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PENSAMIENTO ECONÓMICO Y CAMBIO SOCIAL: HOMENAJE A JAVIER IGUÍÑIZ

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THE EVOLUTION OF DEVELOPMENT THOUGHT: FROM GROWTH TO HUMAN DEVELOPMENT

Frances Stewart

> *The basic objective of development is to create an enabling environment for people to live long, healthy and creative lives* […] *Human development is a process of enlarging people's choices. The most critical ones are to lead a long and healthy life, to be educated and to enjoy a decent standard of living. Additional choices include political freedom, guaranteed human rights and self-respect* (UNDP, 1990, p. 9).

Introduction

The human development (HD) approach was initiated in 1990 with the first Human Development Report. It represents a major change from the widely accepted views of development of post-colonial decision makers and advisers in the 1950s and 1960s, which put growth in *per capita* incomes as the central objective of development. The aim of this paper is to trace the evolution of thought about development from growth to human development, with some byways en route.

This is a particularly appropriate exercise in honour of Javier Iguíñiz, who has contributed to many stages of the evolution with a Peruvian perspective (Iguíñiz, 1981; Iguíñiz & Henriquez, 1983; Iguíñiz, 1985).

In the forty year span from the 1950s to the 1990s, there were many changes in the way development was viewed —both in terms of objectives and the mechanisms thought to be optimal to achieve these objectives. These changes were not arbitrary but followed a logic which is traced in this paper. Views of the appropriate aims of development and how to achieve them evolved in response to a number of factors: these include changing conditions in developing countries and the global economy, evolving theories partly in response to these changes on the ground, and policy changes which in turn affected conditions and outcomes. The policies introduced were formulated under the influence of prevailing ideas as well as varying pressures from interest groups and populations affected. Each set of policies contributed to further changes in socio-economic conditions giving rise to new problems and opportunities, new thinking and further changes in policy. This paper explores this evolving logic, which ultimately led to human development becoming a central objective.

The first section of this paper sketches a framework for considering the evolution of thought about development. The next section provides a brief overview of the major changes that occurred. More detailed analysis of the evolution is provided in section 4. Section 5 briefly takes the story beyond the introduction of the human development concept in the 1990s, to consider the impact it has had, some limitations to date, and new challenges to the concept.

A framework for considering the evolution of development strategies

It is possible to detect a complex, organic and cumulative process involving an interaction between development outcomes (or events in the world), ideas, policy making and the consequences of those policies which in turn affect the way the world is perceived, leading to a new cycle of thought/policy/ events. Each of these stages is influenced by political pressures and interests groups.

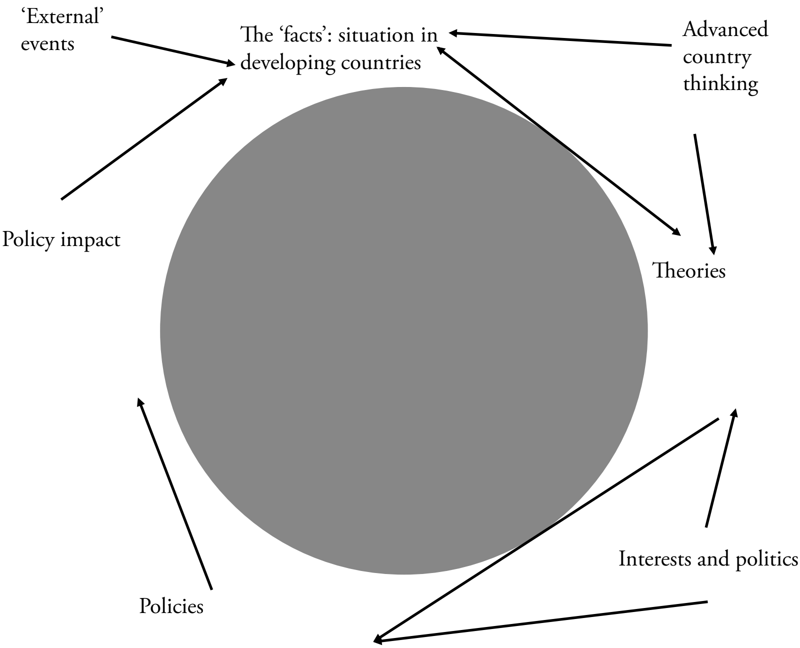
Thought does not come out of the blue but is heavily influenced by two types of context, both historically formed: on the one hand, the intellectual context; and on the other, the socio-economic context. The intellectual context at any time is complex and multifaceted. There tends to be a prevailing view —sometimes known, critically, as «conventional wisdom»— although there are always dissenting voices. In order to trace the evolution of ideas, this paper generally takes a much oversimplified view, attributing to each era a particular set of prevalent ideas (or conventional wisdom), but pointing also to some alternative strands of thinking. For developing countries, especially in the immediate aftermath of colonialism, ideas from developed countries dominated; even though some challenged developed-country perspectives, it was virtually impossible to ignore them altogether. As a result ideas prevalent about what to do in developing countries frequently reflected the views of economists (and to a lesser extent others) in and about developed countries. This initial hegemony of ideas was enforced by the International Financial Institutions (IFIs) which have been, and remain, a dominant source of influence over thinking, largely reflecting developed-country views. However, over time, a richer and more varied intellectual context has developed, with many ideas contributed locally.

