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The Evolution of and Current Debate in Development Thinking

What Defines *Good* Development?

The Evolution of and Current Debate in Development Thinking: What Defines *Good* Development?

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When development economics emerged as an independent field in the post-1945 years, the answer to the question what the makings of development are was rather simple: Development equals GNP growth. On following current discussions in politics and business but also in much of academia, one suspects that after nearly six decades of development studies - with rich and varied outputs - we are back to square one: the achievement of economic growth as a development target is omnipresent and any other issue only seems to play a subordinate role.

But what does that mean for the lives of the vast majority of the world's population who lives in underdeveloped economies? How much do per capita incomes or growth rates really say about the developmental state of a society? Not a whole lot, I argue in this thesis. And while the alternative leaves many questions unanswered, I maintain that it is still preferable, as it provides a conceptual framework that can do what an income figure alone cannot. It can tell us whether the people in a developing country feel that their freedom to live the lives they want to live has increased.

This rejection of the dominant position growth currently occupies is based on the desire to reestablish a sensible relation between means and ends. This is not to say that growth is unimportant. It can, in fact, be pivotal for development but if development needs growth, it can only be a necessary and never a sufficient condition for development – it can only be a means to an end. Development must be defined by how additional income is put to use, what effect it has on whom, and not by the mere fact that additional income is generated.

This paper embarks on a quest for a normative development construct. Consequently, I will first review the evolution of development theory, highlighting select streams that have, on one hand, left an indelible mark in the field of development studies and, on the other hand, have made substantial impact on the policy making of developing countries. Secondly I will introduce the alternative to utilitarian development thinking – the capability approach – which will, thirdly, lead to a development construct centered on freedom rather than utility.

1. A historical review of the evolution of development theory

From a bird's eye perspective, traditional development theory can be summarized as addressing three main questions (Barrett, 2008):

- Why are some countries, regions, peoples rich while others are poor?
- Why do some countries, regions, peoples develop, or maintain a high level of development, while others stagnate at a low level or even suffer developmental decline?
- What, if anything, can be derived from those countries, regions, peoples that develop, or maintain a high level of development to benefit those that do not?

These three questions fundamentally describe the work of development scholars and national and international development agencies over the last, roughly, 60 years. The beginning[1] of development efforts is marked by the aftermath of the Second World War and the resulting exhaustion of the war-ridden countries for which maintaining a colonial empire was turning into a burden rather than remaining an asset. This is not meant to be a cynical statement, but when looking at the history of decolonization one must conclude that strategic motives, not moral insights, were at the heart of the colonial powers' acceptance of the self-declared independence of most of their former colonies (Chamberlain, 1999, pp. 1-15).

These 'new countries' now found themselves in a situation in which symbiotic development, or the hope for it, of colonies and their colonial powers had come to an

[1] In the United Nations' sixth session of the General Assembly in 1950, 1951 resolutions 400-404 and 408 were passed, aiming (a) to provide finance for economic development (Resolution 400); (b) to support land reform (resolution 401); (c) to assist the development of dry land areas (resolution 402); (d) to raise the income and address income distribution in developing countries (resolution 403); (e) to research the impact of international economic and trade policies on developing countries (resolution 404); and (f) to provide technical assistance and combat unemployment in underdeveloped countries (resolution 408). These results of the sixth session of the General Assembly were published in a memorandum by the Secretary-General: *Economic Development of Under-Developed Countries* (United Nations, 1951), which can be regarded as the starting point of international development cooperation.

end and self-reliant development strategies were needed (Thornbeke, 2007, p. 3). Therefore, the aim of development studies was initially to give guidance to policy-makers in these ‘new countries’ regarding how they could best achieve the developmental goals they aspired to.

Over the following pages, I will introduce the main streams of development thinking that produced rich and varied outcomes until the late 1970s and the occurrence of a major turning point in 1980. It was then when the neoliberal agenda rapidly silenced most critical debate and the majority of development thinking was streamlined into one single train of thought. In the development context, the neoliberal agenda was translated into the so called Washington Consensus and, after its apparent failure, was expanded to the post-Washington Consensus.

Growth, modernization, and dependency: the big ideas in development studies

From the late 1940s to the late 1970s, development thinking was based on a series of ‘grand ideas.’ Those ideas emerged sequentially in the order presented here and also attempted to answer questions left open by their predecessors and, consequently, produced partially substantial incompatibilities. These were, on the one side, the result of differences in academic evaluation but, set amidst the Cold War, there were also strong ideological presuppositions driving the quest for better answers to describe the causes of underdevelopment and prescribing solutions to overcome it. Those ‘grand ideas’ were namely growth theories, modernization theory, and dependency theories.

Initially, in the 1940s and 1950s, the objective of development was rather straight forward - it was a singular focus on achieving GNP growth. This was based on the belief that GNP growth would generate higher per capita incomes, which in turn would automatically reduce income and social inequality via trickle down effects (Arndt, 1987, p. 15). Consequentially, early development scholars used GNP growth as both a measure and objective, making development a one-dimensional exercise in which per capita income was the indicator that defined the level of development a society had achieved.

The main foundation for the growth-oriented view of development in the 1950s was the growth theory by Harrod-Domar[2]. This model, named after Roy Harrod and Evsey Domar, aimed to clarify the relationship between income, savings, investment, and output needed to achieve full employment and stable growth in developed economies (Oman & Wignaraja, 1991, p. 12). The model finds that economic growth is dependent on the supply of labor and capital, which, in the context of developing countries, translated into applications that focused on prescriptions regarding situations in which labor is abundant and capital is scarce.

Some of the most influential theories that sprang from the Harrod-Domar model and drove the thinking of development scholars at the time were ‘the big push,’ ‘balanced growth,’ and ‘take-off into self sustained growth.’

The ‘big push’ theory postulated that the simultaneous and coordinated industrialization across complementary sectors of an economy would generate profitable demand for all, even if no sector alone could break even through industrialization. Since a firm’s decision to industrialize may depend on its expectation if others doing so, industrializing investments are often held back. Following Rosenstein-Rodan, investment decisions are interdependent and, in developing countries, often too risky for a single investor to undertake. If, on the other hand, all firms expect a higher level of income through simultaneous industrialization and the resultant savings of labor costs, they will invest in building factories, making the expectation of industrialization self-fulfilling (Murphy, Shleifer, & Vishny, 1989).[3]

The balanced growth theory of Ragnar Nurkse looks into ‘*problems of capital formation in underdeveloped countries*,’ which is also the title of their central publication. The main argument is that low per capita incomes lead to low savings, which in turn hinder capital accumulation and therefore generate only low investments. Without investment, however, per capita earnings cannot be raised so that affected economies remain ‘stuck’ in a vicious circle of poverty. Or, as Nurkse puts it: “A situation of this sort, relating to a country as a whole, can be summed up in the trite

[2]The Harrod-Domar model distinguishes between three types of growth: (1)Warranted growth, which is the rate of output at which firms feel they have the right level of capital and do not wish to expand or decrease investment. (2) Natural rate of growth, which corresponds to the growth of the labor force. (3) Actual growth that results from changes in the aggregate output. For more information on the Harrod–Domar growth Model, see: R. F. Harrod: Towards a Dynamic Economics (Harrod, 1949) and E. D. Domar: Essays in the Theory of Economic Growth (Domar, 1957).

[3] Murphy, Schleifer and Vishny have added a mathematical framework to the Rosenstein-Rodan big push hypothesis, allowing a better analysis of conditions under which it may apply.

proposition: ‘a country is poor because it is poor.’” And he continues that “perhaps the most important circular relationships of this kind are those that afflict the accumulation of capital in economically backward countries.” (Nurkse, 1953, p. 4) He analyzed both the supply side as well as the demand side, arguing that on the supply side, low levels of income mean a low capacity to save, hampering investments which keep incomes low, as productivity is not being enhanced. On the demand side, he saw a lack of stimulus to invest due to low buying power resulting from low incomes, which are the result of low productivity. And, low productivity is caused by a lack of investment for which there is insufficient stimulus.

