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Empowerment - The Amartya Sen Lecture 2014

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Good evening. What an immense pleasure to come to this intellectual powerhouse to honor one of the greatest intellectuals of our time. Let me especially thank Professor Craig Calhoun for his kind introduction—I know that Professor Calhoun is a great leader in his field, and a great leader of the LSE.

The LSE is one of the world's most prestigious universities. Its alumni include 34 world leaders and 16 Nobel Prize winners.

One of these Nobel Prize winners is, of course, the luminous Amartya Sen. There are few economists today who can match his reach—from the complex mathematics of social choice to the lofty speculation of moral philosophy; combining deep theoretical rigor with a heartfelt concern for the poor and the marginalized.

Amartya Sen has always understood that the concerns of economics are closely related to the concerns of justice and fairness. In that, he follows in the footsteps of the great economic thinkers of the past.

Today, especially in the wake of the global crisis, members of the profession are asking the kinds of questions that Amartya has spent his whole life pondering. His was a prophetic voice, and he can rightfully be called the conscience of economics.

Tonight, the topic I want to talk about sits at the intersection of justice and economics—the issue of empowerment. Empowerment is about economic opportunity, the ability to freely choose one's own path in life in accordance with one's distinctive talents and abilities. It is about cutting away obstacles to true human flourishing.

I want to address three distinct layers of empowerment:

•First, the empowerment of the individual—and what that means for economic policies.

•Second, what is needed to help individual empowerment—the empowerment of institutions.

•Third, what is needed in turn to help national economies flourish—the empowerment of multilateralism.

Empowerment of individuals

Let me begin with individual empowerment. There are, of course, many obstacles to empowerment. I will address two of them—obstacles based on income disparities, and obstacles based on gender disparities.

Income disparities

Starting with income disparities: across the board, the gap between the haves and the have-nots has risen substantially in recent years. In many countries, the wealthy are taking home a greater share of the rewards today than at any time in the postwar era. We might have avoided a second Great Depression, but we have not avoided a second Gilded Age.

And while regions like Latin America and Sub-Saharan Africa are making great economic progress, their momentum is still being held back by the stumbling block of inequality.

Now, I think I know what Amartya Sen would say about this. He would argue that we should look beyond income inequality and worry about a wider set of disparities—such as in health, education, unemployment, and social exclusion.

This is an extremely important point. Indeed, Professor Sen's contribution here is truly groundbreaking. For some decades now, he has developed an approach to inequality based less on income and more on capability. This approach judges people's advantage by their capability to do the things they value. It is about opportunity, about giving a person the means to live well.

Yet I would argue that there is an intimate connection between the modern incarnation of inequality and these broader notions of opportunity.

In more unequal societies, too many people lack the basic tools to get ahead—decent nutrition, healthcare, education, skills, and finance. This can create a vicious cycle, whereby economic insecurity causes people to invest too little in skills and education. As the Bank of England's Andrew Haldane put it, "being poor taxes the mind every bit as much as the wallet".

In more unequal societies, we also find lower levels of contentment. We find less mobility across generations.

The end result is that excessive inequality can hinder individual empowerment. Not surprisingly, it also hinders sustainable economic growth—this is a result of recent IMF research.

This is why I believe that policies to tame excessive income inequality are win-win—if carefully chosen and calibrated, they can spur empowerment and economic advancement. Think of policies like boosting spending on health, education, active labor market policies, and in-work benefits.

Let me say a word here on education, which remains a uniquely powerful agent of empowerment. In a world of stark inequality, we need to make education accessible to all.

I want to point out that the IMF has joined this movement. In conjunction with a not-for-profit partner, we have developed an online learning program for government officials—and opened it up to the general public too. These massive open online courses (MOOCs) enhance knowledge and skills in the areas where the IMF is active—and thus empower people to better understand, and engage with, the economic policies and decisions that affect their lives.

Gender disparities

Let me now turn to the second obstacle to empowerment—gender disparities. This is an issue close to my heart—and Professor Sen's, too, I know.

Globally, women earn only three-quarters as much as men, even with the same job and same education. They are underrepresented in the formal sector and overrepresented in the informal sector. They spend twice as much time on household chores as men—and four times as much on childcare. They make up 70 percent of the billion people living on less than a dollar a day, and are the first to be submerged by economic crisis.

Women are also locked out of leadership positions, where gender seems to matter more than qualifications. When they do reach the top, they are more likely to be fired.

The bottom line is that women are underutilized, underpaid, under-appreciated—and over-exploited.

This needs to change. Yes, it is a matter of justice, but it is also a matter of basic economics.

Amartya Sen played a pioneering role in raising awareness in this area, drawing attention to the scandal of "missing" women—women who would likely be alive today had they been born male. They are missing because of too much neglect and too little respect—including from poor nutrition and healthcare.

Some estimates suggest that there are more missing women in the world today than all the men killed in all the wars of the 20th century combined.

This is startling and shocking. It is surely one of the greatest moral causes of our time.

