

Lecture No. 28  
Democracy and Development: Friends or Foes  
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It is a great honour to be invited to give this lecture this evening in the name of India's Independence Prime Minister, without doubt one of the greatest men of a dark century. Some others are remembered for slaughter and tyranny; Jawaharlal Nehru is revered for setting his newly independent country on a democratic path - free, secular and plural. It is a country that I have visited many times over the last two decades, a country whose history is intertwined through no choice of its own with Britain's. What we share is both dense and sensitive, including a language born here but enriched, as India's Prime Minister once remarked, by Indian tongues and usage. I hope that the things we hold in common, the values we share, will strengthen our partnership as India helps shape - as it surely will - the century that lies ahead.

These days, the case for democracy lies largely beyond argument. To the cliché about motherhood and apple pie, I guess we should add democracy. It was not ever thus. In Athens, where we commonly believe that democracy was first hatched, Plato argued that it made the citizens "idle, cowardly, loquacious and greedy". Moreover, they devoured those like Pericles who had in the first place given them democracy along with the associated art, architecture, drama and philosophy that still mould western civilisation. In the Renaissance, democracy got a bad press. It led allegedly to endless turbulence.

In the days of the American Enlightenment when the Founding Fathers of the fledgling republic created their United States, it was feared that democracy would lead to the equalisation of property. The French Revolution infused the debate on democracy in 19th Century Britain. How could one prevent rule by the people descending into chaos, complete with tumbrils and guillotines?

But today, the debate about democracy in much of the world is a no-brainer. The promotion of democracy is an explicit objective of Western diplomacy and development policy. In pursuing this aim, Europeans rely mostly on rhetoric and rather half-hearted attempts at conditionality, as we can see when examining, for example, the EU's policies towards its Mediterranean partners on that sea's southern shore. Americans have been less squeamish, with neo-conservatives advocating a more muscular approach. Democracy should follow the flag and the tank, though the results in Iraq have not suggested that this neo-conservative approach to foreign policy will win over many disciples in future on the grounds of its proven efficacy. Moreover, the pursuit of democracy and public intolerance of those who decline to embrace it, have produced rather too many embarrassing examples of double standards. Where exactly between West Asia and Central Asia does transatlantic enthusiasm for democracy begin to wane? Why are we so forceful about democracy in Iraq, but turn a blind eye to the lack of it in Pakistan? Is it partly because the calamitous folly of our adventure in Iraq has made the allegedly crucial support of generals in Rawalpindi's cantonment all the more important in the struggle to contain terrorism?

Yet for all this, most of us remain convinced that the democratic system of governance, the ability to remove our government and install another peacefully, through the wishes of the people, confers a higher quality of life, and helps sustain a higher standard of living. So the result is seen to be both morally superior and economically more efficient. Like every other human effort at creating institutions, democracy is imperfect. But as Winston Churchill famously said, at the very least it is the worst form of government save all the others.

The growing link between democracy and the assumed good governance that it supports, on the one hand, and economic freedom and success on the other, has regularly been adduced. Margaret Thatcher once said in reply to questions in Beijing that it did not matter whether you started with economic freedom or political freedom, sooner or later you would have both. And with that

marriage, as others have said, would come the healthy patter of growing GDP figures.

Back in the early years of this century, it seems already an age ago, a panel of Arab policy makers, academics, journalists and legislators, brought together under the aegis of the UNDP, tried to fathom why their region - broadly speaking the countries of the Arab League - had done so badly economically in comparison with most other parts of the world despite its energy resources. They came to three conclusions - the education system, discrimination against women, and the lack of democracy and good - that is, open and accountable - Government. They took it as given that democracy would improve their economic prospects though they sensibly and provocatively (so far as the United States was concerned) concluded that democracy could not be brought in on the tip of precision guided munitions.

The argument about democracy and economic well-being has however, become more serpentine and less straight forward than its Arab supporters suggested. While I wholly agree with Margaret Thatcher's conclusion, there are a number of complexities, confusions and contradictions on the way. Let me try to unpack a few of them.