Therefore, an injection of fresh capital in this circle was at least regarded as a necessary, if not sufficient, condition to alleviate poverty. Capital had to jump start an economy, turning the vicious circle into a virtuous circle. “Past experience suggests that governmental investment financed by foreign loans can be a suitable method of laying the foundations of a country’s economic development in the form of public services and social overhead capital.” (Nurkse, 1953, p. 91)

The take-off into self-sustained growth theory by W. W. Rostow explores the hypothesis that the initiation of economic growth is centered around a relatively short period of two or three decades “when the economy and the society of which it is a part transform themselves in such ways that economic growth is, subsequently, more or less automatic.” (Rostow, 1956, p. 1) He later expanded on this hypothesis, introducing a model of five phases and maintaining that all societies can be placed in one of the following categories[4]: the traditional society, the preconditions for take-off, the take-off, the drive to maturity, and the age of high mass-consumption (Rostow, 1990, pp. 4-17).

These three select growth theories demonstrate how the development theories of the 1940s to the 1960s built on one another in a quest to deliver growth recipes. The Rostowian take-off phase can be interpreted as the entering of a virtuous circle - the reversed vicious circle introduced by Nurkse. Nurkse’s problems with capital formation, which he argues can be effectively addressed by (foreign funded) investments in public services and social overhead capital, are seemingly rather close to Rosenstein-Rodan’s big push, requiring public upfront investment in infrastructure.

[4] See: *The stages of economic growth: a non-communist manifesto* (Rostow, 1990) and *The Stages of Economic Growth* (Rostow, 1995) for details of the five-stage model for take-off into self sustained growth.

In summary, one must acknowledge the depth, breadth, and speed at which development studies had made their mark in the 1950s and early 1960s. But while recognizing that, for the first time, analytical frameworks were generated to guide policy-makers in their efforts to overcome underdevelopment, one must also point out that all of them, to some degree, treated development and the growth of national incomes as one. This is not to say that these pioneers of development studies did not see the broader picture. In fact, many of their works explicitly mention that the goal is to improve the lives of people in underdeveloped countries. Their research efforts were, however, directed solely towards generating economic growth; thereby at least implicitly, assuming that structural change would be an inevitable consequence of growth.

Consequently, development was defined as “the process by which an economy is transformed from one whose rate of growth of per capita income is small or negative to one in which a significant self sustained increase of per capita income is a permanent long-run feature.” (Adelman, 1961, p. 1)

After more than a decade of rather generous financial aid to developing countries, which was predominantly aimed at triggering self-sustained growth, the results remained disappointing. “Research and experience have indicated that the contribution of physical capital alone is by no means as dominant as had at one time been imagined.” (United Nations, 1962, p. 2) This has led development scholars to look for possible shortcomings, as it became evident in the 1960s that the injection of capital would not in itself bring about the desired results. The search for the missing ‘development ingredient’ led to the view that development not only needs growth, but growth and change. “Development is growth plus change; change, in turn, is social and cultural as well as economic…” (Singer, 1965, p. 5) Change was to be understood as the creation of robust political systems and the assimilation of western cultural values within developing countries’ societies.

The implicit supposition of the modernization hypothesis was to not only view development as the achievement of GNP growth, but as the successful replication of western democratic nation states. In short, ‘modernity’ was the goal to which modernization theorists strived, with North America and Europe serving as the master template. The three underlying assumptions of the modernization hypothesis are (Valenzuela & Valenzuela, 1978, pp. 537-540):

- Tradition and modernity are the two end points of a linear continuum;
- The transformation from tradition to modernity is inevitable and uniform;
- Tradition constitutes the main obstacle to development.

While the specific characteristics of a modern society vs. a traditional one, as well as ways to position a society within this transition remained somewhat hazy, there was a conceptual consensus among modernization theorists that tradition and modernity are the polar points on an inevitable and uniform evolutionary continuum (Valenzuela & Valenzuela, 1978, p. 537).

From the mid 1960s, scholars from mainly Latin America began to voice their concerns regarding the earlier growth theories and development views based on the modernization hypothesis. Their point of criticism lay predominantly in both cases, growth and modernization theories, making endogenous factors responsible for underdevelopment and the difficulties that were encountered in overcoming it.

The answer that dependency theorists suggested, considered the exogenous factors hampering development to a far greater extent. To the dependency movement, underdevelopment was not the result of incapacity to generate growth, nor the result of not following western development paths quickly enough, but rather the contrary. It believed that developing countries tried too hard to replicate the west; they accepted the growth prescriptions provided by western economists too easily, and this led to their integration into international trade under unfair conditions, thus cementing – if not worsening – the status quo. This was seen as the result of the colonial heritage[5], which was coupled to the fact that local elites in developing countries benefited strongly from their role as suppliers of primary goods to industrialized, modern nations (Love, 1990, S. 159). In the dependency terminology, these nations were regarded as the center, while developing, traditional nations were regarded as the periphery in a dual system constituting the global economy. While the center was capable of dynamically changing and proactively adapting, the periphery was doomed to play a reactive part, adapting to the changing needs of the center (Valenzuela & Valenzuela, 1978, p. 544).

[5] The colonial heritage comes into play on the argument that, even after gaining independence, former colonies remained locked into being providers of primary goods to developed countries in order to generate income.

The initial aim of dependency theorists was to simultaneously explain underdevelopment on a theoretical level and craft prescriptions for policy-makers to help overcome underdevelopment. It is, however, difficult to talk about *the* dependency theory, as there were two, fundamentally incompatible streams regarding policy prescriptions. While the dependency movement as a whole has its roots in the strong Latin American Marxist tradition (Packenham, 1992, p. 7), one stream continued to relate strongly to Marxist views, employing arguments from Lenin's analysis of imperialism. The second, less ideological dependency stream focused more strongly on economic analysis and made the continuous deterioration of the terms of trade their central concern (Love, 1990, S. 146). This stream related more to the works on structuralism, mainly of the Economic Commission for Latin America (ECLA or CEPAL) and its executive secretary Raul Prebisch than to Marxist thinking. Prebisch argued that "…once the limit already referred to was passed [The limit of increasing commodity exports restricted by growth in demand from the center], additional primary exports that were already competitive would bring a loss of income through the deterioration of the terms of trade" (Prebisch, 1984, pp. 178-179)

The solution to this problem was seen as lying in industrialization in order to absorb the workforce freed from the primary sector and to raise the productivity of labor across all sectors in underdeveloped countries (Valenzuela & Valenzuela, 1978, p. 543). The challenge, however, was to industrialize while the cost of production of industrial goods was, due to low productivity, higher in the periphery than in the center. The conclusion was that this could only be done by the developing countries taking protectionist measures in order to give their domestic industries time to develop and gain the capabilities to compete with those of the already industrialized nations. This concept was labeled import substitution and was regarded as a means to kick-start industrialization. As Gustav Ranis wrote in a paper prepared for the conference of the Annual World Bank on Development Economics "The prevailing theoretical winds indicated that, on the policy side, there was a strong inclination to turn to the interventionist state as a key instrument of development." (Ranis, 2004, p. 6)

Neoliberal reforms and the Washington Consensus

Around 1980, a major turning point occurred in development thinking when the OECD countries, together with the World Bank and the IMF established a new orthodoxy in economic development prescriptions. It is worth pointing out, though, that this new orthodoxy was based on views generated in wealthy western countries and initially only intended to be applied there (Emmerij, 2007, p. 38). In 1979, Margaret Thatcher was elected Prime Minister of Great Britain after promising to lead the country out of a decade of economic stagnation, inflation, and a loss of global competitiveness. Furthermore, Paul Volcker became head of the US Federal Reserve Bank in this year, changing US monetary policy towards making price stability the top priority and, a year later, Ronald Reagan was elected US President. His agenda, like that of his British counterpart, included deregulation of the industry, financial markets, and agriculture, as well as restraining the powers of trade unions and other labor organizations. This powerful triad, which offered straight forward solutions amidst economically challenging times, soon received ample support from most of the industrialized western democracies[6]. This led to nearly 30 years in which radical market views were embraced under the current 'neoliberal' label. As we know today, these policies (or the lack of sound policies, for that matter) culminated in the biggest global recession since the 1930s and it remains to be seen if the crisis at the end of the first decade of the 2000s will trigger serious reflection, or if the dogmatic defense of radical market 'freedom' will prevail. Ironically, neoliberal thinking can also be traced back to the 1930s[7] and the search for a way out of the great depression, but its recent interpretation and impact on the developing world is of more concern here.