The solution, as Amartya has long argued, is to increase women's voice and agency—through their independence and their empowerment.

What does this mean in practice? It means focusing on education, ownership rights, and employment opportunities outside the home.

Once again, empowerment boils down to education. Women's education also showers benefits on society as a whole. The evidence suggests that women are more altruistic—one study found that women spend up to 90 percent of their earnings on health and education, as opposed to just 30-40 percent for men.

The same is true for women's economic participation. Women are the ultimate agents of aggregate demand, accounting for 70 percent of global consumer spending. Eliminating gender gaps in labor force participation can lead to big jumps in income per capita, especially in regions like the Middle East and North Africa—27 percent—and South Asia—23 percent.

This is why the IMF has been recommending policies to boost women's participation in places like Korea and Japan, where women are still not visible enough.

Fundamentally, there are no shortcuts to a vibrant economy—it must be built from the bottom up, from the empowerment of every single individual.

Empowerment of institutions

This brings to my second issue—empowering institutions. As people strive to achieve their potential, they are not striving in a vacuum. They are navigating the dense of thicket of institutions and governance structures that run through the economy.

These institutions matter. Depending on how they are designed, they can help or hinder, catapult or shackle.

Good institutions are founded on the principles of accountability, transparency, and impartiality. They facilitate empowerment by letting success depend on competence rather than connections, participation rather than patronage—by offering an open hand rather than a closed fist.

This evening, I would like to mention a narrow subset of institutions—ones that contribute directly to economic wellbeing by providing strong frameworks for fiscal policy, monetary policy, and financial sector oversight. Without good institutions in these areas, and without capable people behind them, policies will be ineffective, and avenues for empowerment will be blocked.

To use Amartya's Sen's language: if we want better capability, then we need better capacity.

Let me talk about the IMF in this context. You probably know that the mandate of the IMF is for global economic and financial stability.

What you might not know is that one of the main ways we fulfill this mandate is by helping countries design, build, and strengthen their institutions. Through technical assistance and training, we act as a global conduit for the sharing of knowledge and know-how.

Putting it simply: we help countries help themselves—which is what empowerment is all about.

Overall, we devote a quarter of our budget to capacity building. Since 2008, we have provided training to most of our 188 member countries, and technical assistance to 90 percent of them. Low-income and lower-middle income countries receive two-thirds of our technical assistance and half of our training.

Our special focus is on the building blocks of macroeconomic stability—areas like improving tax systems, better managing public funds, strengthening financial sector oversight, and enhancing the quality of economic statistics.

Of course, the IMF is not alone in this. Many others—including the World Bank, our sister institution—are also doing wonderful work in this area, helping people in a way that respects their agency. And it is generous donor financing that makes so much of our own work possible.

Country examples

But rather than talking in general terms, let me give you a concrete and vivid flavor of what we are actually doing on the ground.

Let us begin with Myanmar, our third largest recipient of technical assistance. Myanmar is today awakening from fifty years of isolation, and decades of drift and insularity when learning was limited, universities were neutered, and travel was restricted.

Until recently, the economy was poorly integrated into the wider world. The central bank was part of the ministry of finance. The budget process was antiquated and a lot of data were maintained by hand.

Together with other donors, we joined hands with Myanmar and helped it take those crucial first steps—setting up an independent central bank, removing exchange restrictions and establishing a functioning foreign exchange market.

We are now providing assistance in core areas like tax administration, financial sector oversight, and economic statistics.

We are helping Myanmar not only awakening—but humming with energy and dynamism. I saw this first hand when I was there last December. Everyone I talked to—including the amazing Aung San Suu Kyi—said the same thing: the country must have the foundations in place to achieve economic lift-off.

They all understood the importance of boosting tax revenue—which is a mere 7 percent of GDP—to raise money for essential spending on health, education, and infrastructure. They all understood the need to build a modern financial sector, so that people can empower themselves through access to credit—including women and people in rural areas.

I focused on Myanmar because of its unique awakening. Yet I could tell a similar story in countless other countries.

In Cambodia, for example, we are helping to put in place a legal framework to restore trust in the financial system. One legacy of the Khmer Rouge terror was the complete breakdown of the banking system—people put their money under beds instead of in banks. Yet Cambodia needs a thriving financial system for rural development and empowerment. And we can see results: a decade ago, banks were almost non-existent in the countryside; now they are commonplace.

Look at Kosovo, which not so long ago gained its independence and emerged from conflict. In a short period of time, it has made remarkable progress in building the foundations of a modern market economy. With hands-on technical assistance and training, Kosovo created a brand new central bank from scratch. And just as it once received, it now gives—training other central banks in the nuts and bolts of monetary policy.

I could also talk about Peru, one of the world's fastest-growing economies. Peru is leaping ahead, and yet its capacity to collect taxes is lagging behind—with a fifth of its revenue lost through avoidance and evasion of taxes. With our assistance, it is now strengthening tax collection and the management of its public finances. That means it can spend more on vital social programs like Juntos—a conditional cash transfer program that makes sure that poor children get access to healthcare and education.

