



READERS' COMMENTS

The state and development

Although the issues raised in Wendy Ayres and Alex McCalla's response to Lena Hasle's letter (June 1997) in connection with "Rural Development, Agriculture and Security" (December 1996) were pertinent to the development debate, two areas concern me.

First, Ayres and McCalla state that "in Uganda and Kenya the [World] Bank is supporting the development of improved techniques for growing vegetables near houses; simple, lightweight tools for weeding and harvesting; and improved village-level food processing techniques." Is this support free? If it is, then the World Bank's gesture is phenomenal. It can be regarded as a Marshall Plan for the recipient countries. However, this plan would fall far below that which the United States extended to Europe for reconstruction purposes after the devastation of the world wars. Why is it that the developed world and the World Bank are so reluctant to devise a similar plan for the third world instead of committing funds whose impact remains negligible?

Second, if this support is not free, how does the World Bank expect to be repaid? The type of activities the women engage in cannot enable them to repay the loans. And, if the women cannot repay, will the onus not fall on their governments? Obviously, all governments that have borrowed from the World Bank are permanently in debt. Why is this the case? Is this lending merely a finance issue? This latter question is the most crucial to the development debate.

Both parties fail to tackle the central role of the state in development. As long as international organizations deny the centrality of the state—which they do on the grounds that the states are the very cause of third world problems—their efforts will continue to be dismal. Indeed, activities such as agriculture and food security, rural electrification, land redistribution, and economic growth, are state led. Private sector initiative and NGOs merely supplement the efforts of the state.

The character and centrality of the state, especially the state's responsiveness to the needs of society, are crucial in the development process. Developed countries were

able to develop only because their states had the capacity to marshal sufficient resources to inject into their economies. The focus should be on making third world states "strong." To think that supporting women will automatically deliver development is not only wishful thinking but dishonest.

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India's saving performance

With respect to Martin Mühleisen's thought-provoking article, "Improving India's Saving Performance" (June 1997), it might be argued that the trade-off between physical and financial saving depends on the financial deepening of the economy and that financial reforms accelerate financial deepening. The changing structure of the financial sector should therefore be factored into attempts to estimate physical saving and establish time trends for domestic saving.

Although household saving responds to a host of factors—including growth, distribution of income, and demography—maintaining interest rates at an appropriate level is critical. Recent evidence on real interest rates and inflationary expectations suggests that policymakers should monitor the former, which can play a role in stimulating growth. It is encouraging that India is proactive in this area, using moral suasion for downward adjustment of nominal interest rates so that the cost-push effect of real interest rates is moderated while savings are indexed. The realization of higher growth and stability is subject to India's resource and physical structural constraints, but, as competition increases, productivity is gradually growing, as reflected in the recent decline in the capital-to-output ratio. Let the real dynamics be deep-rooted.

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Culture and development

In his review of my book, *The Pan-American Dream* (September 1997), William Easterly says that I have "done the world a service by promoting culture and

economics as a field for inquiry." *The Pan-American Dream* also stresses the links between culture and political and social development, but Mr. Easterly ignores these and the other main themes of the book (such as the prospects for a genuine Western Hemisphere community). He even ignores a section on the implications of the book's arguments for the World Bank and other donors.

Mr. Easterly exaggerates in his statement that, "In [Harrison's] view, culture is to blame for just about everything except *El Niño*. . . when Harrison briefly considers policies and institutions as determinants of growth, he dismisses them as consequences of culture." In fact, the book repeatedly returns to the complex cause-and-effect relationships between culture, policies, institutions, and natural resources, and stresses that good economic policies promote progressive cultural change.

In commenting on the role of the Basques in Chile's progress, Mr. Easterly asserts that my earlier book, *Who Prospers?* [reviewed by William Easterly in the March 1994 issue] stated that "the Basques were the secret behind Costa Rica's stability." In fact, *Who Prospers?* observes that the oft-heard explanation that a large Basque population accounts for Costa Rica's atypical development is "unsubstantiated by data."

For the benefit of Mr. Easterly and others who may think the Chilean miracle is the consequence only of recent good economic policies, I quote Friedrich Hassaurek, an American diplomat, who wrote in 1892: "Chile is the most prosperous and respectable of the South American republics. . . . She has had less revolutionary problems than her neighbors. . . . The Chileans are more enterprising than their neighbors. Chilean commerce is flourishing."

Whatever Mr. Easterly may think about the role of culture in Latin America's development—he describes himself as *no convencido*—a growing number of prominent Latin Americans are convinced that culture does matter and that modernizing traditional values is indispensable to Latin America's progress. *Ellos sí son convencidos*.

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