In one – admittedly rather simplified – sentence, neoliberal views since the early 1980s can be summarized as: the market does things better than governments, so governments should not intervene, as the outcome will be inferior to the outcome market forces will produce. Philip Arestis and Malcom Sawyer have identified three main shifts in the economic policy of the 1980s that form the cornerstones of the neoliberal doctrine.

[6] And, a little later, after the fall of the iron curtain, virtually all former eastern bloc countries sought advice on radical market reforms aligned to neoliberal principles.

[7] Neoliberalism is not as new as the current debate and interpretation would suggest. The roots of neoliberal thinking lie in the 1930s when a group of economists, historians, and philosophers sought answers to the global economic crisis and the emerging spread of totalitarianism. They thought that both the (Keynesian) interventionist state of the 1930s and 1940s and the 19th century laissez-faire state had failed and sought a revitalization of liberal values. They consequently founded the Mont Pelerin Society in 1947 (The Mont Pelerin Society, 1947), which is still active.

Firstly, neoliberalism suggests governments rely on monetary policy, aiming at price stability rather than using fiscal measures to address employment and growth targets. Secondly, the main reason for unemployment is a lack of flexibility in the labor market and, therefore, policies should increase the labor market flexibility through legislative reform and not attempt to create employment through demand management and industrial policy. Minimum wages, strong trade unions, long-term employment contracts, or other measures taken to protect labor are harmful to employment, as they create disincentives for employers to hire people. And, thirdly, the deregulation and liberalization of, especially, financial markets – including the free movement of capital between countries – are suggested so that investors can seek the highest yield, which promises investments free of regulatory hindrance, thus leading to higher growth rates than under the distortions caused by regulation. (Arestis & Malcom, 2004, p. 1)

> "Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms within an institutional framework characterized by strong private property rights, free markets, and free trade." (Harvey, 2005, p. 2)

These ideas quickly left their mark around the world and once the OECD countries made their donor weight count in the World Bank and IMF, those policies became development practice globally. "A widespread assumption existed that development ought to be nothing more than the extension of neoclassical orthodoxy to low- and middle-income countries." (Barrett, 2008, p. 3)

A name was soon found for this new orthodoxy and the Washington Consensus[8] was born. The term was coined by John Williamson[9] in 1989 and describes a set of ten economic policy ground rules promoted by the IMF and World Bank to help shape a reform agenda for Latin America after the 'lost decade' of the 1980s. The ten policy

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[8] The name was given to express the mutual agreement between the Washington-based international finance organizations on the policies contained therein. It remains striking, and perhaps also indicative of the attitudes held in those organizations, that the name of a set of policies designed to help Latin American countries expresses consensus among the international finance institutions rather than expressing consensus between the finance institutions and the countries affected. Consequently, the name alone was grist to the mill of those critics who argue that the World Bank and IMF are primarily concerned with promoting the interests of the wealthy industrialized world in developing countries, rather than promoting the development interests of those countries.

[9] John Williamson is a senior fellow at the Peterson Institute for International Economics, a Washington-based neoliberal–neoconservative think-tank.

prescriptions, which he called the “common core of wisdom embraced by all serious economists” (Williamson, 1993, p. 1334), are:

(1) Fiscal policy discipline; (2) redirection of public spending from subsidies ("especially indiscriminate subsidies") toward a broad-based provision of key pro-growth, pro-poor services; (3) tax reform; (4) interest rates that are market determined and positive (but moderate) in real terms; (5) competitive exchange rates; (6) trade liberalization; (7) liberalization of inward foreign direct investment; (8) privatization of state enterprises; (9) deregulation; and (10) legal security for property rights.. (Williamson, 1990).

These 10 points summarize the policy advice that was given by the Bretton Woods institutions and generally translated into structural adjustment programs (SAPs) by the World Bank, as well as often implemented jointly with IMF stabilization programs (Gore, 2000, p. 790). Together, they formed the condition under which a government would receive World Bank and IMF support. While the stabilization programs aimed at a short-term balance of payment adjustment via deflationary measures, the SAPs were initiating medium-term adjustment policies that, it was hoped, would enable an economy to compete in global markets within three to five years (Siebold, 1996, p. 41). The three pillars derived from the Washington Consensus to guide policy prescriptions were: privatization, liberalization, and macroeconomic stability. It was hoped that these measures would promote exports, induce private investment, and attract foreign direct investment (FDI) (Moreno-Brid, Pérez Caldentey, & Ruiz Napoles, 2004, p. 355).

As Grzegorz W. Kolodko, the Polish finance minister between 1994 and 1997, said in an interview with the World Bank’s newsletter *Transition*, the Washington Consensus was widely interpreted as: “liberalize as much as you can, privatize as fast as you can, and be tough in fiscal and monetary matters!” (Kolodko, 1989, p. 1)

The SAPs were, however, highly controversial from the beginning (Fine, 2001, p. 3) and faced criticism from many international organizations, namely the United Nations Conference on Trade and Development (UNCTAD), the United Nations Development Program (UNDP), and the United Nations Economic Commission for Latin America and the Caribbean (ECLAC), for fear of the grave social consequences they would have. Furthermore, for the same reasons, the SAPs were also controversial in many, if not most, of the countries in which they were realized. Consequently, they must rather be viewed as accepted due to a lack of alternatives, than sincerely embraced by most Latin American countries[10]. The stabilization programs did, however, help to bring inflation under control, therefore successfully addressing one of the largest problems faced by Latin American governments in the early 1990s.[11] But unfortunately the fears over negative social consequences have also come true as poverty was steeply rising within booming economies (Moreno-Brid, Pérez Caldentey, & Ruiz Napoles, 2004, p. 346)[12]. The link between increased poverty and the SAPs became particularly evident when specifically Latin American countries were compared with the Asian economies, which achieved high growth rates and managed to substantially reduce poverty whilst only partially following the policies prescribed by the Washington Consensus. Latin American governments fully complied but achieved only disappointing growth rates and saw poverty and partly appallingly inequitable income distribution increasing.[13]

> "The countries that have managed globalization on their own, such as those in East Asia, have, by and large, ensured that they reaped huge benefits and that those benefits were equitably shared; they were able substantially to control the terms on which they engaged with the global economy. By contrast, the countries that have, by and large, had globalization managed for them by the International Monetary Fund (IMF) and other international economic institutions have not done so well" (Stiglitz, 2004, p. 200)

[10] Venezuelan president Hugo Chavez celebrated the paying off of World Bank and IMF debt in 2007 by stating that Venezuela wanted to "get out of that prison," which should be regarded as an indication of the sentiments held by Latin American leaders (at least by those of left-of-center governments) towards Washington's financial institutions. Venezuela also gave Argentina, Ecuador, and Bolivia unconditional credit at lower interest rates to pay their way out of the World Bank and IMF debt. Ecuador went as far as to expel the representatives of the World Bank. The subsequent founding of the 'Banco del Sur' in 2007 by Venezuela and Argentina with Ecuador, Paraguay, Bolivia, Brazil, and Uruguay joining shortly thereafter, provides additional impetus for claiming that the IMF and World Bank are not regarded as welcome advisors who link financial support to necessary conditions, but as instruments of the northern hemisphere promoting the economic interests of the industrialized world.

[11] The mid-1980s to mid-1990s was a hyper inflationary time in Latin America caused by excessive public expenditure by populist governments in the region. In 1990, the average South American inflation rate hit a stunning 1,150%. By 1995 it was down to 42% and, in the year 2000, it stood at 8% and has, with the exception of 2002 (11%) and 2003 (13%), remained at single-digit figures (IMF Data Mapper, 1980 - 2010).

[12] It is worth noting that neoliberal reforms have also led to steeply rising income inequality in the industrialized world making them not only a failure in the development context but also highly controversial in their effects on OECD countries (Duménil & Lévy, 2004).