I could also mention the Arab transition countries, where citizens are seeking to empower themselves through time-tested principles like opportunity, impartiality, and dignity. We are helping these countries build the economic foundations of new societies—in such core areas as tax policy and administration, financial sector reform, monetary policy, capital markets, and statistics. And we are doing it on the ground, including through a regional technical assistance center and a regional training institute

As one final example, let me turn to sub-Saharan Africa. Just last week, we held a major conference in Mozambique on the theme of "Africa rising"—which is really one of the great, if underappreciated, stories of our time. Many African countries are blessed with a bounty of natural resources, but—as we know only too well—this blessing can too easily become a curse. So it is vitally important to put in place strong fiscal regimes to manage resource revenues—for the benefit of this generation and generations to come. This was a key theme at the conference, and we are providing assistance in this area to countries like Kenya, Mozambique, and Tanzania. Much of our hands-on help in Africa is delivered through our five regional technical assistance centers—in Gabon, Ghana, Côte d'Ivoire, Mauritius, and Tanzania.

This is just a flavor of IMF capacity building. The basic point is, I believe, clear: the empowerment of people depends fundamentally on the empowerment of institutions—which need to be subject to accountability, transparency, and impartiality.

And as the global economy becomes more intricate and interconnected, institutions—and the people behind them—will need to keep up with these changes. So we will need continuous empowerment of institutions across the entire spectrum of our membership—not just the poorer countries.

Empowerment of multilateralism

This brings me to my third area this evening—the empowerment of multilateralism. In a very basic way, today's challenges are increasingly global challenges. Empowerment today depends not just on what is happening in your own country, but what is happening in the wider world.

I know that this vision resonates at the LSE, which truly has a global reach and a global mentality. I can see it in this room.

We live in a world that is simultaneously coming together and drifting further apart. Coming together due to the dense and intricate web of interconnections that run through our global economy—in trade, finance, technology, communications. Coming apart due to the increasing diffusion of power across the world—toward more diverse geographical regions and more diverse global stakeholders, a more tribal mentality.

If we are not careful, this tension between integration and fragmentation could lead to indecision, impasse, and insecurity.

At the same time, the global economy is facing huge threats to sustainability, threats that affect us all, no matter where we live. Think about huge demographic shifts, the perils of climate change, the strains of rising inequality, the development of fragile states.

Problems of this magnitude cannot be solved by homegrown solutions or provincial mindsets. They require a sense of common purpose and common citizenship. They require a reinvigorated sense of multilateralism.

Once again, Professor Sen has a lot to say about this. He has argued that we must recognize the responsibilities that come with our shared humanity. As he puts it, "to argue that we do not really owe anything to others who are not in our neighborhood…would make the limits of our obligations very narrow indeed".

This is the peril of our modern global economy: if we hunker down behind closed doors, or erect walls or barriers, we erect obstacles to opportunity, obstacles to empowerment.

In other words: if enhancing capability means enhancing capacity, it also means enhancing cooperation.

As Charles Dickens once said, "the men who learn endurance, are they who call the whole world brother".

This is another area where I believe the IMF can play a crucial role. Indeed, we have been playing that role for 70 years now—as a fruit of that visionary postwar "multilateral moment", when nations put the global good above narrow interests, taking a bet that the blessings of cooperation would disperse far and wide. This is a bet that always pays off.

I have talked already about the role played by the IMF in helping countries build capacity. It also plays a key role as a global convener of cooperation, bringing together 188 countries to share knowledge, to collaborate toward common ends, to lend a helping hand to one another in time of need.

The instruments of collaboration developed during those formative years have stood the test of time quite well. They should be preserved and protected. That requires bringing institutions like the IMF fully up to date, making them fully representative of the current global economic reality. We are working on that, and the mission is not yet accomplished!

Yet we also need to go further—toward what I have called a “new multilateralism” for the 21st century. The new multilateralism must engage not only with the emerging powers across the globe, but also with the expanding networks and coalitions that are now deeply embedded in the fabric of the global economy.

We need to invest in this kind of global social capital. We need to develop this idea of a global civil society—one that provides space for all voices, takes a broad global perspective, and adopts a genuine long-term vision. A vision that would make Amartya Sen proud.

With such a framework, I believe that the international community can unblock obstacles and unlock opportunities: providing the space for all to flourish—and to be empowered.

Conclusion

Let me conclude with some wisdom from Charlotte Brontë: “Liberty lends us her wings, and Hope guides us by her star”.

This is really what economic empowerment is all about—freedom, dignity, opportunity.

We must do whatever we can to help people help themselves, to let people lift themselves up—through enabling policies, enabling institutions, and enabling modes of international cooperation.

As we set sail in this direction, we could do worse than ask Amartya Sen to guide us. After all, he has been sailing these waters for decades now. He knows them well. And he has been the one thinking about solutions long before most of us had even begun to recognize the problems.

Thank you very much.