The collapse of communism and of Russia's European empire led to immediate calls inside and outside that country for elections and capitalism. Russia got both, and its economy was wrecked - by the theft and pillage of state assets, by the enfeeblement of central government, by gangsterism and every sort of rascality. You can point to the weight of the problems stored up in the Communist era that helped to capsized the new successor economy. But some of the weaknesses undoubtedly first sprouted in the early democratic years. Russia's failure did, some said, result from the fact that it put political freedom ahead of economic growth and stability. Now, they argue, under Mr. Putin, the Russians have (and prefer) less freedom in return for more economic stability and success. Perhaps these commentators underestimate the effect of the oil and gas price on Russia's turnaround. Perhaps they exaggerate the extent of that improvement. Perhaps they take too little account also of Russia's yearning for the smack of firm (albeit ex-KGB) government, after the humiliating and not-so-jolly Yeltsin years. Whatever the reasons, Russia has looked a pretty bad advertisement for the economic benefits of democracy.

The rise of east and south east Asia also raised questions about democracy. Had not South Korea and Taiwan begun their economic ascent under authoritarian regimes? Was not growth here and in the small tiger economies of Singapore and Hong Kong in large measure the result of investment in people, and in their health and education, as well as those communities' enthusiasm for selling into an increasingly open world market. The evidence for these propositions seemed to be confirmed by the tables of statistics in successive annual reports of the Asian Development Bank. What about Hong Kong? It was not democratic, but rather a colonial territory ruled by benign foreign autocrats? Or consider, for that matter, Singapore, where democracy was at the very least guided or socially engineered? Singapore was what so many businessmen, impatient with the apparent vulgarities, see-saw controversies, and sheer clutter of democratic politics, appeared to like as a destination for their investments and their regional offices. It was clean, neat and white-shirted; people queued and followed unquestioningly the advice of their stern guide and mentor. If only, I have heard European and American businessmen say, we were more like that at home. And look at the sky-scrappers, the land reclamation and the GDP figures. It works, absent the rough and tumble of pluralism and democratic politics.

But it is the rise of China that more noisily challenges the alleged relationship between prosperity and democracy. We know the remarkable story - from famine and the cultural revolution to the status of workshop of the world in four decades or so. Whatever else has triggered this economic revolution, it has not been democracy and pluralism. China remains Communist at least in its political institutions. The party still rules, dominating the state and policing the infrastructure within which a sort of capitalism, distorted by the politicisation of credit, creates growing national and individual wealth. It is, indeed, glorious to be rich, so the cat, to borrow from Deng Xiaoping,

may be black or it may be white. Who knows or cares what colour it is? It certainly catches mice. Is this Socialism with Chinese characteristics? Leninist capitalism? Milton Friedman's economics as painted by Jackson Pollack - on a truly spectacular scale? Whatever, you call it, democracy it ain't; and yet - or should it be, "and therefore" - China grows and grows, with many of its citizens benefiting for the first time in over 150 years from a "feel good" factor, and with the world too gaining from the deflationary boom that China has helped to unleash. So Walmart customers are winners with lower consumer costs. American home owners benefit through lower interest rates. The Chinese engine just goes on thumping away, regardless of its government's refusal to accept the advice of foreign liberals that Sun Yat Sen got it right about democracy a century ago.

This is where, to its modest embarrassment, India gets drawn into the debate. India now booms, secular, democratic and not so socialist as once it was. Long forgotten are the constraints of a so-called "Hindu rate of growth". Demographers predict India's overhaul of China before mid-century in terms both of overall population and of the economically active proportion of that population. The service sector attracts jobs and investment from all over the world. What has happened to services will surely one day affect retail, distribution and manufacturing too. Indian soft-ware engineers are the front-line troops in its economic resurgence. Indian entrepreneurs build branded, multinational manufacturing firms from telecommunications to steel, from pharmaceuticals to vehicle construction. India still confronts huge challenges - not least of human and physical infrastructure. But it is unquestionably on the march. And, Hallelujah, it is democratic.

