for which there is now substantial evidence, is that democracies rarely go to war against each other; the other, which is speculative, is that authoritarian regimes "bottle up" problems while democracies permit catharsis, the apparent chaos of democracy in fact constituting a safety valve that strengthens, instead of undermining, the state and provides the ultimate stability that is conducive to development.

(1) Democracies At Peace Among Themselves: If democracies do not fight wars with one another, and they fight only with nondemocratic nations that fight each other in turn, the probability of entering a war if a

¹³ I consider democracy broadly here, in contrast to authoritarianism, without entering the added nuances that come from considering the quality of democracy, an issue taken up later in the Lecture.
nation is democratic could well be less than if it was nondemocratic.\textsuperscript{14} That, in turn, could mean that democracies are more likely to both provide governance that is conducive to peace and hence prosperity and to spend less on fighting wars and preparing for them.

As it happens, political scientists have now established that, in nearly two centuries, democracies "have rarely clashed with one another in violent or potentially violent conflict and (by some reasonable criteria) have virtually never fought one another in a full-scale international war".\textsuperscript{15}

In his "Perpetual Peace", published in 1795, the philosopher Immanuel Kant argued why democratic "republics" would naturally pursue peace. The ingrained habit of "respect" for others that such a republic would foster, as also the interests of the citizens whose welfare rather than that of absolute monarchs would be at stake, would both serve to promote peace rather than war.

Thus, Kant thought that the ideology of democracy, embodied in the idea of rule by consent, would mean that democracies, used to domestic governance by such consent, would naturally extend to other republics,

\textsuperscript{14} Take three countries. If there are one democracy and two dictatorships, the former will never fight a war, the latter can. If there are two democracies and one dictatorship, each of the former can fight only with the dictatorship while the latter can fight with each democracy. Relying only on the data on actual wars to make the foregoing argument is however not correct. For, there may be many dictatorships which have not gone to war while every democracy has, so that the average tendency of a dictatorship to get into a war may be less than that of a democracy.

\textsuperscript{15} Zeev Maoz and Bruce Russett, "Normative and Structural Causes of Democratic Peace, 1946-1986", \textit{American Political Science Review}, Vol.87 (3), September 1993, p.624. As always, there is extended debate among political scientists whether this observation is robust. Some have contended that the proposition is exaggerated by some fairly fast and loose characterization of selected countries in the data set, whereas others (e.g. Henry Farber and Joanne Gowa, "Politics and Peace", \textit{International Security}, Vol.20, No.2, Fall 1995) have argued that the evidence for this relationship between democracy and peace is less compelling before World War II and that, after World War II, the peace among democracies was due to shared political interests expressed in political alliances (a contention that itself may be rejected as a qualification since the alliances in turn may simply be reflecting a shared peaceability among the democracies).
similarly governed, accommodation by mutual discourse, dialogue and the resolution of disputes without war.\textsuperscript{16}

But he also argued that the \textit{structure} of democracy, or what we might call \textit{interests}, would also inhibit wars because democratic leaders would find it more difficult to mobilize their citizens to fight wars. To quote him\textsuperscript{17}:

"If the consent of the citizens is required in order to decide that war should be declared (and in this constitution it cannot but be the case), nothing is more natural than that they would be very cautious in commencing such a poor game, decreeing for themselves all the calamities of war. Among the latter would be having to fight, having to pay the costs of war from their own resources, having painfully to repair the devastation war leaves behind, and, to fill up the measure of evils, load themselves with a heavy national debt that would embitter peace itself and that can never be liquidated on account of constant wars in the future. But, on the other hand, in a constitution which is not republican, and under which the subjects are not citizens, a declaration of war is the easiest thing in the world to decide upon, because war does not require of the ruler, who is the proprietor and not a member of the state, the least sacrifice of the pleasure of his table, the chase, his country houses, his court functions, and the like. He may, therefore, resolve on war as on a pleasure party for the most trivial reasons, and with perfect indifference leave the justification which decency requires to the diplomatic corps who are ever ready to provide it."