[13] "…by the end of the 1990s, the 10 percent richest households in Brazil held 50 percent of national income, while the 40 percent poorest's share was close to 10 percent. In Chile, allegedly the most modern and dynamic economy in the region, the share of national income of the 10 percent richest households was close to 40 percent, and that of the 40 percent poorest ones was under 15 percent. The data for Mexico, Argentina, and most other large economies in the region show comparably acute degrees of income concentration." (Moreno-Brid, Pérez Caldentey, & Ruiz Napoles, 2004, p. 354)

The World Bank had to respond, and in the foreword to its 1993 Poverty Reduction Handbook, Lewis Preston, then president of the World Bank, wrote: "Sustainable poverty reduction is the overarching objective of the World Bank, the benchmark by which our performance as a development institution will be measured." (World Bank, 1993)

On the face of it, this was a clear departure from the prior growth-obsessed years, signaling that poverty reduction was again the prime goal of the World Bank. One has to acknowledge that this reorientation followed the World Bank's 1992 internal Wapenhans Report, in which over one third of World Bank projects completed in 1991 were judged failures. "Within one decade, the number of projects judged unsatisfactory at completion had increased from 15% in 1981 to 37.5% in 1991, with the share of projects with major problems at 20% in 1991." (Weaver & Leiteritz, 2005, p. 373) The leaking of this internal report focused much public attention on the effectiveness of the World Bank's practices, casting doubts on the motives of its strongly expressed commitment to poverty reduction. But real changes were only implemented when James Wolfensohn replaced John Preston as the Bank's president in 1995 and gained additional momentum with the nomination of Joseph Stiglitz as chief economist in 1997. In his UNU-WIDER[14] 1998 lecture titled 'More Instruments and Broader Goals: Moving Towards the post-Washington Consensus' Stiglitz said:

> "Trying to get government better focused on the fundamentals— economic policies, basic education, health, roads, law and order, environmental protection— is a vital step. But focusing on the fundamentals is not a recipe for minimalist government. The state has an important role to play in appropriate regulation, social protection, and welfare. The choice should not be whether the state should be involved but how it gets involved. Thus the central question should not be the size of the government, but the activities and methods of the government." (Stiglitz, More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus, 1998, p. 25)

The main shift in focus was therefore to attain better regulation rather than just less regulation and add vital functional capacities of the state to the radical market views inherent to the Washington Consensus. In short, the state was again seen as part of the solution rather than just part of the problem. However, it took only three years

[14] UNU is the United Nations University based in Tokyo and WIDER is its World Institute for Development Economics Research established in Helsinki, Finland in 1984 to undertake applied research and policy analysis on global development and poverty issues.

before the US Treasury Secretary Lawrence Summers[15] successfully petitioned for Stiglitz's removal from the World Bank (Wade, 2002, p. 208)[16] – it seems that the thought of posing serious challenges to the neoliberal ideology from within the World Bank was too radical to bear.

Since then, the situation has been somewhat hazy. The rhetoric has changed and poverty reduction features prominently as a theme but the degree to which the Bretton Woods organizations' practices have changed remains debatable. The term post-Washington Consensus, which is commonly used, since the 1998 WIDER lecture implies as much continuity as it does change. The policies prescribed by the Washington Consensus were regarded as 'sometimes misguided' and 'incomplete' (Stiglitz, 1998, p. 7), but not as fundamentally flawed. As Ben Fine put it:

> "The new consensus deploys more variables on a wider scope and less dogmatically than the old. Nevertheless, its intellectual narrowness and reductionism remain striking, for it replaces an understanding of the economy as relying harmoniously on the market by an understanding of society as a whole based on (informational) market imperfections." (Fine, 2001, p. 4)

It is difficult to argue that the post-Washington Consensus amounts to substantially more than the recognition that rolling back the state's input alone will not provide a solid basis for economic development. The framing of the development process is still based on the primacy of markets, but although institutional and social dimensions have been added, the approach to macroeconomic policy remains orthodox regarding fiscal and monetary matters. Critics consequently argue that the development rhetoric of the post-Washington Consensus has turned meaningful words, such as 'participation,' 'empowerment,' and 'poverty reduction' into empty buzzwords used to create an aura of impeccable morality whilst continuing to promote a neoliberal agenda (Cornwall & Brock, 2005, p. 1057).

Nevertheless, there are less condemning voices that regard the post-Washington Consensus as posing serious challenges to key neoclassical theory assumptions, such as its blindness to market failures, its disregard for institutions, historical context, and distributional problems as well as its failure to take account of policies needed to break

[15] Lawrence Summers was a former Chief Economist of the World Bank who, in an internal e-mail published by *The Economist*, infamously argued that it is sound economics for developing countries to be a dumping ground for toxic waste. (The Economist, 1992)

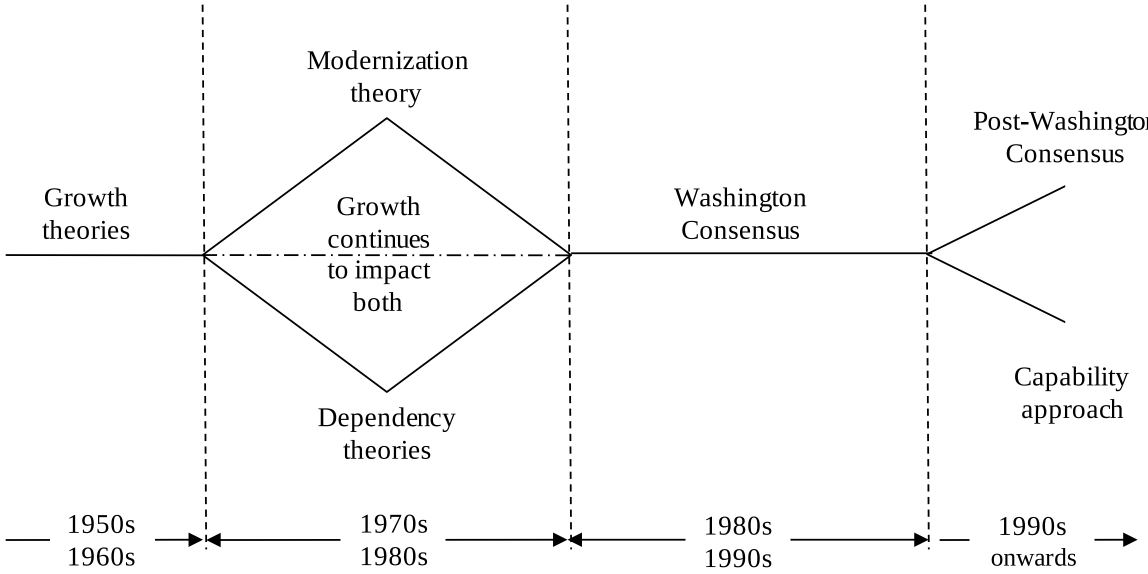
[16] "In essence, Summers made his support for Wolfensohn's second term conditional on Stiglitz's non-renewal. Wolfensohn agreed. Stiglitz resigned a month before his term expired so as to go out standing rather than on his back." (Wade, 2002, p. 208)

the vicious circle of poverty (Hoff & Stiglitz, 2002). Together, these challenges translate into a shift away from the Washington Consensus' top-down technocratic 'one-size-fits-all' policies, as they acceptance that not only state interventions, but also unleashed market forces can, and indeed do, produce unwanted results.

In conclusion, one has to acknowledge that the post-Washington Consensus includes a wider range of objectives and development targets. However, these are seen as necessary preconditions for establishing the primacy of markets rather than embedding markets within higher-order objectives. The development vision of the Washington Consensus can be summarized as: privatization, liberalization, and macroeconomic stability equals growth equals development. Whilst the post-Washington Consensus can be summarized as: a capable state promoting privatization, liberalization, and macroeconomic stability equals growth equals development. Therefore, even if some key assumptions have come under scrutiny, the post-Washington Consensus must be regarded as an extension of the Washington Consensus, which aims to mitigate unwanted side-effects, rather than as a departure from it and thus making the lessons drawn from its failures seem halfhearted at best. Underneath the rhetoric, the post-Washington Consensus is little more than a 'renewed new orthodoxy' that, to date, refuses to recognize itself as such.

The current situation (See Figure 1) implies that the evolution of development thinking has come a full circle after 60 years. Much effort is exerted to present a frame of inclusiveness, broadened goals, and the addressing of distributional issues, but underneath those (rhetoric) efforts, one cannot overlook that the primacy of markets and a technocratic focus on the 'effective delivery' of development programs prevail in the current mainstream of development thinking.

Figure 1: The evolution of development thinking



2. The capability approach

Having looked at the evolution of development thinking from the emergence of development studies as an independent field in the post-1945 years and the translation of neoliberal ideas into the (post-) Washington Consensus, I now look at the alternative that has emerged from the shadows of the neoliberal mainstream and has gained much momentum over the last two decades.