We stand at the threshold, I predict, of the growth of a cottage industry in articles, books and lectures that seek to answer the question for European and American businessmen and others about where to place their bets, India or China! Which offers the best long term prospects? Should we count on rumbustious India democracy or focussed Chinese authoritarianism! I suspect the Chinese are just starting to hear echoes of the debate, and in India it is certainly noted - and disapproved in equal measure, for reasons that I understand.

India has to share, as well as shape, the world's future with China. India should not want that relationship to be portrayed from the outset as a competition, or a contest in the making. So India should naturally welcome President Hu Jintao to Delhi, work for a good bi-lateral relationship and discourage democratic triumphalism on the part of her Western friends. There is a particular danger here that India, as an Asian democracy, may be made out to be American's pluralist poster-boy, a counter weight to China, a chess piece on that geostrategic board where some (but happily not all) Americans think the coming century will be played out, as a struggle between existing American hegemony and nascent Chinese hegemony. This is not in my view again a game anyone should want to play, least of all India.

Nevertheless, the argument about the relationship between politics and economics is not going to fizzle out. Nor should it. We should be able to recommend and promote better ways of sustaining and promoting economic growth, including political ones. Good governance is in every citizen's interest, in every investor's interest, in every foreign minister's interest. So without dwelling too embarrassingly on India and China, where does the balance of the argument lie?

The first thing to note is that the economic benefits of democracy, assuming that they exist, should not be taken as the principal point in democracy's favour. Democratic values are part of a broader set of ethical assumptions about the right relationship between the state and its citizens. These values are universally valid. They are not exclusively Western, nor do they all originate in the West. India was preaching and practising political moderation when European societies still believed in the Divine Right of Kings to do to their subjects pretty well whatever they wanted. Treating others as you would want to be treated yourself is both a Confucian and a New Testament instruction that touches on the rights and responsibilities of governments. Despite Hobbes, the state is not the master, the citizen the slave. Every citizen is entitled to fair treatment -due process - under agreed law. Every citizen should be able to expect that his government will explain its

actions and account for its mistakes. Every citizen has the right not to be tortured.

India demonstrates some of its strengths when these entitlements are tested against history. There was no gulag in India. There has been - as Amartya Sen has argued - no famine, made either by the Gods or man. Legal breakdowns and the alleged mistreatment of suspects by the police and security forces have led to open enquiry, debate and rectification. Are these standards always perfectly observed in democracies? Alas, they are not. They were not as scrupulously followed as they should have been in this country during the years of Irish terrorism. In America in the last few years we have heard a shameful debate about why torture - keeping a man's head under water, for example - is not really torture at all. So democracy does not always deliver these values as it should, but it is more likely to do so than any other system. And the main reason for this is the openness of the democratic system which is also good for sustained economic growth.

Transparency is the hand-maiden of accountability, both politically and economically. We believe in its political virtues since it helps the governed to judge their governors, and it can also help those governors to make better decisions since, as they act in the full light of publicity, they should need to be more careful about weighing the merits of any policy before implementing it. That this does not always happen is the fault of political leaders not of the system itself. Transparency in the political community is not very different from the same quality in the economic or commercial sphere. Will a wise investor risk his money unless he knows broadly speaking the market conditions he is likely to encounter? How can you have proper corporate governance without openness. Enron was a reminder of the perils of obfuscation. What price share-holder power without transparency and accountability? How can you apply international standards of accountancy without transparency?

The importance of transparency in a functioning, economically successful democracy, should remind us that democracy covers a lot more than the business of voting. We have too often acted as though the mere act of dropping a piece of marked paper in a voting box, or punching a preference into a voting machine, is what democracy is essentially all about. Drop your own Athenian pebble into the pot and all will be well. We should know by now that it is not that easy. As Fareed Zakaria has argued, to define democracy almost exclusively in terms of casting a ballot can lead to some distinctly illiberal consequences. Majoritarianism - rule by the majority — is not the same as democracy, though the ability to choose who will represent your interests in a legislative body is certainly an essential part of democracy. Majoritarianism can produce some unpleasant results. The majority may pillory the minority, arguing that to do so is sanctioned by popular support. So you can elect pretty nasty populist governments with authoritarian and deeply nationalist tendencies who will secure public acceptance by identifying and then persecuting a minority. This is more or less what happened in parts of the Balkans after the dismemberment of Yugoslavia. The majority's behaviour has to be constrained by rules and institutions that promote community tolerance.

