

THEORY ON ECONOMIC DEVELOPMENT: FROM GROWTH OF WEALTH TO
EXPANSION OF FREEDOM.

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THEORY ON ECONOMIC DEVELOPMENT: FROM GROWTH OF WEALTH TO EXPANSION OF FREEDOM

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Abstract

In Economic Theory, development is the topic, which delves into human welfare. Its aim is linked to welfare expansion in the context of regions. In this working paper, I am assuming that aims and strategies of development are linked to the evolution of welfare notion. At the same time, this paper supports the perspective that regional development occurs when there is a freedom expansion for living a full human life in that region.

Keywords: welfare, theory and strategy on development.

JEL codes: B29, O12, O20.

I. Introduction

Taking into account that individuals are social, political and economic beings, we can consider that they design their lives in a right, opportunity and freedom environment. This environment offers, at least, a level of welfare that people could achieve, whenever they want.

For example, the USA and UE regions regard for Human rights, into other rights and opportunities. In these areas of the world a middle class family is able to choose lifestyles, in which they feel treated as human beings. However, in Middle East and North Africa people in this family could not be considered as human beings. All members of the family have not access to literacy. Nor they are assured against death from a treatable illness or starvation or war. In sort, the social, political and economic organisation defines the set of lifestyles that everyone could achieve. Hence, that organisation fixes the level of welfare that they could achieve at least.

In economic theory, welfare notion has been linked to the ability to reach a good life. Since Adam Smith's thesis (1776), *development as a process of wealth growth*, until Amartya Sen's thesis (1999), *development as a process of freedom expansion*, gains in welfare have been linked to the expansion of the ability to choose a good life.

A life might be considered a good one whenever this life leads to an acceptable level of "utility", "opulence" or "freedom". In general, welfare and living standard have been defined in terms of utility and opulence. At the present, Amartya Sen, Nobel Laureate in 1998, supports welfare as a type of freedom. In this working paper, I analyse the evolution of welfare notion to find out how this has motivated the aims and strategies for regional development.

II. Development as wealth growth

An inquiry into the Nature and Causes of the Wealth of Nations from Adam Smith (1776) was one of the first researches that treated on how to improve the life in the regions. At the end of the eighteenth century, the goodness of a life was related to the ability to consume. It was assumed that there was a resemblance between welfare and wealth. In this context, Adam Smith researches into the causes of wealth of regions, and he concluded that productive work was the cause of wealth.

Hence, the life of regions could improve when either there was growth of productive workforce or there was growth in productivity. In this sense, it was possible to approach welfare offered by a region only by inquiring how many people must live from the wealth that productive workforce had accumulated.

Indeed, Smith's notions have been adjusted; but some of his concerns are alive with the same essence at the present. For example, nowadays ascertaining whether present workforce will be able or not to maintain the life of people who are in age for working,

or who do not have age for working or who had not had a job is one of the main concerns.

A second intuition alive today is that regions offer more capability for living well in there if there is wealth. Gross National Income is the indicator for classifying regions in the research works made by international organisations like World Bank and United Nations. For example, World Bank (2002:244) states that it uses this indicator to classify countries with analytical ends and to decide if they will get loans.

Strategies for growth of wealth

The first strategy for development was the industrialisation process. After industrial revolution, people were aware that there had been a growth in the wealth of regions. This growth had allowed the access to some facilities (such as electricity, current water), which in the past were not accessible.

During the first half twentieth century, the thesis that industrialisation improves the life of regions was accepted. During that time, development economics was occupied on designing strategies for industrialisation.

Some authors followed Smith and David Ricardo's thesis of market efficiency. Lewis, Nobel Laureate in 1979, was one of them. Market was considered the best institution for achieving regional industrialisation. There were others who assumed market efficiency but who valued the help of government intervention. Rosenstein-Rodan (1943), Scitovsky (1954) and Hirschman (1958) followed this line. Some of them supported a co-ordinated intervention, others an uncoordinated intervention. There was also another line in which market efficiency was rejected. This is the structuralism line, which opted for an industrialisation process through import-substitution. This line was formalised by Prebisch (1959).