About thirty years ago, Amartya Sen began to develop the capability approach[17], which has evolved to become the major alternative to utilitarian welfare economics and the narrowness of income, whether personal or national, as the dominant objective and indicator of development, which is perhaps the most stringently shared characteristic in all previously introduced framings of the development process.[18] To corroborate the shortcomings of income comparisons, Sen compared the per capita GNP of Brazil, China, India, Mexico, and Sri Lanka with a set

[17] The capability approach was first published by Amartya Sen as "Equality of what?" in: S. McMurrin (Ed.) Tanner Lectures on Human Values, 1980, although he first held the lecture at Stanford University in 1979.

[18] Even the dependency movement remained implicitly within a utilitarian logic. Dependency theory "…implies that dependence analysts, though they do not articulate the point explicitly, share the classical economic theorists' view of human nature. They assume that individuals … are … able to assess information objectively in the pursuit of utilitarian goals." (Valenzuela & Valenzuela, 1978, p. 545) Hence, import substitution, or – in the radical dependency school – revolution was in essence simply a means to better enable the pursuit of utilitarian goals but it did not aim at presenting alternative ends to development efforts.

of alternative development indicators: life expectancy, infant mortality, child death rate, adult literacy rate, and a higher education ratio (See Table 1).

Table 1: Comparative data on specific achievements of five countries

Country	GNP per head 1982 (USD)	Life expectancy 1982 (Years)	Infant mortality 1982	Chid death rate 1982	Adult literacy rate 1980	Higher education ratio 1981 (%)
India	260	55	94	11	36	8
China	310	67	67	7	69	1
Sri Lanka	320	69	32	3	85	3
Brazil	2,240	64	73	8	76	12
Mexico	2,270	65	53	4	83	15

Source: (Sen, 1985, p. 73)

He found that whilst Brazil and Mexico both had roughly seven times (!) higher per capita GNPs than the three Asian countries, Sri Lanka had the highest life expectancy, lowest infant mortality, lowest child death rate, and the highest adult literacy rate (ranking fourth out of the five countries in the higher education ratio) (Sen, 1985, pp. 73 - 80).

"In contrast to traditional welfare economics' 'monoconcentration' on utility" (Sen, 2000, p. 19) the capability approach gives us a wide range of interrelated subjects with which to examine development. "The capability approach is a broad normative framework for the evaluation and assessment of individual well-being and social arrangements, the design of policies, and proposals about social change in society." (Robeyns, 2005, p. 94)

Developmental progress is, within this framework, no longer dependent on the utility (as pleasure with the absence of pain) gained from actions or rules or motivations, but on the expansion of capabilities that people have acquired. The "appropriate 'space' [for evaluation] is neither that of utilities (as claimed by welfarists), nor that of primary goods (as demanded by Rawls), but that of the substantive freedoms – the capabilities – to chose a life one has reason to value." (Sen, 1999, p. 74) The main idea of the capability approach is, therefore, that social arrangements should aim to expand people's capability to freely promote the kind of life that, upon reflection, they have most reason to value.

In the following, I will introduce the capability approach along its core concepts – functionings, capability, and agency – and will complete the picture by adding the dimensions of pluralism and incompleteness, which are essential to work with the capability approach.

Functionings, capability, and agency

Sen defines functionings as an interrelated set of 'beings and doings' responsible for an individual's wellbeing (Sen, 1992, p. 39) and argues that they are a better yardstick with which to assess social welfare than traditional utilitarian assessments. "A person's capability to achieve functionings that he or she has reason to value provides a general approach to the evaluation of social arrangements…" (Sen, 1992, p. 5) and can tell a great deal more about the wellbeing of that person than utility can.

As Martha Nussbaum points out, this use of functionings can be traced back to an Aristotelian origin where functionings are constitutive of a person's being (Nussbaum, 1995, p. 112). Consequently, based on the constitutive nature of functionings for a person, one cannot asses someone's welfare, or standard of living, without looking at that persons functionings. Such 'beings and doings' can take a multitude of shapes and range from very basic functionings, like being properly sheltered or being in good health or founding a family, to more complex (and also harder to measure) functionings, like being happy or being culturally active in one's community or engaging willingly in personal challenges. As such, functionings are outcome rather than input oriented. The functioning is not, for example, to have a certain amount of bread per day, but to be well nourished so that functionings express the *result* of having, for example, command over commodities rather than focusing on the possession itself.

A view of functionings alone is, however, incomplete, as achieved functionings only express doings and beings that have been pursued – not the options from which they were chosen. The various combinations of functionings that an individual could feasibly achieve are his or her capabilities and are closely related to functionings, as they represent a ‘functionings bundle’. Capability is thus to be understood as “a reflection of the freedom to achieve valuable functionings” (Sen, 1992, p. 49). In turn, freedom describes the *real opportunity* we have to accomplish what we want to (Sen, 1992, p. 31). This lies at the heart of the capability approach, as, in this concept, capability means an individual’s or group’s freedom to promote or achieve valued functionings. Sen argues: “The ‘good life’ is partly a life of genuine choice, and not one in which the person is forced into a particular life – however rich it might be in other respects.” (Sen, 1996, p. 59) Choice (as the freedom to achieve what one wishes to achieve and therefore clearly a positive freedom) has a prominent position in this definition, but one might argue that choice is of different importance in different settings or circumstances. To defend the capability approach against such comment, Sen adds that an increase in choice does not per se lead to an increase in freedom, as some of the choices may not be the ones we value anyway. However, on the other hand, an increase in choices may lead to a decrease in opting for a peaceful and quiet life. Choice, therefore, has to be understood as the choice only out of *valued* functionings, which include determining how valuable further choices are rather than a tranquil life without having to make those choices. Capabilities therefore need to consist of *valued* functionings rather than just any achievable functionings (Robeyns, 2005, p. 95)

The third core concept in the capability approach is that of agency, which is understood broadly within the capability approach. It does not represent the term as often used in economic literature or game theory, in which an agent is someone who acts to pursue someone else’s (the principal’s) goals, but it is simply a term used as a ‘name’ for individuals who choose to employ their freedom by committing to a cause that expresses their values and their conception of good. It is used to describe someone who “…acts and brings about change, and whose achievements can be judged in terms of her own values and objectives, whether or not we assess them in terms of some external criteria as well.” (Sen, 1999, p. 19) Agency therefore refers to a person who has the ability to pursue or realize goals that he or she has reason to value, and an agent is someone who makes use of this ability. In turn, someone who is forced or oppressed has no agency and someone who is simply passive may potentially have agency but is not an agent.

Agency therefore differs from wellbeing and also from standard of living, as agency is the broadest of these three concepts. When looking at a person’s wellbeing in an isolated manner’, i.e. only in relation to one’s own life, one is looking at the standard of living. When adding actions motivated by sympathy, such as helping someone in need, which simultaneously have a positive impact on how one feels about oneself, one is looking at wellbeing. And, when further widening the focus to activities involving personal commitments based on promoting a cause regardless of the impact on how one feels, one is looking at the agency of that person (Sen, 1988, p. 28). If someone, for example, watches the news on TV, this impacts the *standard of living*, as this person has access to media information. When that same person then decides to make a donation to a civil society organization portrayed in the news, she is motivated by sympathy, which impacts her *wellbeing*. When, however, she decides to join that organization and becomes an active member, believing the aims of that organization to be congruent with her values and worthy of her commitment, she exercises *agency*.

In summary, the capability approach is built on three main constructs: functionings, capability, and agency. Functionings express the valued ‘beings and doings’ of a person, while capability can be interpreted as an index of a person’s functionings, which represent a ‘functionings bundle’ that is a subset of the functionings that could have been achieved. Thirdly, agency describes personal commitment towards a cause that leads to active engagement based on the perceived merit of the cause in the light of one’s own values. In combination, these three constructs enable one to assess the freedom someone has to live the kind of life one has reason to value.

Pluralism and incompleteness

There are two limitations one needs to be aware of when working with the capability approach; these are its great breadth, the pluralism it contains, as well as its incompleteness, which stems from its deliberate withholding of a concrete list of functionings to maintain the inclusive character of the approach.