The other important contextual element is the prevailing socio-economic situation: the state of the economy (income levels, economic structure, investment rates, employment etc.) and the state of the people (poverty rates, education, health, sanitation, etc.). Policies are formulated to deal with this situation, in the context of the intellectual heritage which determines the range of policies considered appropriate and feasible. Although the prevailing socio-economic conditions are highly relevant to policy choice, ideas tend to limit decision-makers' (and advisers') perceptions of these conditions, so there is a tendency to continue to adopt an accepted position long after clear failures are apparent. International actors are particularly prone to this. As Dudley Seers pointed out in his aptly titled article «Why Visiting Economists Fail»: «what usually happens is that the model the economist consciously or unconsciously uses turns out to be the sort of model suitable for a developed country» (1962, p. 329).

Socio-economic conditions change over time. Old problems may be solved and new ones emerge in both developed and developing countries. Policy choices have consequences foreseen —and unforeseen— i.e. they lead to a new «reality». Where the policy choices lead to unforeseen and undesired consequences, they can cause a revision in development thinking, e.g. if a growth-promoting policy has the consequence of an unsustainable level of debt, new thinking evolves to deal with the debt situation. Consequently, after a time lag, new objectives may be adopted and new policies selected in line with the new thinking, again subject to evolving political power and interests.

We thus observe a cyclical process, as the new policies in turn influence socio-economic conditions, create new problems and opportunities, stimulate new ideas and eventually further policy change. This is illustrated in figure 1. The evolution of development thinking in the last half of the twentieth century, with the movement from a focus on growth in the 1950s to human development in the 1990s and beyond broadly follows such a cyclical process. The rest of this paper aims to show how the process worked in practice over this period, and in so doing trace the origins of the idea of human development.

Figure 1. Ideas and development: a diagrammatic representation. Cyclical influences over thinking



An overview of the major changes in thought

We need to differentiate two types of change: first, changing objectives; and second, changes in views about the best *processes*, or the mechanisms needed to achieve the objectives. There have been major changes in both since the 1950s: with respect to objectives, the change has been basically from economic growth to human-centred objectives; and in terms of process, there has been a switch from a state-oriented approach to reliance on the market, both in ownership and allocation of resources. For both types of change, the speed (and even the direction) of change has varied among institutions, across countries and over time. In general, the acceptance of human-centred objectives has been extensive and sustained, in principle[1]; the change in process has been more controversial.

There are links between mechanisms and objectives. Some «mechanisms» (e.g. the market system) constitute important objectives for some players[2], while the mechanisms adopted create interest groups which can influence objectives. There is also some ideological connection between objectives and mechanisms —a strong market orientation in relation to mechanisms is associated with placing a high value on market outcomes and market values and consequently monetary incomes as a measure of achievement. Conversely, human-centred objectives encourage more scepticism about market mechanisms.

[1] The chief economist of the World Bank, Kaushik Basu, was reported as stating that «the Human Development Reports permanently changed global development discourse by putting people rather than GDP growth at the center of their analysis» (Report on World Bank meeting on the Human Development Report, 22/5/2013).

[2] For example, George W. Bush has stated: «The case for trade is not just monetary, but moral» (Speech, 19/11/1999).