Professor Samuel Finer, the late and distinguished Professor of Politics at Oxford University, wrote a three volume history of government in which he identified and discussed pretty well every form of government known to man. He had chapter after chapter of categories of government, one of which was very slim, a section of his book on societies that were liberal but not democratic. He could only think of one society to place in that category: Hong Kong. This example admirably makes the point about the complex and sophisticated nature of democracies. Hong Kong has all the institutions of a liberal, pluralist state. It has the rule of law (which has been by and large, with just a couple of high profile exceptions, accepted since 1997 by China), independent courts under the leadership of a distinguished judge, freedom of speech, religion and assembly, a good police service, an efficient and clean civil service, strong professions and a deep sense of citizenship. It has, in short, everything a good society needs except representative government, though hundreds of thousands of its citizens openly campaign for that. So Hong Kong is a free and plural community but it is not democratic in the narrower sense.

It is intriguing that Hong Kong has all the institutional attributes whose creation has often been ignored when societies have escaped authoritarianism and embraced democracy. We often scramble to promote these liberal features of good government, but they are usually more tricky to establish than an electoral law and voting lists. Iraqis have voted, very bravely, twice but they do not alas enjoy as citizens the rule of law. None of this argues against the importance of the ballot box; but voting is not enough - perhaps we should think of it, as the philosophers say, as a necessary but not sufficient condition for good government. Moreover, those of us who wish to push a democratic agenda in our relations with the rest of the world would do well to comprehend that establishing democracy is a complex and demanding process that takes time, commitment and perseverance. Making a democracy is not like making a cup of instant coffee (and I hope that the results are better!).

Governance in Hong Kong undoubtedly played a part in the economic success of the territory, despite the uncertainties about the future that clouded the skies and despite the lack of any natural resources there except a magnificent harbour. The market economy hummed away for over a generation within a structure that sustained success. Informed public opinion kept the government on its toes. The courts gave business the assurance of a level playing field. The professions, journalists, and share-holders prevented capitalism deteriorating into jungle law. The civil service did not exact a corruption tax on business and the rest of the community. Would Hong Kong have been as successful economically if the press had been muzzled, the courts in the government's pocket, the professions only professional in the sense that we describe a foul on a football field, and the police and civil service weighed down by brown envelopes filled with the local currency? No prizes for the answer.

It was arguably the lack of the sort of institutions that I have described in Hong Kong's liberal but not democratic society that caused chaos in Russia and brought Milosevic and Tudjman to power in the Balkans. Filling out the definition of liberal democracy, as I have done, also enables us to see much more clearly some of the reasons for the terrible failures in so much of Africa in the post-colonial period.

Naturally, some of the problems rampant in post-colonial Africa are the result of colonial Africa. Others are the result of geography, that politically incorrect subject that shows how much tougher it is to survive and prosper in some parts of the world than in others. On the whole, proximity to the equator does not do much for your health or your economic performance. You can also denounce the inadequacy of aid flows from rich to poor countries, though as an ex-Development Minister I think we would be well-advised to be more intellectually honest at times and admit that development assistance has a pretty abysmal record in lifting growth rates and raising the indigent out of poverty.