It is not altogether clear whether the ideological or the structural argument should predominate as the explanation of democratic peace, even as both contribute to the outcome\textsuperscript{18}; recent empirical tests suggest that

\textsuperscript{16} The most striking and original revival of Kant's argument is due to Michael Doyle, "Kant, Liberal Legacies and Foreign Affairs, Part I", \textit{Philosophy & Public Affairs}, Vol.12(3), Summer 1983.


\textsuperscript{18} My former student, Manmohan Agarwal of Jawaharlal Nehru University, has suggested a quasi-Kantian reason that may prompt democracies at times to be peaceful in their disputes with other democracies. Consider cases where one needs to demonise the enemy before one can carry one's citizens into a war. This may then be a lot more difficult if the enemy is a democracy that is open and accessible and hence hard to paint in stark colours as a rogue nation than if the enemy were authoritarian and contacts with its subjects made it difficult to sustain the necessary propaganda. Of course, this is also a principal reason why totalitarian countries such as the Soviet Union have gone to great lengths to prevent contacts by their subjects with the citizens of the democracies such as the United States that they were pitted against.
the ideological one does. This is perhaps what one should expect: the habits of mind, and patterns of practice and procedure, set by the "norms" that a society works with domestically, will surely constrain and shape behaviour towards others beyond the nation state.

Thus, it is entirely in keeping with the Kantian argument that it is the liberal states in the Western world, who maintain the rights of their own citizens to exit, who, despite the social and political strains posed by rising refugee flows and illegal immigration, have by and large worried about providing rights to such immigrants, not the states that have denied their own citizens the right to move away.

(2) "Safety Valve" versus "Bottling Up": The "respect" for others that Kant observed as the mark of republics as against monarchies, of democracies as against authoritarian rulers, also leads to dialogue and debate, at times vociferous and impassioned. This is often mistaken for crippling chaos: it is merely the robust noise of a functioning democracy.

Its chief virtue is that where different groups, whether classes, tribes or castes, jostle for voice and representation, it provides a platform for the contest and an airing of the demands, yielding a catharsis if not the

19 Cf. Maoz and Russett, op.cit. Again, my political science colleague Ed Mansfield has reminded me that some political scientists have reservations about the Maoz-Russett tests and about the specific proxies used by them. Among the recent reexaminations of the issue, see in particular Christopher Layne, "Kant or Cant: The Myth of the Democratic Peace", International Security, Vol.19, No.2, Fall 1994, pp.5-49; and David Spiro, "The Insignificance of the Liberal Peace", International Security, Vol.19, No.2, Fall 1994, pp.50-86.

20 I should also add that the Kantian argument, and the Russett-Moaz evidence in support of it, relate to democracy, not to the process of democratization. The latter raises the question as to how warlike the transition to democracy is likely to be. Comparing no-change to such transition, Ed Mansfield and Jack Snyder have contended that the former is shown by some empirical evidence to be more peaceable. Cf. their "Democratization, Nationalism, and War: The Evidence", Foreign Affairs, May/June 1995.
satisfaction that success brings and thus acting as a safety valve.

The instinct and the practice of authoritarian regimes, on the other hand, is to repress, to bottle up, these conflicts, building towards eventual eruption when the pressures have built up to an explosive level. I suspect that the success in some of the Far Eastern countries in maintaining an authoritarian structure over a long period owed in part to their initial equality of incomes which made class conflicts less compelling, to the racial homogeneity of their populations (except for Singapore) which ruled out inter-ethnic tensions, and to the absence of religious divisions. It is unlikely that they would have managed so well if these favourable conditions had been absent: the disadvantages of authoritarianism would probably have shown up in these regimes.

(B) Structure:

The structure of democracy, with its institutions of voting rights, an independent judiciary that often requires judicial review and leads to judicial restraint on legislative and executive power, and a free press, also sets it apart from authoritarian rule. The restraint of arbitrary power can be a powerful source of development; but a functioning democracy can also lead to what Jonathan Rauch has called demosclerosis: the paralysis of gridlock afflicting a lobbying-infested democracy.