Table 1. The stages of evolution of thought

Period	Socio-economic context	Dominant strands in developed country thinking	Dominant thinking about development
1950s 1960s	Low incomes; post-colonialism; Desire to develop	Keynesianism	*Growth*. Planning and industrialisation: Rostow; Lewis; Nurkse
1970s	Growth, but high poverty and umemployment	A. Keynesianism B. Marxism C. Neo-classical revival	A. *Employment*; Seers *Redist. With growth*; Chenery; Singer *Basic needs*; ILO, Streeten; Ranis; Stewart; Haq. *Pqli: Morris David Morris* B. Dependency: Frank; Furtado C. Prices/market: Little, Scott, Scitovsky
1980s	Acute balance of payments and debt problems	Monetarists counterevolution	Pro-market and anti-state; monetarism in macro-policy; Balassa; World Bank. New pol. econ. Krueger, Bhagwati
Late 1980s-Mid 1990s	Negative/weak growth, high poverty, high debt of 1980s	New theories of growth and trade; informational asymmetries; alternative motivations; institutions	The move towards human oriented objectives: –Poverty reduction; –Capabilities; –Human Development; –Mdgs. Sen; Haq; Ranis; Stewart; Streeten

Table 1 provides an overview of the developments we explore in this paper. The changes have been divided into decades, which provide a convenient oversimplification. Ideas take time to change and are by no means simultaneously or universally accepted nor do they neatly fit into decades. In many decades, more than one school of thought is present. The second column indicates the changing socio-economic context, with a very brief summary of the major problems confronting decision-makers at the beginning of each decade. We can see from this that there were big changes over time. The third column indicates dominant thinking about the economy in developed countries, and the fourth column shows how thinking about development changed, including both objectives and mechanisms. The names of people particularly closely associated with each category of thought are also included —although this is by no means complete. The objectives are picked out in bold, while the other elements consist largely of changing thought about mechanisms rather than objectives. The table ends in 2000, with the Millennium Development Goals, which in some ways epitomise the switch to HD; they contain only «human»-oriented goals, with no mention of the economy, and were subscribed to by every major institution and government, North and South. Development in the subsequent decade is discussed at the end of this paper.

The next section of the paper provides a much more detailed discussion of the evolution summarised in table 1.

The evolution of ideas from the 1950s to the 1970s: planning, growth and basic needs

At the beginning of the 1950s, most developing countries found themselves in a situation of profound underdevelopment and dependency, characterised by low incomes, a predominantly agrarian structure with a large subsistence subsector and heavy dependence on the advanced countries for technology, management and capital goods.

Under colonialism, economic development was directed mainly towards the development of primary products, owned and controlled by settlers or colonialists leaving the rest of the economy, typically accounting for the majority of the population, outside the small «modern» enclave. For the most part, education and health levels of the majority of the population were very poor. Latin America was something of an exception, most countries having become independent in the nineteenth century, but their trade sector too was dominated by primary product exports, and while incomes, health and education were higher than most other developing regions, they were substantially worse than in developed countries. The majority of developing countries had life expectancy of below 50 years and quite a few below 40 years, while illiteracy rates of over 50 percent were common. This was the socio-economic reality confronting policy makers in the early 1950s. To combat this situation, developing countries' thinkers and policy-makers gave primacy to economic growth as their overriding economic objective, with industrialisation seen as the most effective way of achieving higher incomes following the trajectory of the more developed countries.

Developed countries, too, recognised the need for a new growth-centred approach to the former colonial territories. President Truman famously declared that: «We must embark on a bold new program for making the benefits of our scientific advances and industrial progress available for the improvement and growth of underdeveloped areas. The old imperialism is dead —exploitation for foreign profit has no place in our plans» (Inaugural address, 01/20/1949).

Among developed countries, as a result of wartime experience of planning and controls and the long depression experienced between the two World Wars, Keynesian views of policy making were generally accepted, and a quite strongly interventionist economic philosophy prevailed. In countries such as the UK and France, basic industries were taken into public ownership. This was also the era of apparently thriving socialism in the Russian empire. Consequently, a statist interventionist philosophy came from advisers from developed countries, which resonated with the objectives, politics and philosophy of newly independent countries.