Yet surely we cannot over-look the role of bad government in compounding Africa's ills. Too often democracy came to mean one citizen, one vote, once. And the other attributes of liberal pluralism were barely apparent anywhere. I spent three years in the eighties as a frequent visitor to Africa. I spent five years in the nineties in Asia. I then began revisiting Africa in the new century. It was a pretty depressing picture. In Asia, I had got used to seeing things getting better year by year. In Africa, they appeared on my second round of visits to have got worse in many places. Kinshasa, for example, the capital of a continent-sized country rich in mineral wealth, had decayed into a ramshackle slum. The country over which it did not preside was torn apart by pillaging neighbours and local war-lords. Zimbabwe had been impoverished by Mr Mugabe's brutal incompetence. There were bright spots - the triumphant rise of South Africa from the ashes of apartheid, for instance - but not enough of them to provide much hope for Africa's immediate economic prospects. Perhaps things are now getting better. The connection between good governance and economic success, as well as social stability, was identified by some African leaders themselves in the New African Plan for Economic Development - NEPAD. It was full of good things, of good intentions. But in a country like Zimbabwe, a state in free fall, the intentions seemed to melt away, leaving

only a damp blob of goodwill. Elsewhere I am assured there are some better stories. I do hope so.

But democracy as a part of good governance has not had a very good run in Africa, a point to which donors have belatedly woken up. Development assistance has been increasingly tied to governmental performance, a link strongly criticised by aid recipients who do not perform well and who often have flimsy or non-existent credentials as democrats. I trust that the emergence of China as a significant donor and trading partner in Africa will not thwart the efforts of other donors to continue the encouragement of political reform and better government. China should seek to avoid some of the mistakes that the traditional donor community has made in the past. I was struck by some of the remarks made by African leaders and their advisers at the recent Beijing summit. There seemed to be an almost audible sigh of relief that good government was off the agenda. I even noticed one diplomat saying what a pleasure it was to build a stadium without the requirement of an environmental impact assessment first. Without good government, and I reaffirm what I said about its relationship to democracy, Africa will not thrive economically and will not be stable. Both those issues matter to China as well as to the rest of us.

China's recent extraordinary success - whether you measure it in terms of the quality of diplomats' silk ties, the number of cranes that you can count from your hotel window in every Chinese city, the new roads criss-crossing the country, the investment in new universities, or the food in every Chinese bowl - is not the result of socialism, but of a kind of capitalism in which profits and pay clearly do drive performance. Can that be indefinitely sustained? The problem is that, to return to the famous metaphor, the cats get fat, some of the mice too, but some pretty thin mice get left behind. Capitalism requires to be disciplined by law that protects the community's interests and by share-holders who prevent corporations becoming simply money-machines for those who run them. Shareholder power in its turn rests on transparency and on clear principles of corporate governance. The rule of law and the rule of shareholders eventually topple even a fortress of fraudulence like Enron.

Capitalism unbound, unconstrained by the rules and accountability of an open society, can easily lead to growing social inequity. You do not have to be a socialist, or even a Communist, to sympathise with President Hu's concern that there is no automatic trickle down of wealth from glitzy Shanghai to the rural west of the country. How easy is it to construct, within a system that generates wealth through the raw energy of capitalism, some mechanism for making that process of wealth creation more inclusive? Can you do it through tax and redistribution in a system where the taxpayers have no representation?

Without that, and without cascade-down let alone trickle-down, social gaps become wider, creating problems of cohesion more intense when there are no safety valves to allow the steam to escape. No journalists to scourge and denounce the idle rich, to uncover corruption, to campaign for the poor. No parliament anxious to investigate wrong-doing, to denounce it and to raise Cain. How can you in these circumstances prevent a growing gap between an ideology of community and institutions that fail to make it a reality. A sense of unfairness always furthers grievance, and grievance is invariably the parent of trouble.

The efficiency with which money is invested in any economy may not matter so much when the scale of the money involved is immense. Chinese domestic savings are high and the country attracts more than a billion dollars a week in foreign direct investment. The Chinese growth rate would be even higher — and GDP growth per head would have grown as fast as in the original Asian tigers - if all this investment had been better used. Inefficient allocation and the over-hang of bad debts are a result of decisions on credit being taken primarily on political not commercial grounds. What would happen if this were to change in China? There was an interesting subterranean debate this summer, concluded through the columns of the Communist papers in Hong Kong, between hard-line Communist party economists and reform-minded bankers. If the party loses its grip on banking and the economy, said the former group, it will soon lose its grip on the state. But unless

we loosen our control of the banks, responded the reformers, we will lose investment, job-creation will plummet and the party will certainly lose control of the state. It is a difficult dilemma since, to the outsider, both arguments appear to be correct.