One could argue that authoritarian governments may be prone to extravagance and waste, inhibiting development, because there is no restraining hand among the citizenry to hold them back and also because, as the late Nobel-laureate economist from St. Lucia, Arthur Lewis, who had advised many governments in single-party authoritarian governments in Africa, remarked to me, the leaders in such governments manage to delude
themselves that the monuments they build for themselves are really a gift to posterity, equating personal indulgence with social glory. And, reflecting on how the authoritarian governments of Latin America and the socialist bloc ran up impossibly large debts during the mid-1970s and much of 1980s, just before and after the debt crisis arrived on the world scene, one may well conclude that, by and large, autocrats are likely to argue, with Keynes, that "in the long run we are all dead", and then ignore posterity for immediate gain, whereas the democracies are likely to be characterized by leaders who see continuity of national interests beyond their own rule more naturally.

The economist Mancur Olson has produced a rather different argument that also militates in favour of democracy as an institution likely to produce development. He argues that dictators are more likely to overshoot in the direction of "takings" from their subjects than Kantian republicans, since they will attach less weight to their citizens' welfare than to their own. The effect will correspondingly be to leave citizens less secure in their property rights and hence to reduce their incentive to produce more income. In effect, Olson suggests that the incentive to save and invest, and hence the growth of the economy, will be adversely affected under a dictatorship.

Not merely are authoritarian rulers more likely to be more self-regarding than democratic leaders. Their ability to be more self-regarding also follows from the structure of democracy. For, democracy will lead to

---


22 Theoretically, this argument can be invalidated if the dictator saves more than the citizens, implying that the dictator is future-regarding rather than simply self-indulgent. Olson must therefore be implicitly assuming that the dictator is extravagant rather than frugal, an assumption that must in turn be justified as I did earlier.
restraints on "takings" from the citizens, in particular via the possibility of appeal to an independent judiciary that may well reverse such "takings" as unconstitutional or unjustified and the availability of a free press that can document and thus restrain the state's extravagance.

But the structure of democracy, in other ways, can also create waste, even paralysis of useful state action, through the lobbying activities of special interests. To see how lobbying can indirectly lead to waste as surely as directly wasting resources, conduct a mental experiment. Imagine that some revenue is to be spent. This may lead to conventional waste: the government may build tunnels that lead nowhere. But suppose now that the Minister for Trade is restricting imports and allocating licenses for scarce imports which then fetch a hefty premium to those who are able to get the licenses: economists call these premia "windfall profits" or, more technically, "rents" to scarcity. You and I will lobby to get these licenses, of course, for we can get rich by getting them. The economist Anne Krueger, who highlighted this phenomenon, described the situation of people seeking to get these licenses as "rent-seeking" whereas I have called it unproductive profit-seeking.\(^{23}\) Its effect is to have us spend resources trying to make money by lobbying to persuade politicians and bureaucrats to give these licenses to us rather than to others, instead of using these resources to produce useful goods and services and make profits that way. Such rent-seeking wastes resources then as swiftly and surely as if our governments were directly wasting them by building white elephants.

The reality is that lobbies that inevitably indulge in rent-seeking, even

in rent-creation where governments are persuaded to create by policy the 
scarities that lead to the rents that are then collected by the lobbies, are 
an endemic and indeed a growing presence in democratic societies. The 
good that they produce, in creating for instance the different perspectives 
on policy that alone can lead to informed policy, can be outweighed by 
such costs. Economists are busy debating how large these costs are; but 
that they do obtain under democracies is indisputable. And that such costs 
would be less under dictatorships is equally plausible even though there 
would be rent-seeking in the form of trying to become the brother-in-law of 
the dictator so that the licenses come to oneself (as they do in fact accrue to 
the families of most dictators in reality)!