All agreed that the dominant objective of economic policy in developing countries was to increase economic growth: it was assumed that if growth were achieved other objectives would also be met, including employment expansion and poverty reduction, through what came to be known as a «trickle-down» process. Economists' advice on how to achieve the growth objective had three main prongs:

- that industrialisation was an essential element in the process of catching-up developed countries (Prebisch, 1950; Singer, 1950; Mahalanobis, 1953; Lewis, 1954, Rostow, 1960);
- that surplus labour in agriculture provided a major potential resource (Nurkse, 1953; Lewis, 1954, Fei & Ranis 1964);
- that government intervention of various kinds was needed to tap this potential and promote industrialisation, including support for investment and protection against industrial imports (Rosenstein-Rodan, 1943; Hirschman, 1958).

Economists from both North and South accepted this pro-government, pro-intervention and pro-industrialisation stance, as well as the associated import controls. Prebisch, Mahalanobis and Lewis were the intellectual giants behind the strategy from the South. From the North, Nurkse, Rostow, Rodenstein-Rodan and Myrdal were prominent[3].

[3] Economists differed in their emphasis. The Lewis/Ranis-Fei model incorporated two key ideas —the potential use of surplus labour in agriculture and the role of industrialisation in growth. Prebisch and Singer were strong proponents of the need for industrialisation to counter deteriorating terms of trade for primary products; while Rosenstein-Rodan, drawing from Eastern European experience, emphasised the need for government intervention to overcome externalities; this was supported by Hirschman making the case for «unbalanced» growth.

These policies had the support of interest groups in both North and South. In the South, the elites saw opportunities for profits and power in developing industry, and workers stood to gain from industrial expansion, while the poor in agriculture —most likely to lose from the policies— were generally not organised for political or economic lobbying. In the North, support for development offered both economic and political benefits —markets for their products, a role for their companies and a weapon in the Cold War.

Policies in the 1950s and 1960s

«The need for development planning is well recognised» (Fei & Ranis, 1964, p. 199). Plans (typically five year plans) were introduced almost everywhere: for example, by Mahalanobis in India, Prebisch in Latin America and visiting economists, Seers and Lewis, in many African economies (see e.g. Killick, 1976). The state was given a major role in determining economic priorities via price and import controls, investment planning and sometimes as a producer. Policies promoted savings and investment, through state investment, especially in the underdeveloped infrastructure, and foreign investment was encouraged through a variety of tax incentives. Import-substituting industrialisation (ISI) was adopted based on high tariffs and quantitative import restrictions. Although the focus was on economic growth based on industrialisation, policies were also introduced to accelerate the development of the social sectors.

Consequences of the pro-planning pro-industrialisation policies

The policies adopted were in some ways remarkably successful. Savings and investment rates rose dramatically from the mid-1950s, industry grew and growth was sustained in most countries, while a few countries, notably Taiwan and South Korea, experienced spectacular growth rates. Social indicators, such as infant mortality and literacy rates, also improved.

But there were other developments that were less welcome. Population growth accelerated and growth in employment, especially in the industrial sector, lagged behind output. Un- and under-employment emerged as serious problems, partly a consequence of the very success of the policies in expanding output and employment in the industrial sector. The growth of employment opportunities together with a rise in real wages in this sector (partly due to the widespread introduction of minimum wages) increased job-seeking. As opportunities and real wages in the modern sector expanded, rural-urban migration increased, as did open urban unemployment and a growing urban informal sector[4]. Moreover, the incidence of poverty remained very high as a proportion of the population in most developing countries, while the absolute numbers of people falling below a given poverty line increased.

A dualistic pattern of development resulted, with a small relatively privileged modern sector leaving the rest of the economy with low incomes and investment. The ILO summarised the position: «[...] it has become increasingly evident, particularly from the experience of the developing countries, that rapid growth at the national level does not automatically reduce poverty or inequality or provide sufficient productive employment» (1976, p. 15). Put briefly, trickle-down from economic growth had been insufficient. Moreover, the economic independence sought was elusive, as dependence on developed countries for capital and technology remained.

Thinking in the late 1960s and 1970s

These consequences led to new thinking about development. Three distinct strands may be detected, each a reaction to different aspects of the development experience over the previous twenty years.

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[4] The Harris-Todaro model formalised this relationship —though omitting the informal sector— (1970).