When, at least, the most developed countries were industrialised, development economics came to analyse new ways to improve the quality of life. They turned to Adam Smith's thesis and it was reminded that wealth of regions could be taken as the origin of welfare. At the same time, it was assumed the GNI per capita as the best approach of wealth. Starting from this premise, and after simplifying evolution of development theory, development economists took results offered from growth experts. Indeed, it could be thought that development and growth theories were mixed up in this way.

Nevertheless, as Bhagwati (1988) points out this might have only happened in the academic contexts. On the application of development strategies, growth was considered an instrument to reach an improvement in people's quality of life too in the fifties.

Either as an aim or an instrument, development theory was linked to growth theory. Speaking in general, and such as we can observe on box 1, regions with higher GNP per capita are those that have also higher life expectancy at birth, higher adult literacy rate and fewer mortality rate less than five years old.

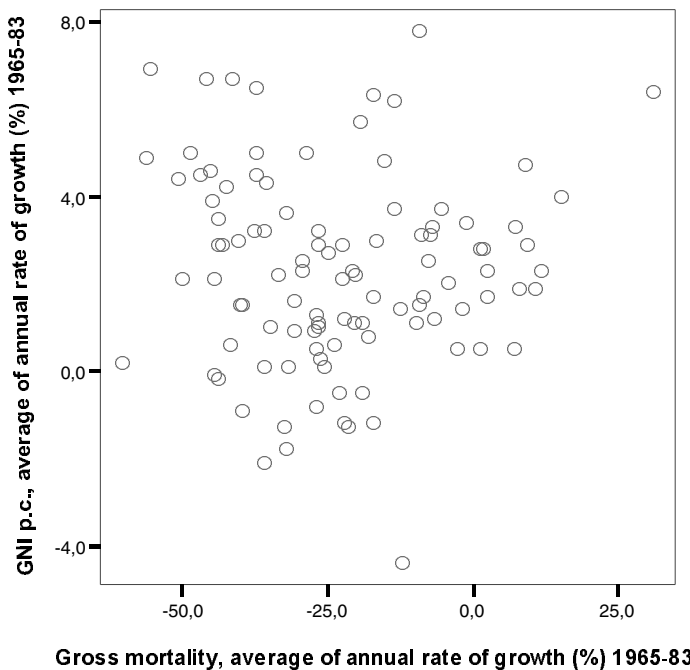
Box 1.

Regions	GNI per capita PPP ^a , \$, 2001	Life expectancy rate at birth, years, 2000	Under-5 mortality rate, per 1000 2000	Adult illiteracy rate, % of people 15 and above, 2000
Low Income	2040	59	115	37
Low and Middle Income	3930	64	85	25
Middle Income	5710	69	39	14
High Income	27680	78	7	...

Note: ^a Purchasing power parity.

Source: data from World Bank (2003)

After reading these results, it might be thought that there is a close connection between health and welfare, and it could be so. But, before development strategies combined growth aims with aims for meeting basic needs there was small correlation between income growth and increases on capability for having a good life. For example, we have represented together the average of the annual growth of GNP per capita between 1965 and 1983, and the per cent variation of the gross mortality rate for the same period of time, in figure 1. Assuming trustworthy data published by World Bank (1985), we do not find enough reasons to state there are a significant relation between both variables. Figure 1.



Note: 104 countries

Source: data from World Bank (1985)

One of the effects that this type of references had in economic literature was the debate about what is the meaning of development, and the debate about what should be its orientation. Seers (1969:3) tried to answer the first question in a paper for the International Development Association. He inferred that development was a process of income growth plus structural change. International Labour Organisation (ILO) tried to answer the second of them. It was proposed then to meet basic needs.

At the same time, knowing that it is possible that income growth has no effect in people's capability for living a good life propels the design of new indicators for approaching the welfare of regions. So, United Nations created a Human Development Index (HDI). One of the problems that this indicator has is the difficulty for data compilation.

Anyway, when it was assumed that it was possible to have income growth without having a capability expansion for living a good life, development strategies were designed taking into account both income growth aims and structural change aims. It was supposed that structural change would transfer growth profits to improvements in people's lives. An example of this is the set of messages that World Bank sends in their *annual world development reports*. During the 80s World Bank supported income growth strategies; later it advised having into account people's health (1994), work (1996) or knowledge (1999).