On the other hand, the other possible defect of democratic 
governance, the paralysis of government that a proliferation of lobbying can 
cause, is an outcome of lesser likelihood. It has however occurred to many 
shrewd observers who have contemplated the recent gridlock in the US 
Congress. Of course, the United States has a form of democratic 
governance where the President must deal with a Congress whose 
members are not subject to the Party whip and instead regard themselves 
as autonomous agents with whom the President must bargain on each 
issue. David Broder, the perceptive political columnist of The Washington 
Post has remarked that the United States has virtually 536 Presidents. In 
turn, these members of Congress are responsive to their constituents, 
hence to lobbies, to a degree that is unparalleled in other forms of 
democratic governance. As a wit has remarked, a US Congressman is 
virtually required to supply a missionary for breakfast if a cannibal 
constituent demands it!
But "demosclerosis", the arteriosclerosis or clogging of arteries that afflicts the US democracy, is an acute product of a certain institutional structure of democracy, surely "off the curve" and off the wall as far as other institutional forms of democracy (such as the British Parliamentary model) are concerned. It does not seem to me to be an affliction that democracy must inherently accept.

But if you do, then a benign or "soft" authoritarianism sounds attractive as an alternative until you ask, as I did already, whether the authoritarian rulers will in fact have the incentives to deliver development to their subjects by making the "right" choices. That a few did, as seems to have been the case in the Far East in the postwar period, when in fact countless others in the socialist world and in many nations in Africa and South America did not, is hardly proof that this would be the central tendency of authoritarian rulers. In fact, the foregoing analysis and evidence strongly suggests otherwise.

The Quality of Democracy and The Quality of Development

The analysis of democracy's impact on development must reflect, as I have already remarked, the fact that the institutional structure that democracy provides is critical. In fact, Adam Smith's profound case for 

*laisssez faire* in economic matters* must be understood in light of the fact

---

* Most economists are fully aware that Adam Smith did allow for governmental intervention, indeed asked for it, in matters such as education where he thought that, while the division of labour produced economic benefits, it would produce automatons turning the screw to the left or to the right every day, all the time, like Charlie Chaplin in *Modern Times*, so that education would have to be provided to restore them as human beings with texture and sensitivity. To regard Adam Smith as a strict proponent of abolition of all intervention by the state, as is often done by extreme conservatives and libertarians, is to understand Adam Smith improperly.
that democracy in his time was based on suffrage that was not universal but was confined to those with property, so that both he and the philosopher David Hume, two of the greatest minds of their century, could not vote. The government that such a democracy produced led to governance that, in economic matters, was one that Adam Smith castigated as inefficient and socially undesirable because it reflected oligarchic interests. Laissez faire, if only adopted somehow in place of the economic governance produced by this form of democracy, would provide a superior organizing principle: but, to my knowledge, Adam Smith did not indicate how one could get this done!25

So, what might be called the quality of democracy matters greatly. A defective oligarchic democracy may well distort economic choices in the inefficient direction, imperiling prosperity. But then it may also affect what might be called the quality of development.

Development is many-sided; it is not just the growth rates of income. True social needs such as public health, protection of the environment, and the elimination or relief of extreme poverty cannot be provided unless governments have the resources that only growth can generate. But the use of these resources for such public needs will not automatically follow unless the political system permits, and provides the incentives, to mobilize and translate those needs into effective demands. I would say that democratic regimes that are characterized by structures and processes that provide effective access by the groups, often on the economic periphery, who are to profit most from these social programmes, are more likely to have such social needs translated into effective demands.