First, some became concerned with the lack of economic independence achieved. This gave rise to the dependency school of thought, both Marxist and structuralist, by writers mostly from the South, such as Furtado, Sunkel, Amin and Frank —the last an American working in Latin America (Frank, 1969; Sunkel, 1969; Amin, 1974; Furtado, 1985). They focussed on the problems arising from the heavy dependence on developed countries in peripheral economies —for markets, technology, finance and managers— and argued for reduced links between rich and poor countries, although there were major differences within the dependency school (see reviews by Palma, 1978 and Oman & Wignaraja, 1991, chapter 5)[5]. The dependency school was dominated by scholars from the South, and its views were in no way shared by the donor community.

A second reaction to the events of the 1950s and 1960s, initiated in the 1970s but only becoming dominant in the 1980s, reflected the growing influence of monetarism and neo-classical economics in the North. The rapid and fairly egalitarian growth experienced in East Asia was contrasted with what was claimed to be a capital-intensive and elite-dominated pattern of growth in many other countries. It was argued that in most developing countries, the incentive system had been distorted by government intervention, the role of (imperfect) governments was too large and that of the market too small (Little, Scitovsky *et al.*, 1970; Balassa, 1971; Krueger, 1974). Criticism of the statist model came almost entirely from Western-trained economists, sponsored by major Western institutions —e.g. Organisation for Economic Cooperation and Development (OECD) and the World Bank.

[5] Some believed that the North-South relationship could be controlled by active policies; some that this was impossible because of the political consequences of dependency (e.g. Leys, 1975); while some thought that the North-South connection was ultimately progressive and would eventually lead to the emergence of a proletariat and revolution (Warren, 1980).

The third reaction to developments in the 1950s and 1960s saw the beginnings of a more human-centred approach to development and it is this which lay the foundations for the human development approach. In the light of the rising poverty and unemployment that had become evident in the 1960s, it was argued that countries had been pursuing *the wrong objective*: Seers pointed to the need to «dethrone GNP». «The questions to ask about a country's development are therefore: what has been happening to poverty? What has been happening to unemployment? What has been happening to inequality?» (Seers, 1972, p. 24). Broadly, following these questions, candidates for replacing GNP as the main economic objective were successively employment, redistribution with growth and the fulfilment of basic needs (BN). This rejection of growth as the major objective came primarily from the developed countries and international institutions. It was viewed less favourably by developing country governments.

The idea of making employment the major objective of development was initiated by Seers working with the ILO[6]. However, deeper analysis of the role of employment suggested that employment is generally not wanted in itself (indeed traditionally economics has regarded employment as involving *disutility* not *utility*), but rather for various benefits it confers, including income generation and recognition (Sen, 1975). Consequently, some types of employment which generated only very low incomes and little respect did not constitute an appropriate objective. Consequently, a second major ILO Employment Mission (to Kenya, led by Hans Singer and Richard Jolly) concentrated on productive employment, focussing on raising productivity and incomes of those already working (often in the informal sector) as much as

[6] Seers led an ILO Employment Mission to Colombia that made full employment its central objective and did not even include GNP projections in the main body of the report, though ironically an appendix showed that achievement of the full employment objective involved a substantial acceleration in growth of GNP (1970).

providing new employment for the unemployed (1972)[7]. Drawing on the Kenya Report, Chenery and others advocated *Redistribution with Growth* as the prime objective of development (Chenery, Ahluwalia *et al.*, 1979). This proposed to give priority to the incomes of the poor, by weighting them more heavily in measurement of incomes; and to achieve redistribution by siphoning off the fruits of growth in the form of investment resources for the poor, thereby permitting continued growth while gradually increasing the incomes of the poor as they acquired additional assets.

Yet are incomes, even incomes of the poor, an adequate objective? Incomes, it was argued, were not wanted for themselves but for the way of life they made possible. The poor had basic needs that should be met; income was a means rather than an end, and often not a very efficient means since some basic needs, goods or services were best provided by the public sector. Hence a Basic Needs approach to development emerged, first in the ILO, then taken up by the World Bank (see ILO, 1976; Streeten, Burki *et al.*, 1981; Stewart 1985).