Innovation has always helped drive economic growth and productivity increase. It is arguably more important than ever in today's global economy when knowledge and information have enhanced functions. You can naturally buy in the products of other people's innovation, car engines here, computing technology there. You can even steal them, as Western Europe tried for years to steal the secret of China's manufacture of porcelain that was wafer thin but hard. The best way, however, to innovate is not to purchase or pilfer innovation, but to do it at home, and to accomplish that you require an open system that encourages fresh thinking and the interchange of ideas. It is no accident that India is doing so well in the new industries where constant innovation is required in order to stay ahead of the competition.

The steady opening up of any economy, using a basically capitalist ethos to drive growth, gives more and more citizens the chance to make economic choices. This has led to a real improvement in the quality as well as the standard of life of the Chinese. They are much more free than they were, with greater control over their own lives. Day-to-day choices now are constrained mainly by economic factors. As citizens, the Chinese have more control over where they work and live, over whether they rent or buy, over whether they spend or save, over whether they buy this brand or that, over what they insure and how much they put aside for retirement. These welcome choices are augmented by the liberating influence of technology. Information and travel are now available, if more controlled than elsewhere.

How easy is it going to be, I wonder, to draw a line between economic and political choices? If you wish to save, might you not soon want to know where your money is being invested. If you buy your own house, might you not take a dim view of plans to build a motorway nearby? If you lose your job, might you not want to know why? President Clinton, no political slouch, readily accepted the advice that "it's the economy, stupid" that decides elections. I wonder myself exactly where economic empowerment ends and political empowerment begins. Perhaps there is an evolutionary symbiosis here - that economic development leads to political development, rather a Marxist thought really, and that political development then becomes the condition precedent for further economic development.

I was thinking about this lecture in an airport lounge, wondering quite how I would conclude it, when a peroration was offered on two plates. First, I saw in a newspaper that Senator Hilary Clinton had already raised fifty million dollars for her presumed bid for the Presidency, Her husband had raised over thirty. So does money buy elections? Pericles would not have approved. But then we know, as I said at the outset, that no democracy is beyond criticism, most are holed like a Gruyere cheese with imperfections. Democracy - here, there, everywhere - is not all it is cracked up to be. Yet it is at least some of what it is cracked up to be -and at least I know about the Clinton war chest because I can read about it in the newspapers.

Secondly, I was talking to a businessmen whom I like and respect, who himself likes and respects China as much as I do. He was musing about China's future in terms similar to those I have heard used by many others - foreign well-wishers and Chinese alike. "This isn't a democracy, of course", he said, "but the system suits the country, and it works. One day it will change. You just can't say when. It will be in their own time".

These are not sentiments that you would hear about India. Indecisive. Corrupt. Bad infrastructure. Too much bureaucracy. All that you might hear. But no one argues that one day something systemic will have to change in India. The economy will grow. Society will change. Yet India does not face an existential question around the corner.

Maybe China does not either. Perhaps this -this "this", whatever you call it - will simply go on, neither quite one thing nor quite the other. If that is so, why is there not a bit more self-confidence about what exactly it is. Why is there a sort of assumption of inevitable change one day? If it works so well, and the system has undeniably presided over an economic regeneration, why should it ever need to change? But if change one day, sometime, is conceded, when will that change happen and what exactly will this change bring in its train? Is not the truth around which we all tiptoe that one day, maybe because of the economic success that is evident and welcome to us all and maybe because that economic success flags, China will face an existential choice, a choice that India - poorer today than China - has already made.

One thing is for certain. We shall all be far better off if China makes that choice smoothly and without the turbulence that engulfed China so often and for so long in the past. The world will be better off with a strong and stable China, and with a strong and still stable India - a point which I hope will not raise hackles in parts of what we call the Western world. Europe and America have to face the fact that the two centuries when we dominated the world are over. The next century is ours to share peacefully and harmoniously with Asia. I just hope we are up to it.