III. Portrayal of a full human life

Let us assume that regional development is the process that enhances people's capabilities for a good life. Let us assume, too, that in order to live a good life, it is necessary to have a full human life. In this case, expansion of welfare could be understood as the expansion of capability to achieve a full human life.

There are different conceptions of good life. However, there are some features of the existence that would be considered as necessary for living a full life. In my view, three of these features are self-sufficiency, self-respect, and agency.

A full life allows self-sufficiency. Indeed, a person who is living a full human life has the ability to meet her basic needs either material (food, dress) or immaterial (health, education). In other words, a full life lets abject poverty out.

A full life breeds self-respect. Smith (1776) named self-respect to the capability for appearing in public without being ashamed. He explained that somebody is ashamed when she lives on a poverty level that nobody could fall into without having an extreme bad conduct. Indeed, a full life lets people being near to achieve the average living standard of their society.

Finally, a full life regards for agency. It is the freedom for choosing how to live, the freedom for being an agent. Quoting Sen (1999:19) agent is "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". In other words, a full life regards for living a life autonomously designed, gaining human sense. Moreover, people need from choice for acquiring some human skills like "reasoning", "judgement", "self-control" [Mill (1859)].

Summing up, these three features are necessary, although no sufficient, in order to consider that a life is a full human one. In fact, we could assure a capability expansion for living a full human life when at least there have been a self-sufficient expansion, a self-respect expansion and an agency expansion.

IV. Development as expansion of freedoms

Wealth of regions informs about the ability of the region for self-respect and self-respect. However, for living full human lives it is necessary that people choose that life by themselves. When welfare is explained in "utility" and "opulence" terms, it might be that agency was not valued.

Freedom of choice a life is a source of welfare in itself when welfare is assumed as a type of freedom. In other words, when welfare notion contains freedom for acquiring welfare. For a clarification, we can take into account Sen's (1985) example used for explaining the difference between having a good life or having the freedom for a good one. There are two people. Both of them live the same life and both die of starvation. The first of them dies because she belongs to a religion, which makes her leave everything and assume the suffering caused by starvation. The second dies because her poverty does not let her acquire enough food.

It might be defended that they enjoy a same welfare because they are living the same life and suffering in the same way. However, it can not be defended that they enjoy the same freedom for welfare. The first of them had only the opportunity of choosing one life. The second is able to achieve a life in the highest opportunity sets that we want to imagine.

Strategies for expansion of freedom

Assuming that welfare of regions could be approached through their wealth made economists orient the design of development strategies to reach income growth. Assuming that welfare of regions would require that individuals were awarded with growth profits made economists orient the design of development strategies to reach situations where people could meet their basic needs. Both assumptions contributed to accept that expansion of welfare happens in regions when there is an expansion of the ability for self-sufficiency and for self-respect.

Nevertheless, it might be that a region does not offer people the ability for achieving a full human life, although everybody could meet their basic needs. This would happen if, for example, there was a tyranny in the region, which told people what they should do and should be on each aspect of their lives.

If we assume that agency is a necessary feature for a full life, it can not be stated that there is an expansion in welfare by only knowing that there is an expansion in self-respect and self-respect terms. It is possible to state this expansion when every necessary feature is expanded.

Politics, which are designed for reaching income growth and structural change, broaden freedom for living a full human life when they broaden also “instrumental freedoms”. Sen (1999: 38-40) called instrumental freedoms to those freedoms which enlarge the people’s ability for living a human life. The main five types of these freedoms are: “political freedoms”, “economic facilities”, “social opportunities”, “transparency guarantees” and “protective security”.

Income growth bears on development when growth profits broaden political freedoms. That is when, for example, their profits bear on expansion in regarding for Human Rights. On the same way, growth bears on development when growth profits let people access economic facilities, such as access to resources and to the market participation. Growth gives expansion in ability for living a full human life when broadens social opportunities, such as access to education and health. In sort, income growth is fundamental for development process when their profits broaden the freedom for living a full human life.

V. Conclusion

Following Amartya Sen, we do not summarise this document. We will only do a little overview.

We are far from Marx’s ideal state where is “replacing the domination of circumstances and chance over individuals by the domination of individuals over circumstances”, Marx and Engels (1846:190). In this sense, working on freedom expansion might mean that every one is responsible on what she do or she is on each aspect of her life, being what she could be in some sense.

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