Each of these approaches was a reaction to the consequences of the previous growth-focussed development strategy: the dependency approach to the evident failure of developing countries to become economically independent or to achieve favourable terms of trade, market and technology access, despite industrialisation and economic growth; the anti-planning reaction, to the perceived inefficiencies of the growth strategy; and the nexus of employment/redistribution/basic needs approaches to the failure of the growth strategy to deliver in terms of human needs and distribution.

7 This approach was revived by the ILO in the 2000s, also in reaction to unsatisfactory employment growth, as a need for «decent» employment.

Policies in the 1970s

The *dependencia* approach had most influence on policies in the 1970s, though its effects were short-lived. The neo-liberal philosophy only began to influence policy-making significantly in the 1980s and the import-substitution and planning policies continued to work quite well in the 1970s sustained by international borrowing, with support from powerful local interest groups. Most developing countries continued their previous inward-looking macro-economic and interventionist policies over this period. The BN approach had a strong, but short-lived, influence on *donor* philosophy, but limited impact on developing country policy.

The underlying belief of the dependency school was of gross unfairness in the world's economy, with a bias against the South: this formed the background to the Organization of Petroleum Exporting Countries (OPEC) as well as to the claims for a New International Economic Order (NIEO) put forward by the G-77 in 1974, which contained demands for improved terms for developing countries, including on market access, terms of trade, terms of technology transfer and aid. Besides OPEC activities, other policy manifestations of the dependency approach were restrictions on direct foreign investment and controls over technology transfer, adopted most comprehensively by the Andean Pact countries and India.

Neither the employment objective, nor redistribution with growth significantly affected policy, the latter perhaps because of a basic political flaw in its reasoning: that once elites have secured large benefits from growth they were unlikely to allow these benefits to be taken away and redistributed to the less well-off as required by the strategy. The BN approach was widely adopted by the international community, first the ILO, then by the World Bank under MacNamara as well as by major bilateral aid agencies and some of the special agencies of the United Nations which introduced a series of BN-style targets, such as universal primary health-care and universal primary education. But developing country governments were in general more impressed by the conclusions of the dependency school, and viewed the BN approach as an excuse by the advanced countries to avoid their demands for a New International Economic Order. Nonetheless, although few developing countries accepted the approach fully, evidence shows that there was some acceleration in improvements in human indicators over this decade. Aid was also redirected towards agriculture and the social sectors, and away from support to industry.

Consequences of OPEC actions

It was the *dependencia* thinking that had the largest effects. In the sellers' market created by high world demand, the belligerent attitude of the oil producers led to the major oil price rise of 1972-73[8], creating large imbalances in the world economy and inflationary pressures in developed countries. Most oil-importing developing countries borrowed to finance the resulting trade deficits, leading to a massive accumulation of debt as well as rising budgetary and trade imbalances, made worse by a further increase in oil prices in 1978-1979. In developed countries, inflation rates accelerated reaching unprecedented levels. These changes were influential in generating a major turnaround in thinking in dominant developed countries in the early 1980s, and subsequently in developing countries.

Development thought in the 1980s: the dominance of neo-liberalism

The first revolution in thinking occurred in developed countries. With a radical change in the political complexion of governments in the US and UK, partly due to the electorates' response to the rampant inflation, economic philosophy changed too. Milton Friedman replaced Keynes

[8] Crude oil prices rose four-fold in 1972-1973, and more than doubled in 1978-1979.

(Friedman, 1969). Ronald Reagan and Margaret Thatcher espoused monetary policies, abandoning Keynesianism, in principle, if not always in practice[9]. This had the immediate effect of raising world interest rates, ushering in world recession and causing a downward movement in commodity prices. The rise in interest rates and worsening terms of trade that resulted meant that many developing countries could no long afford to service their debts and had to turn to the International Financial Institutions, the IMF and World Bank, for assistance. Latin America and Sub-Saharan Africa were most affected. Asia generally had avoided a debt accumulation in the 1970s and countries there were able to retain more autonomy.

The view that the state in developing countries had overreached itself had already been argued by a succession of pro-market analysts in the early 1970s. The discrediting of what came to be termed «dirigisme», with the view that government failures usually outweighed market failures, was carried further in the early 1980s (Little, 1982; Lal, 1983). A monetarist, anti-government, pro-market *laisser-faire* philosophy became accepted by major developed countries and permeated aid agencies and educational establishments in developed countries and then the «technocrats» in developing countries who were mainly educated in these establishments.