As pointed out, capabilities can include any subset of functionings for as long as they are valued. Furthermore, they can be as varied as drinking clean water, maintaining a network of diverse friendships, being well nourished, and reaching wisdom. Despite its breadth, the capability approach does not emphasize any particular subset of functionings over others. It is a value judgment, as is the weighing of capabilities relative to one another (Sen, 1999, pp. 70 - 72). This means one has to include *all valued functionings* when considering a person's wellbeing: "It is possible that this way of drawing the line is a little too permissive, but the alternatives that have been proposed seem clearly too narrow" (Sen, 1990, p. 27)

When studying poverty, for example, real incomes are clearly a very important factor that need due consideration, but they are not sufficient for an analysis of possible deprivations endured by the poor, which can have many non-income-related dimensions. Only a focus on the actual lives people live and their real freedom to 'move' those lives towards lives they have (more) reason to value can provide meaningful insight into the deprivation experienced by the poor. These can be, and in poverty analysis most likely are also income related but the space has to remain open for the inclusion of other, non-income-related drivers of wellbeing. Consequently, the capabilities approach takes into account *all* changes in the quality of life material as well as immaterial, basic, and complex capabilities that are fundamental to survival plus those that may be considered luxury. No functionings are, nor can they be categorically ruled out as irrelevant as long as they are valued.

Whilst this plurality generates many difficulties in practical questions regarding operationalizing the capability approach, it seems to be the only way to assess development based on the acceptance that wellbeing and social welfare come in very diverse forms.

The capabilities approach is also rightfully criticized as incomplete. However, it is deliberately incomplete, or at least its incompleteness is accepted as a trade off of inclusion. Rather than giving direct instructions on how to pass judgment on development or well being or quality of life, Sen is concerned with developing an approach that can be shared by people of great diversity. Consequently, the capability approach must deal with situations in which uncertainty prevails regarding the relative value or weight that different functions receive.

He argues that there are both fundamental and pragmatic reasons for accepting this incompleteness (Sen, 1992, pp. 46 - 49). At a fundamental level there is the acceptance that diverse ideas of inequality and well-being may carry a degree of ambiguity and haziness, which makes it unreasonable – maybe even wrong – to look for a complete and ranked "ordering" of functionings. The inability to come up with such a complete ordering of ranked functionings is inherent to the nature of interpersonal comparison of wellbeing and inequality evaluation under the capabilities approach. Trying to come up with a clear-cut exhaustive ordering of unambiguously ranked functionings is unlikely to do justice to the pluralistic and inclusive nature of the approach.

At a pragmatic level, Sen argues that rather than remaining silent in a situation in which there are disputes about the relative weighing of functionings, or when data are simply not available, it is better to work with those parts of a ranking of functions that can be unambiguously sorted. Given that the alternatives are either to not do research on capabilities and functionings, or to wait until all functionings can be unambiguously weighed, it is preferable to acknowledge incompleteness and work with an incomplete "ordering" of functionings as "waiting for toto may not be a cunning strategy in a practical exercise." (Sen, 1992, p. 49)

Incompleteness is therefore not a cause of embarrassment but a conscious choice resulting from both a fundamental and a pragmatic reason. As Sen maintains, "babbling is not, in general, superior on matters that are genuinely unclear or undecided." (Sen, 1992, p. 134)

The capability approach offers the first viable alternative to utilitarian framings of the development process, which have dominated development thinking ever since its inception. The freedom to live the life one has reason to value takes center stage and overrules technocratic questions on the right prescriptions to increase income and nourish growth. It does not, however, disregard them, for increased income may be vital for gaining desired functionings, although income must always be viewed from its instrumental character and not as a goal in its own right. The capability approach has "…restored an ethical dimension to the discussion of vital economic problems" (The Royal Swedish Academy of Sciences, 1998)[19] and may therefore help in assessing both the failures of utilitarian development prescriptions of the past and improvements in the development efforts of the future.

[19] Quoted from the press release of The Royal Swedish Society of Sciences in its reasoning for awarding the Nobel prize in economics to Amartya Sen.

3. The makings of *good* development

The tracing of the main streams in the evolution of development thinking has led to the introduction of the two currently competing views on development, whose fundamental assumptions are incompatible. On the one side is the still dominant neoliberal view[20], grounded in neoclassical economics and translated into development prescriptions via the post-Washington Consensus which, at heart, remains singularly focused on income generation. On the other side is the capability approach grounded not in economic theory, but in the universal assumption that development needs to aim at enhancing people's freedom to live a life they have reason to value through the achievement of capabilities.

Based on the notion that development is not confined to poor or underdeveloped countries and societies, I will firstly discuss a development construct based on the capability approach to provide a normative reflection basis – a regulative idea – for the assessment of development efforts. Secondly, I will assess the specifics of underdeveloped nations in the development framing. In combination, this will help gain an understanding of the development impact of large corporations in general and, in particular, the impact they have on developing countries through the way in which they create and operate linkages to the local economy.

Ethical orientation towards a normative human development construct - freedom not utility

Human development as such is not confined to poor economies or the southern hemisphere or the developing world, as development is a continuous process happening in all countries, societies, and regions of the world. The point of departure for the analysis of human development must consequently be a universal one, as it can only claim to be concerned with *human* development when aiming at universal validity. A meaningful development construct therefore arises from within the human condition[21] building upon a universal moral point of view. Peter Ulrich has identified

[20] It is too early to judge if the current crisis will trigger impactful change, or if the global economy will recover fast enough for the status-quo-preserving advocates to prevail in their defense of the radical market logic inherent to the neoliberal agenda.

[21] This is contrary to being grounded in technicalities supporting the achievement of economic aims as growth theory and the (post-) Washington Consensus advocates. Neither can development efforts depend on

four elements inherent to the conditio humana that form the point of departure of my development construct. Those elements are: (1) the vulnerability and need for protection of the human subject status; (2) the capacity for imaginative role-taking; (3) the interpersonal reciprocity of moral claims and rights; and (4) the rational generalizability of the moral principle of reciprocity. (Ulrich, Integrative Economic Ethics, 2008, pp. 32 - 37)[22]

Of these four (interrelated) determinants of the conditio humana, it is the first that drives a meaningful development construct,. Given the universal character of human vulnerability, *good* development must firstly aim at enhancing the protection of the human subject status: protection against exploitation of our vulnerability by protecting the integrity, dignity, and basic rights of all humans. Freedom, in turn, which is understood as the freedom to live a life one has reason to value, expresses the degree to which one is protected against the exploitation of one's vulnerability as, under most circumstances,[23] one does not freely allow its exploitation.

Excluding systemic exploitation of vulnerability forms the minimal basis of a decent society (Ulrich, 2008, p. 33), while working towards the limitation of non-systemic occurrences of situations in which people feel 'wounded,' whether physically or psychologically[24], forms part of the development towards a just society. In this development conception, freedom takes center stage, for one will not find one's vulnerability exploited if one has the freedom to live the life one wants to live.

Freedom is consequently not something that one possesses, nor are expansions of freedom merely an individual's ability to expand (quantitatively) the range of what one is able to do, while only accepting limitations to that expansion to avoid conflict.

As such freedom is to be understood as qualitative freedom. Jens Timmermann points out that Immanuel Kant already assigned freedom a decisively qualitative

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increasing the speed and effectiveness with which it replicates the development paths of more advanced countries as proclaimed in modernization theory.

[22] For more on the conditio humana, see: (Plessner, 1976)

[23] One may construct examples where one person opts to suffer such violations in an act of martyrdom or to protect a loved one, but generally a mentally healthy person does not freely allow his or her vulnerability to be exploited.

[24] Occupational safety and general working conditions that risk workers' health would be exploiting physical vulnerability – not having the means to participate in the cultural life of one's society may, for example, be regarded as psychologically wounding.

nature in that he believed freedom’s self-imposed limitations are not a restriction but an integrated part of their realization (Timmermann, 1998, p. 39). Freedom is consequently not something that one possesses and subsequently needs in order to accept limitations only to avoid conflict. Rather, freedom comprises respect towards all others (Dierksmeier, 2007, p. 113) and is, therefore, from within always also the freedom of all others. This means that any quantitative view of freedom, as in being able to do as much of what one wants to do and is capable of doing whilst accepting limitation to avoid conflict, can only be subordinate to the qualitative nature of freedom. Only within the self-imposed boundaries of one’s freedom, which respects the (qualitative) freedom rights of all others, can one begin to contemplate how to (quantitatively) utilize or expand them. A qualitative view of freedom does not per se reject restrictions to ones power of the disposition of freedom but, on the contrary, may find self-imposed restrictions necessary. The alternative is a rather Darwinist conception with freedom residing with those who can enforce their freedom, while those who cannot, are confined to the freedoms they are granted by others.