25 Adam Smith would thus have been an inadequate guide to economic reforms!
The central nature of this observation about the ability and the incentive to vote and to mobilize under democracy is seen best by examining the contention of economists such as Amartya Sen that democracy has promoted the control of famines in India because India’s democracy implies a free press so that we get informed about famines such as the Bihar famine whereas the big Chinese famine under Mao was hidden from view by his iron rule.26

I believe that this contrast is a trifle too simplistic about the advantage of democracy in such matters. For one thing, information about the occurrence of a serious famine tends to diffuse and become widely available in one way or another within most countries, even authoritarian ones. There are several ways in which such information has traditionally spread among the people in even the most traditional societies: Indian sociologists have shown conclusively for example that the notion of the “self-sufficient village” is a myth.27 I have little doubt that this is true of China as well, and that serious research which may become possible with the political opening up of China will reveal that information on the Chinese famine was not confined wholly to where it occurred and must have diffused horizontally in traditional ways.

Of course, I can think of ways in which such horizontal diffusion of the information on the famine could have been handicapped in Mao’s China. Thus, the extreme totalitarianism under Mao may have reduced such traditional diffusion of knowledge among his subjects because of severe restrictions on travel within China at the time.

Again, the horizontal diffusion of knowledge of the famine may have been crippled due to "denial". Thus, we know from Nadezhda Mandelstam’s poignant observation in her memoirs that the potential victims of Stalin’s terror wished to assume that those who had been seized and destroyed were truly guilty of the crimes they were being charged with because, if they were not, then the fact of one’s guiltlessness would not protect one from a similar arbitrary fate at the hands of Stalin’s police. Equally, China’s peasantry may well have discounted reports of a catastrophic famine in China, unmet by corrective relief, so as to protect themselves psychologically from the prospects of a similar, cruel fate.

True, "hard" authoritarian regimes make it easy for the rulers (as distinct from citizens) to be shielded from unpleasant news: the messenger is not protected in such regimes from the retribution that his disturbing message may provoke in an arbitrary regime. Thus, vertical diffusion of information could be impaired under totalitarian regimes simply because the incentive structure of such regimes makes it costly to those below.

But, whether the information on a serious famine is widely diffused horizontally or vertically, the key fact we must confront is that it is available for sure at the level where the famine occurs. The key question then is whether this information will translate better under democracy into pressures for a change in the regime’s policies in the required direction.

And here we come to the real reasons why democracy would fare better than a dictatorship in addressing serious famines. Surely, a democratic regime is able to provide the ability, and the incentive, to translate the information on the famine on the ground into pressure on the government to change its policies as required. Mobilisation by the citizens
through meetings, marches, representations and petitions is surely difficult, if not impossible, in dictatorships. The incentive to do so would also be less because the probability of affecting a dictator's policies through such means is surely less (and the risks of retribution for one's labours substantially greater\textsuperscript{28}) than in a democracy.

Both the incentive and the ability to vote, to mobilize and to be heard, are thus the key ways in which the quality of one's democracy matters to the quality of development. A governance where the poor or the minorities (such as women until only recently in Switzerland) are effectively unable to vote, for example, then is simply not good enough. A judiciary that protects habeas corpus is not as good as one that also provides effective standing for the poor through public interest litigation (as in India). A free press is important but not as good as one that reflects broader interests than those of the elite.

Improving Democracy: Technology and NGOs:

As it happens, not merely has democracy spread around the world; its quality has also improved. The diffusion of ideas and better democratic practices is swift today: public interest litigation is spreading from India; judicial review, originating in the United States, is coming to the European

\textsuperscript{28} Thus, it is wellknown that fear among the rural Party-government cadres was one of the most critical factors in the Chinese famine. The information certainly existed about the famine at the ground level but the incentive to act on it by seeking immediate relief and action was missing because of the totalitarian structure of the Maoist government. Local officials in some of the famine-stricken areas assumed that Beijing would react to the famine by retribution against them because of failure to fulfill outlandish production targets, instead of reacting by procuring necessary food from, say, foreign countries via commercial or aid-financed imports as the Indian government did during the Bihar famine.

Hence, we must also ask whether totalitarian regimes will react to information, even when available, in a way that would address it meaningfully. The incentive for such regimes to address a serious famine is itself likely to be less compelling than for democracies.