Policies consequences of neo-liberalism

By 1980, the anti-state, pro-market philosophy had been adopted by the World Bank, whose power over policy-making in developing countries greatly increased with the onset of an acute debt crisis in the early 1980s and the initiation of structural adjustment loans. While the World

[9] Margaret Thatcher did succeed in slowing down the growth in the money supply and securing a budgetary balance. Reagan pursued monetary policies to the point of generating high interest rates. But budgetary and trade imbalances exploded in a most Keynesian way.

Bank emphasised deregulation, reduced price controls, subsidies, tariffs and the elimination of restrictions against direct foreign investment, the IMF promoted the monetarist view —that the prime objective of macro-economic policy should be to eliminate budgetary and trade imbalances through tight control over the budget and money supply— the policies together were conveniently labelled by Williamson (1989) as «the Washington Consensus». Considerations of poverty reduction or basic needs virtually disappeared from these institutions. The IFIs' growing control over policy-making in developing countries was a major reason why monetarism and deregulation were adopted in the majority of developing countries over the course of the 1980s. There was a massive switch in policies with some countries adopting the Washington Consensus policies independently of the IFIs[10].

Consequences of stabilisation and adjustment policies in the 1980s

For the regions most subject to Washington tutelage —Africa and Latin America— the stabilisation and adjustment policies were accompanied by falling GDP *per capita* for much of the 1980s, worsening income distribution, falling real expenditure per head on the social services, in many countries with quite a sharp rise in both private and social poverty (Cornia, Jolly *et al.*, 1986). There was evidence of rising malnutrition in many African countries. Educational enrolment and achievement fell as well as investment rates In a number of Latin America and African countries. Yet despite strong efforts, the macro-imbalances were mostly not eliminated, as falling commodity prices and continued accumulation of debt made the situation more difficult. Both «adjusting» and «non-adjusting» countries did poorly[11].

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[10] See e.g. Williamson (1990), World Bank and UNDP (1989), Dean, Desai *et al.* (1994); for evidence of the advance of these policies in Latin America and Africa.

[11] Kakwani (1995) finds that countries with adjustment programmes made less progress on social indicators than countries without such programmes; but see also Sahn and others (1997) argue for Africa that adjustment programmes tend to benefit the poor.

The large and widespread rise in absolute poverty in Latin America and Africa gave a major impetus to the recognition of the need for a change in both objectives and mechanisms.

New thinking in response to the adjustment era

As with the 1970s, we can detect three different types of response to the stabilisation era: one was increasing recognition of the deficiencies of the rather simplistic neo-classical model underlying the Washington Consensus policies; the second was recognition of the need for a much greater focus on poverty reduction; and the third was advocacy of a major change in development objectives, again away from incomes, this time towards human development and the expansion of capabilities.

Theoretical critiques of the model

Over this period, there were a large number of criticisms of the validity of the neo-classical model —from both an empirical and a theoretical perspective. One criticism of the model was its failure to capture essential elements of the successful East Asian cases[12]12. In both Taiwan and Korea, the governments were shown to have played a much more active role than allowed for in the market model, while high savings and investment —public as well as private— and high levels of human resources were also demonstrated to have been an essential feature. Moreover, the relatively weak economic performance of many of the «adjusting» countries also led to doubts about its validity.

For criticisms of the latter's model, see De Maio *et al.* (1999). Numerous studies of the macro-effects of stabilisation and adjustment policies, by the IFIs themselves and by academics, have come to mixed conclusions on their effects. IMF assessments tend to suggest somewhat negative effects on growth, while the World Bank suggests slightly positive effects compared with an estimated 'counterfactual'. Effects on investment were negative. See e.g. Khan and Knight (1985), Khan (1990), Killick and Malik (1995), Mosley, Harrigan *et al.* (1991). Most studies have been unable to find significant positive effects in Africa.

[12] 12 E.g. by Wade (1990), Pack and Wesphal (1986), Amsden (1989), Lall (1994).