In short, any conception of freedom that does not fundamentally accept its integrated restriction through the freedom of all others is in danger of creating a situation in which great freedoms reside with the strong and potentially very little remains for the rest.

Free trade may serve as a global example of the often-prevailing quantitative interpretation of freedom in the development context. When the freedom to trade goods and services globally leads to the majority of wealth creation accumulated in industrialized rich nations, while developing countries are left to deal with the majority of negative externalities, freedom is with the strong and only restricted to the degree necessary to avoid conflict. [25]

Under a qualitative interpretation of freedom, global free trade negotiations would most likely lead to different outcomes. They would not fail to see that a wealthy nation’s freedom to trade its produce globally must entail the freedom of the citizens of those poorer nations with which it trades to also participate in wealth creation and work towards the alleviation of the immense asymmetry in substantive freedoms

[25] To an even greater degree, restrictions only stem from potential conflicts that can pose a real threat to the strong, which in this example is virtually nonexistent. What threats, after all, can a developing country pose to, let’s say, the G7 nations? On the other hand, the failure of the Doha Round WTO negotiations could be interpreted as a first sign of a group of developing and emerging economies joining forces and claiming their qualitative freedom rights.

enjoyed by the ‘trading partners’ – including the freedom to live an economically autonomous life that forms the basis of substantive freedoms as proclaimed by Amartya Sen (Sen, 1999, p. 161).

What counts from a development perspective is consequently the degree to which everyone’s substantive freedoms have been enhanced and not how much welfare gains were achieved as a sum total.

As such, utility simply cannot fully express the developmental impact of economic activities or the developmental state of a society. According to the capability approach, there are three main shortcomings when employing utilitarian development views (Sen, 1999, pp. 62 - 63):

- Distributional indifference: In line with one of the main criticisms of the Washington Consensus (and neoclassical economics and neoliberal practice in general) in the development context, utilitarian calculus tends to be blind to distributional questions. Since the sum total is all that matters, this leads to conclusions in development assessments based on aggregated data (which are then ‘individualized’ by dividing them into per capita figures) without assessing the way in which the observed factor is shared within that society. Per capita income may be the best example to stress this point. When looking at per capita income, blindness to highly inequitable income distribution[13] (a characteristic many developing countries share) may lead to failure to acknowledge the substantially lower income basis of the vast majority of a population compared to its per capita income. In an extreme form, this could lead to two countries perceived as equals in an income ranking, while in one of them moderate incomes are shared highly equitably and, in the other, a very small, lavishly prosperous elite holds great wealth, while the rest of the population lives in stark poverty. It seems almost cynical to have these two countries en par in an income comparison, but when distributional questions are disregarded they are.
- The neglecting of rights, freedoms, and other non-utility concerns: Utilitarian calculus leaves no room for the intrinsic value of legitimate claims of rights and freedoms, as long as they do not impact the utility. When, for example, examining happiness, one may find a very happy illiterate farm worker on a large plantation in a developing country. If, however, this farm worker were

to be kept in the dark about governmental adult literacy programs and were pressured to vote for the party supported by his landlord in a general election, one can hardly ignore the deprivation of the right to education and the democratic right to cast a free vote. Yet, as long as the farm worker is happy, utilitarian analysis will not take issue with this deprivation of legitimate rights and freedoms. Only if the farm worker were to claim that his happiness is reduced by his inability to read and write, or his being denied to cast a free vote would this unjust situation be ‘noticed’ from a utilitarian perspective.

- Adaptation and mental conditioning: Human nature allows us to adapt to highly adverse circumstances without falling into despair. Measuring individual well-being in a utilitarian approach falls short of accounting for circumstances, as attitudes adapt and mental states are conditioned by what seems feasible. A street vendor in a Brazilian favela may receive great pleasure from small things given that his daily life is one of existential hardship, but would one really want to argue he or she is better off than a person in a wealthy western country who is miserable because he or she can not afford certain luxury goods he or she desires? Utilitarian calculus can, therefore, be deeply unfair towards individuals or communities when it undertakes interpersonal comparisons as, it leads to drawing heavily skewed conclusions with regard to the persistently deprived.

The capability approach realizes that mental state and access to commodities are both relevant to wellbeing and incorporates the decisive role economic growth may play in poor nations. But it does not believe that they provide an adequate conceptual basis for the comparison of development progress. Consequently, when looking at social welfare within the capabilities approach, one is really interested in discovering what people are actually able to be and do – not how often they feel joy or what amount of resources they command. “The well-being of a person may be seen in terms of the quality (the ‘well-ness’, as it were) of the persons being. Living may be seen as consisting of a set of interrelated ‘functionings’, consisting of beings and doings.” (Sen, 1992, p. 39)

How the 'beings and doings' of a person expanded or contracted will tell us if change has been positive or negative more than the fulfillment of preferences, or changes in income[26], or other utilitarian measures will.

Good development is therefore development that is based on a qualitative understanding of freedom and thus allows substantive freedoms to evolve that enable people live the lives they freely choose to live.

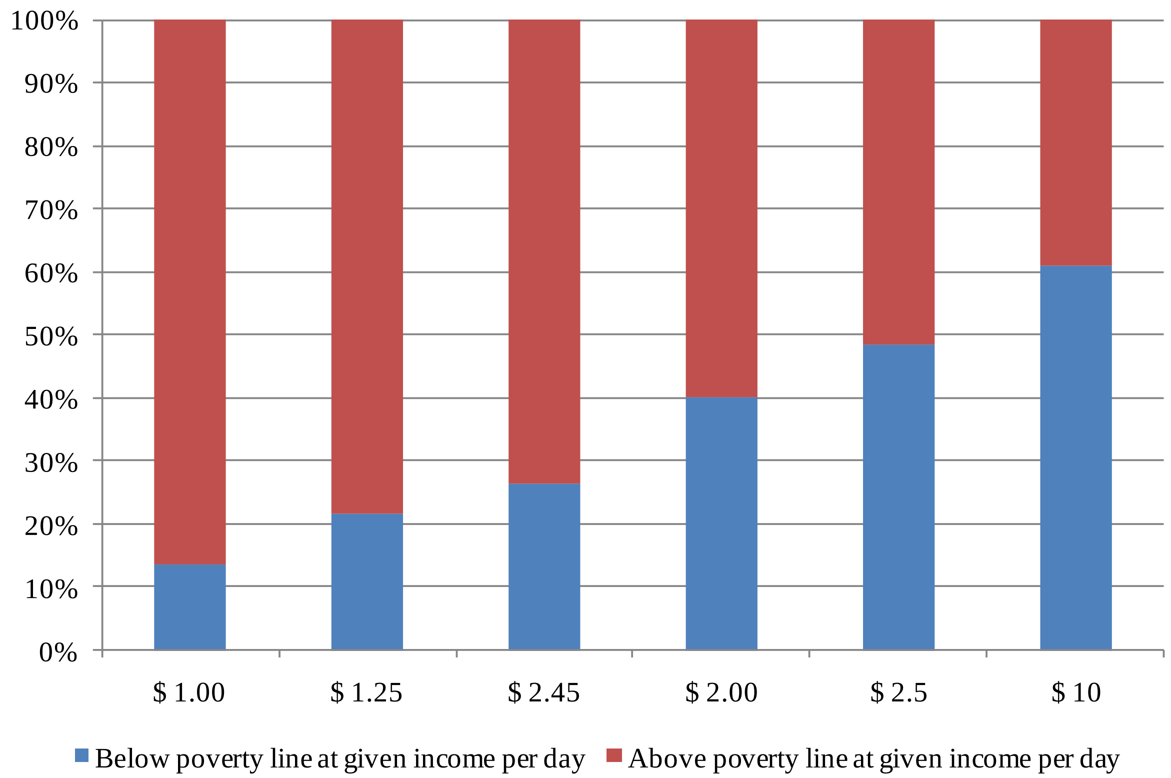
Development in underdeveloped countries

After more than five decades of development efforts, the results are, mildly spoken, disappointing. More than half the world's population still lives in abject poverty and are deprived of basic human rights. And 80% of the world's population lives in countries where income differentials are widening (UNDP, 2007, p. 25). To make this statement more tangible: "Before the onset of the food crisis in 2007, there were about 850 million chronically hungry people in the developing world. This number rose to 960 million people in 2008 and is expected to climb past 1 billion in 2009…" (World Bank, 2009, p. 3), which means that more people than the combined population of the EU, USA, and Japan are chronically hungry[27]. It is important to recognize that these numbers represent real people living lives almost totally characterized by existential hardship. (See figure 2)

[26] This is, of course, also true of expenditure-measuring methods, as they do not fundamentally differ in their approach, but only in the expected accuracy of the data collected.

