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# The Conflict between Human Growth and Economic Growth*

By Asad Zaman

World Bank data for 2008 shows that incomes in Norway are about 400 times more than those in Congo. Statistics cannot convey what journalist Kevin Carter did with a photo of a vulture waiting for a starving child to die; haunted by vivid memories of starving children, Kevin committed suicide three months later. At the same time, the rich buy $20,000 crocodile skin briefcases, and richest 250 people have more wealth than the bottom 2.5 billion. How did the world come to be this way? Can we change things for the better? These questions, and the urge to 'do something about it' arise naturally to sensitive and compassionate people.

Prior to World War I, virtually the whole world was under direct or indirect control of European powers. Used as pawns on an international chessboard, the European colonies tasted of wars and revolutions and freedom. These lessons were put to use as nearly all colonies gained independence by the middle of the twentieth century. Leaders of the newly independent countries faced this question in its most urgent and practical form: what policies should we adopt to lift ourselves up from poverty? Long periods of colonization had destroyed indigenous traditions and leadership, and power came into the hands of western educated elites, who naturally pursued western ideas about the nature of the problem of "under-development" and its cure. The striking fact about sixty years of experience with pursuing these strategies is their virtually complete failure. The main reason for this failure has been a deep rooted misunderstanding of the nature of the process of development. Economic theories equate growth with accumulation of capital (or wealth) and give human beings a secondary place in the process. The reality is that human beings are central to the process; as Mahbubul Haq[1] realized after bitter experience, "Human beings are both the means and ends of development."

In Pakistan, we have first hand experience of this failure. The first and second Five Year Plans of Pakistan were drafted by economic experts from Harvard, who also created academic and bureaucratic institutions (PIDE, Planning Com-

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mission, CSO, etc.) required for this process. Mahbubul-Haq, one of the chief architects and executors of the Harvard group economic policies, was disillusioned by the outcomes of the much touted "Decade of Development". In 1968, after ten years of western style development, Dr Haq said that 22 family groups "controlled at that time about two thirds of the industrial assets, 80 percent of banking, and 70 percent of insurance in Pakistan". He expressed his dissatisfaction as follows: "In blunt terms, Pakistan's capitalistic system is still one of the most primitive in the world. It is a system in which economic feudalism prevails. A handful of people, whether landlords or industrialists or bureaucrats, make all the basic decisions."

Post World War II, first generation policies for economic development designed by expert economists led to similar outcomes throughout the world. Widespread failures, and changing political climate, led to the development of second generation development policies, this time based on free markets. The IMF and the World Bank created the "Washington Consensus," a list of ten universally applicable economic policies for growth. Despite substantial difference in appearance and format, this "new" approach to development has led to outcomes similar to those observed in Pakistan: Increases in concentration of wealth, income inequalities, poverty and unemployment. Social tensions caused by these policies have frequently resulted in political and economic crises. Some economists have argued that much of the poverty we see around the world is due to global imposition of these flawed policies for growth.

In parallel with Mahbubul-Haq, many people associated with the design and execution of the Washington Consensus policies have acknowledged their failure. John Williamson, who coined the term "Washington Consensus," has summarized the overall results as[2] "disappointing, to say the least". Despite this acknowledged failure, Williamson, and other economists and policymakers continue to tout third generation reformed and sophisticated versions of these policies, as cures for low income. They attribute second generation failures to institutional weaknesses, flaws in execution and sequencing, corruption, and other factors. In fact, these policies and their background theories are fundamentally flawed. To prove this, Dani Rodrik[3] of Harvard has pointed out that the general economic policies of China and India remained the exact opposite to the Washington Consensus' main recommendations" "Stabilize, Liberalize and Privatize." Both had high levels of protectionism, no privatization, extensive industrial policies planning, and lax fiscal and financial policies through the 1990s. They have nonetheless been highly successful in achieving income growth and poverty reduction.

From several different lines of research, it appears that economists have focused on the wrong areas in their search for the engines of growth. Instead of building machines, and exploiting laborers to provide capital for investments, the best investment is the people themselves. Research shows that the wealth of nations is embodied in human beings, rather than in industries and infrastructure. Intangibles of trust, cooperation, and forging national consensus are keys to progress; unfortunately, these lie outside the ambit of traditional economic theories. Pioneers like Amartya Sen with his "Development and Freedom" and the Human Development approach of Mahbubul Haq have broken fresh ground. Instead of following rehashes of failed policies, policy makers urgently need to adopt these new ways of thinking.

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Notes:

1. This and subsequent details about Mahbubul Haq are taken from "From Economic Growth to Human Development: The Journey with Mahbubul Haq," by Faisal Bari, to appear in *Lahore Journal of Economics*. Draft of this article available from sites.google.com/site/aznews0.
2. John Williamson, "Did the Washington Consensus Fail?" speech at Center for Strategic and International Studies, Washington DC, Nov. 6, 2002. available from: http://www.iie.com/publications/papers/paper.cfm?ResearchID=488
3. Dani Rodrik, "Goodbye Washington Consensus, Hello Washington Confusion: A Review of the World Bank's *Economic Growth in the 1990s:Learning from a Decade of Reform*" Journal of Economic Literature, vol. 44, 2006.