The two contributory factors of central importance in this steady progress of democracy and its quality as also the quality of development in consequence, are the revolutionary information technology today that makes the willful rejection or suppression of the interests of the peripheral groups more difficult, and equally makes the growth of nongovernmental organizations that represent these interests more effective in the political domain.

Ironically, the celebrated pessimists George Orwell and Aldous Huxley, the authors of 1984 and The Brave New World, imagined modern technology as the enemy of freedom and the unwitting tool of totalitarianism: things however have turned out for the better, not worse. Modern technology was supposed to make Big Brother omnipotent, watching you into submission; instead it has enabled us to watch Big Brother into impotence. Faxes, video cassettes, CNN have plagued and paralyzed dictators and tyrants, accelerating the disintegration of their rule. As a wit has remarked, the PC (the personal computer) has been the deathknell of the CP (the communist party).

Equally, modern technology has illuminated the obscure face of poverty and pestilence, propelling us in the direction of better development.

---

29 See Bruce Ackerman, "What Kind of Democracy? The Political Case for Constitutional Courts", paper presented to the Nobel Symposium on Democracy's Victory and Crisis, Uppsala University, August 27-30, 1994; also mimeographed, Yale University Law School.

30 This observation also provides yet another critique of the emphasis on information within the country as the key difference that makes famine prevention more likely under a democracy. It is not the information within the country that is likely to be much different; it is the information that percolates out of the country. Is there any doubt that even Mao would have found it difficult to ignore the big famine in China if only the outside world had been able to see, through CNN or other access to China, the deaths and pestilence?

31 One may well conjecture what would have been the outcome of Mao's big famine if only the outside world had had even a glimpse of it. As it happens, only the journalist Alsop wrote about it at the time and no one quite believed it.
Modern information technology thus produces the extended empathy that can inform a democracy into better democracy. On the other hand, it also increasingly takes work into homes where we work in isolation at our computer terminals, linked only long-distance to others living and working elsewhere, so that the economies from working under one roof, which the Industrial Revolution ushered in and which Adam Smith theorized about, and which led to factories in place of the earlier “putting out” system of production, are now receding. This can produce less bonding and hence more alienation that can coexist with increase in extended empathy. Thus, we may well see both weakened bonds within communities and strengthened bonds between them.32

The recent rise of NGOs, cutting across countries but built around societal issues such as the protection of the environment and of labour rights, may be explained partly in terms of such extended empathy that produces common international causes and movements.33 They certainly constitute a powerful new institutional phenomenon that serves to make the voice of the periphery within each nation more audible since it is exercised with other similar voices in unison.

It is also a remarkable fact that the hostility of governments in the developing countries to the activities of foreign institutions, among them NGOs, has reduced sharply today. This is a seachange from the early postwar years when the developing countries jealously guarded their sovereignty and worried about neocolonialism, embraced the West warily

---

32 The former phenomenon seems to have arisen in the United States, for this and other reasons, as documented startlingly by the political scientist, Robert Putnam.
33 Lester Salomon, in his article on “The Rise of the Nonprofit Sector” in Foreign Affairs, July/August 1994, has documented the rise of national and international NGOs, calling it the global “associational revolution” and analyzing several cultural and political aspects of this phenomenon.
and, in place of the notion that such embrace would lead to mutual gain, feared instead a malign impact and even malign intent. Again, it is in keeping with Kantian reasoning that it is the democracies that have opened their doors wider in this way, not the authoritarian governments: witness the contrast between India and China again.

**Democracy and Markets:**

Evidently then the “cruel dilemma” thesis, forcing us to choose between democracy and development, was too simpleminded; the relationship between the two is far more textured, and less unfavourable to democracy, than we thought then.

But we can say something more. Think of well-functioning markets as leading, *ceteris paribus*, to development: that seems to be quite plausible, both in light of theory and empirical evidence. Since democracy and authoritarian rule are in reality combined with absence or prevalence of well-functioning markets, we may well ask whether experience suggests anything interesting in regard to the interaction among these two sets of institutions.