[27]IMF population data for 2009: EU 497 million, USA 307 million, Japan 128 million

Figure 2: Percentage of world's population living in poverty



Source: (World Bank, 2008)

Any attempts to eradicate extreme poverty have, to date, failed. But I do not want to ignore progress where progress has occurred. Many people, especially those of Asian economies, have substantially moved towards lives they have reason to value over the last two or three decades, which is also true of many regions in Latin America, and, even in Africa, which has frequently been labeled the 'lost continent' by development scholars, there are encouraging signs. But this is most certainly a case where gradual improvements are not good enough, where 'some' progress simply won't cut it.

At the same time, there is reason to be cautiously optimistic. We are currently in a position to change the most severe of global injustices. The enormous and unprecedented wealth of the industrialized world, technological advances, and the global media have led to a situation in which the northern hemisphere is running out of excuses for tolerating the status quo and remaining within the framework of a quantitative interpretation of freedom when shaping the rules for the global economy.

> "We accept the fact that we will always have poor people around us, and that poverty is part of human destiny. This is precisely why we continue to have poor people around us. If we firmly believe that poverty is unacceptable to us, and that it should not

> belong to a civilized society, we would have built appropriate institutions and policies to create a poverty-free world.” (Yunus, Nobel Lecture, Oslo, December 10, 2006, 2006)

However, in the fundamental respect of poverty reduction, neoliberal policies have failed in rich and poor economies alike – the difference between the effects of neoliberal reform in prosperous and poor nations is primarily the gravity of those failures’ impact on the respective populations, rather than differences in their relative successes. A 10 percent income cut has very different effects on the life of someone with a daily income of 2.5 USD than it has on someone with a 100 USD daily income; a lost job has different consequences in a functioning welfare state than it has in a poor country where state welfare is largely absent. And, empirical evidence shows that after roughly 30 years of neoliberal reforms and 20 years of structural adjustment in developing countries, the outcome is disappointing. In their study, published in 2005, Robert Barro and Jong-Wha Lee “found that IMF programs have a negative effect in the short run that is not statistically significant, and a strong statistically significant negative effect on economic growth in the long run.” Vreeland therefore concludes that “the newly emerging consensus is that IMF programs hurt economic growth.” (Vreeland, 2006, p. 90)

When the IMF’s programs don’t even work under the growth target that it regards as its prime development goal, waiting for trickle down effects to automatically materialize is either justifiably overstretching the patience of those that should benefit from them, or it is time to acknowledge that they simply do not automatically occur.

Nonetheless, a focus on additional income generation can be of great relevance in developing countries. If even a highly equitably shared national income would be insufficient to provide all the citizens with the resources to allow for the freedoms that make possible valued lives, there is little point in discussing whether or not a focus on generating economic growth is a good thing or not. In such circumstances it is. But no matter how poor and how needed this income may be, it remains a means to the end of enhancing qualitative freedom and providing the capabilities that enable the citizens to live lives they have reason to value.

Sen provides a good example here by studying the connection between longevity and per capita GNP. He concludes that the connection is generally overstated and that in those cases where there is an observed strong positive correlation between life expectancy and per capita GNP, there are also two variables present in the observed country: a) the poorest in that society are experiencing rising incomes and b) increased public spending on health care. “In fact, once these two variables are included on their own in the statistical exercise, little extra explanation can be obtained from including GNP per head as an additional causal influence.” (Sen, 1999, p. 44)

Consequently, as mentioned in the critique of utilitarian development views, distribution is what matters and the question is not *if* additional public income is generated but *how* additional or existing income is put to use.

A further impactful difference in developing countries is the role of civil society. The concept of three-dimensional empowerment, as suggested by Peter Ulrich, can provide the basis for this perspective, which is based on the view that a functioning civil society aims to enable *all* citizens to live a self-determined life in dignity and real freedom (Ulrich, 1999, p. 64). This can only be achieved if the prerequisites are set for individuals to take command of their supply of basic goods so that they are never existentially dependent on the charity of others. The prerequisites required are education and culture, the tools that enable citizens as well as institutionalized basic rights so that the abilities gained can be pursued freely or, as Amartya Sen would say, so that they can be executed as valued functionings.

The concept of three-dimensional empowerment is based on:

- Enablement through *education and cultural activities*
- A civil society guaranteeing its citizens *basic rights* through the rule of law
- *Access to basic resources* facilitated by economic and social policy

These three elements would lead to a life-conducive market economy [28], which can be defined as an economy in which all citizens’ capabilities are enhanced as a result of the economic activity taking place.

Nevertheless, a look at some indicators shows that these are precisely those factors that are especially weak in developing countries. The Millennium Development Report shows that basic education remains a major challenge. Children of the poorest 20% households in developing countries only achieve a 65 percent primary school

[28] The term life-conducive market economy was coined by P. Ulrich and describes the need to develop a “third way” beyond the ideological debate between capitalism and communism.

enrolment ratio (United Nations, 2008, p. 13), leaving enablement through education an unfulfilled aspiration for many adolescents. Secondly, despite “the institutional technologies for providing the rule of law” being well known, “systems of property rights, civil rights, and personal liberties, general incorporation laws, corporate governance structures, contract law, and judicial systems” (Weingast, 2009) are persistently weaker than in highly developed countries. And, addressing the third point in the concept of three-dimensional empowerment, the continuing failures in the combat against poverty have been shown above and continue to prevent a large proportion of people living in the developing world from gaining access to basic resources.

Together, these points amount to the conclusion that civil society is substantially weaker in developing countries and caught in a vicious circle in which the partial failure to provide education, the rule of law, and access to basic resources impede the strengthening of civil society while, in turn, a stronger civil society capable of assuming its role as a prime locus of morale depends on progress in the strengthening of those three dimensions.

A third factor that needs pointing out was touched upon previously when the example of the consequences of quantitative interpretations of freedom on free trade were examined. On the international policy stage, a substantial asymmetry in the bargaining power of developing countries vis-à-vis developed countries severely limits the chances of achieving a global economic policy framework that distributes the gains of global trade more fairly. Nowhere does this asymmetry become more evident than when taking a look at the resources available to the different countries in the WTO negotiations. While rich nations’ delegates to the WTO command a whole entourage of lawyers, economists, and policy advisors, many of the poorest countries have to defend their interests with a single-person who is, often, simultaneously the ambassador to the United Nations office in Geneva. From a global perspective, development in underdeveloped countries thus also differs from development in prosperous nations through the options available to make impact on policies governing global economic activities.

Consequently, the aim of development work in poorer countries is based on the same notions as those in developed countries. Good development needs to enhance the substantive freedoms enjoyed by all citizens. But, developing countries differ with regard to a) the relevance of generating income, b) the need to strengthen civil society as a locus of morale, and c) their often observed inability to have an impact on global policy agendas.

In summary, development work has evolved from a purely growth theorist perspective to competing views between modernization scholars and the dependency school before the neoliberal agenda was translated into development prescriptions by the Washington Consensus, and economic growth returned as the means to and the end of development efforts. Upon its apparent failure, the Washington Consensus was replaced by the post-Washington Consensus but, at heart, does not differ substantially from its predecessor, while still representing the mainstream in development theory and practice. Today, though, the capability approach gives development scholars an alternative framework to analyze development processes in all countries, rich and poor alike. The capability approach differs fundamentally from the neoliberal development prescriptions in its interpretation of freedom, as well as the role that income play, which it regards as an often necessary, but never sufficient, condition; it is a means to but never the end of good development.

"There is far, far nobler prospect of freedom to be won, than that which neoliberalism preaches." (Harvey, 2005, p. 206)

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