The postwar reality seems to divide into the following typologies on these two dimensions:

*Democracy with Markets*: By and large, these are the Western

---

34 The economist Alice Amsden likes to say, in regard to Korean experience, that they did well by "getting prices wrong", because the state used credit allocations etc. to affect resource allocation. But surely this is conceptually confused or misleading: if they did the right things, then they were getting the social or "shadow" prices right and these were different from the market prices. In other words, market prices and social costs were unequal, requiring state taxes and/or subsidies to fix the market failure. So, the "right prices" were different from the market prices, and the Korean authorities did well by using the "right prices" rather than the inappropriate or "wrong" market prices to guide allocation. Whether these interventions were in fact sensible is a different and difficult question, on which there is division of opinion.
democracies; they have strong performance until the OPEC crisis; they also have generally good social indicators;

*Democracy without Markets: India is the prime example; she had a sorry economic performance and her social indicators are also unsatisfactory;

*Authoritarian Rule with Markets: China in the last decade, and the Far Eastern countries since the 1960s, belong here; they had a rapid impact on poverty and their social indicators are not bad;

*Authoritarian Rule without Markets: These are the former socialist countries; they are abysmal failures, both in terms of growth and social indicators.

What do we learn, if anything, from this typology? I should say: perhaps not much that is firm and compelling, in itself, since any typology on just the two dimensions of "democracy" and "markets", each in turn concealing variations in the "quality" of democracy and of markets, leaves out too many complicating factors that affect specific outcomes. Nonetheless, the typology does suggest three broad propositions that a reasonable analyst should be able to defend without being summarily routed:

* where neither democracy nor markets function, the incentive structure for production and innovation will have been weakened so much as to impair productivity and growth;

* markets can deliver growth, with or without democracy; and

* democracy without markets is unlikely to deliver significant growth.

The last proposition, which speaks naturally to India's experience in the postwar period until the current reforms, is perhaps the most interesting to contemplate further. Why should the lack of well-functioning markets

---

35 Of course, India was not without markets altogether. But the vast overreach of bureaucratic intervention in the economy meant that India came pretty close to having few well-functioning markets in trade and in the modern economy.
subtract from democracy's possibly favourable effects on development?

The answer seems to cry out from Indian experience. Democracy, with its civil and political rights including the ability to travel, work and be able to learn and invent abroad, has made the elite Indians, who had the advantage of access to modern education over a century, extremely capable of absorbing, even building intellectually on, innovative ideas and technologies from everywhere. But the ability to translate those ideas and knowhow into effective innovation and productive efficiency was seriously handicapped by the restrictions that straitjacketed economic decisions at all levels. Thus, for instance, even while Indian surgeons were right at the frontier in open heart surgery, following the Massachusetts General Hospital's feat shortly thereafter in Bombay, the inability to import medical equipment without surmounting strict exchange controls, even when gifts were at issue, prevented the effective diffusion of technology to India on a scale commensurate with her abilities. Equally, the incentive to produce and to innovate was seriously compromised because the returns to such activity could not be substantial when there were extensive restrictions on production, imports and investment.

By contrast, the Far Eastern economies, countries with markets despite authoritarianism, profited immensely from the far freer inward diffusion of technology that their substantially freer domestic and

---

36 The Indian Supreme Court has arguably upheld this right more broadly than even the US Supreme Court which has upheld restrictions on travel to Cuba, for instance. Thus, in the wellknown case, Mrs. Maneka Gandhi versus Union of India and Another, decided on January 25, 1978, the leading judgment by Justice P.N.Bhagwati treated the right to travel abroad as part of "personal liberty" and the impounding by the government of the passport of Mrs. Maneka Gandhi under Section 10 of the Passports Act of 1967 was struck down as an infringement of Article 21 of the Constitution.

37 The deleterious effects of such restrictions on the Soviet economy's dismal performance have been extensively documented by Sovietologists such as Joseph Berliner, Abram Bergson and Padma Desai.
international markets permitted and facilitated. The economic interventions of the Indian government, after the early years of more satisfactory growth and promotional rather than restrictive interventions that jumpstarted the economy from its lower pre-Independence growth rates, degenerated quickly into a series of "Don'ts", straitjacketing the economic decisions of the citizens. On the other hand, the Far Eastern economies worked with a series of "Do's" that left open considerable room for freedom to produce and innovate (in shape, especially, of importing new-vintage and economically productive technologies).³⁸

The chief lesson may then well be that democracy and markets are the twin pillars on which to build prosperity.³⁹

³⁸ The contrast between interventions in shape of "Don'ts" and "Do's" was made by me earlier in Protectionism, Cambridge: MIT Press, 1988.

³⁹ In this regard, I must also cite an ambitious statistical study by the economist Surjit Bhalla, "Freedom and Economic Growth: A Virtuous Cycle?", paper presented to the Nobel Symposium on Democracy's Victory and Crisis, Uppsala University, August 27-30, 1994. Bhalla works with 90 countries for 1973-1990. His conclusions are broadly supportive of the propositions I have outlined in the Lecture, while he concludes more strongly that the statistical evidence shows a favourable impact of "political freedom" (i.e. democracy), when treated in a way that enables us to differentiate among different democracies in terms of how democratic they are on different relevant dimensions. His definition of development also extends beyond growth rates to include a couple of social variables: secondary school enrollment and decline in infant mortality. I might add that Bhalla's work is unique among several recent statistical studies in looking at both economic and political "freedom" in exploring the connection between democracy and development.
The following papers are published in the 1994-95 Columbia University Discussion Paper series which runs from early November to October 31 (Academic Year). Domestic orders for discussion papers are available for purchase at $8.00 (US) each and $140.00 (US) for the series. Foreign orders cost $10.00 (US) for individual paper and $185.00 for the series. To order discussion papers, please send your check or money order payable to Department of Economics, Columbia University to the above address. Be sure to include the series number for the paper when you place an order.

708. Trade and Wages: Choosing among Alternative Explanations
    Jagdish Bhagwati

709. Dynamics of Canadian Welfare Participation
    Garrey F. Barret, Michael I. Cragg

    Sherry A. Glied, Randall S. Kroszner

711. The Cost of Diabetes
    Matthew Kahn

712. Evidence on Unobserved Polluter Abatement Effort
    Matthew E. Kahn

713. The Premium for Skills: Evidence from Mexico
    Michael Cragg

714. Measuring the Incentive to be Homeless
    Michael Cragg Mario Epelaum

715. The WTO: What Next?
    Jagdish Bhagwati

716. Do Converters Facilitate the Transition to a New Compatible Technology?
    A Dynamic Analysis of Converters
    Jay Phil Choi
1994-95 Discussion Paper Series

717. Wealth Effects, Distribution and The Theory of Organization
Patrick Legros, Cornell University
-Andrew F. Newman, Columbia University

718. Trade and the Environment: Does Environmental Diversity Detract from the Case for Free Trade?
-Jagdish Bhagwati and T.N. Srinivasan (Yale Univ)

719. US Trade Policy: Successes and Failures
-Jagdish Bhagwati

720. Distribution of the Disinflation of Prices in 1990-91 Compared with Previous Business Cycles
-Philip Cagan

721. Consequences of Discretion in the Formation of Commodities Policy
-John McLaren

722. The Provision of (Two-Way) Converters in the Transition Process to a New Incompatible Technology
-Jay Pil Choi

723. Globalization, Sovereignty and Democracy
-Jagdish Bhagwati

724. Preemptive R&D, Rent Dissipation and the "Leverage Theory"
-Jay Pil Choi

725. The WTO's Agenda: Environment and Labour Standards, Competition Policy and the Question of Regionalism
-Jagdish Bhagwati

726. US Trade Policy: The Infatuation with FTAs
-Jagdish Bhagwati

727. Democracy and Development: New Thinking on an Old Question
-Jagdish Bhagwati