The initial premise was that growth and equity would improve in a liberalised economy (e.g. Little *et al.*, 1970). Macro performance did not live up to the promise of the neo-classical critique. There was a fall in investment rates and *per capita* output in «adjusting» regions during the 1980s. Economic growth in the 1980s in Africa and Latin America was low, and despite some recovery in the 1990s still did not attain the rates of the 1960s and 1970s. Only China and India —each with extensive government intervention in the economy— showed accelerated growth. Destabilising fluctuations in private capital flows in the 1990s —notably in Mexico and East Asia— following the liberalisation of capital markets also led to widespread questioning of this aspect of the model, and the advocacy of capital controls and/or a tax on international capital transactions (Haq, Kaul *et al.*, 1996; Fitzgerald, Centro Studi Luca d'Agliano *et al.*, 1998; Caprio, Honohan *et al.*, 2001).

There were also critiques of the underlying theoretical structure of the neo-liberal model. One concerned the premise that economic agents were exclusively short-term maximisers: long-term self-interest, altruism, a sense of identity and community were also shown to influence behaviour[13]. The model's assumptions about information were also shown to be deficient (Stiglitz & Weiss, 1981; Stiglitz, 1994). New developments in growth and trade theories emphasised the importance of learning, economies of scale, oligopoly and externalities (e.g. Helpman & Krugman, 1986; Roemer, 1986; Lucas, 1988). The major policy thrust of these theoretical criticisms is the need for a more active role by the state than in the neo-classical prescriptions. These theoretical developments generally concerned mechanisms rather than objectives, and mainly accepted economic growth as the basic objective. Their criticism of the model was in large part from

[13] For an overview, see Alkire and Deneulin (2002). Recent developments in behavioural economics endorse the view that most people are not short-term maximisers.

the perspective of *efficiency*. However, they did put strong emphasis on human capabilities as a *source* of economic growth. This is most clear in the «new growth theories» where technical change broadly depends on human capacities.

A renewed focus on poverty reduction

The 1980s stabilisation and adjustment policies were heavily criticised for the rise in poverty that accompanied them (Cornia, Jolly *et al.*, 1986). From 1990, poverty reduction became a central objective of the World Bank starting with the 1990 poverty-focussed *World Development Report*. World Bank President Lewis Preston declared that «poverty is the benchmark against which we must be judged». Similar changes occurred at the IMF. In 1990 Camdessus, Managing Director of the Fund, acknowledged that «macroeconomic policies can have strong effects on the distribution of income and on social equity and welfare. A responsible adjustment program must take these effects into account, particularly as they impinge on the most vulnerable or disadvantaged groups in society» (Speech to US Chamber of Commerce, 26/3/1990). Each IMF country mission was required to report on the poverty implications of country programmes. Williamson himself revised the proposed content of the «Washington Consensus» to include poverty reduction and investment in human resources (Williamson, 1997). Despite this important shift to focus on poverty, the IFIs continued to define poverty in monetary terms, introducing the Dollar a day poverty line.

Changing the measure of progress: capabilities and human development

A much more radical change —which echoes some of Seers' much earlier writings, the ideas behind basic needs, and the proposal of (Morris, 1977) to measure progress by a physical quality of life index (PQLI)— was to reassess the metric by which progress is measured.

For humans to flourish, money incomes —even incomes of the poor— are a highly deficient indicator. There are multiple dimensions to living flourishing lives; and consequently, to assess well-being or deprivation, a much richer multi-dimensional set of indicators is needed than simply incomes. Sen powerfully argued that a flourishing life requires an expansion of capabilities —what people can be or do (Sen, 1980, 1999); similarly, the BN authors proposed that the development of a «full life» involved multiple dimensions (ILO, 1976; Streeten, Burki *et al.*, 1981; Stewart, 1985). To achieve conditions which promote human flourishing, «Income is a means not an end» (UNDP, 1990, p. 10). Income is needed to buy essential commodities, but so is an effective state providing comprehensive basic services and social institutions which support a well functioning society in which humans can flourish in multiple ways (Fei, Ranis *et al.*, 1985; Stewart, 2013).

The *Human Development Report*, first published in 1990, combined Sen's capability approach and the BN focus on the needs of the most deprived. The first report stated: «The basic objective of development is to create an enabling environment for people to live long, healthy and creative lives» (UNDP, 1990, p. 9). The view that human development consisted in the expansion of choices people have to do and to be a variety of things was derived from Sen's capability approach. The strong focus on the need to give priority to improving the conditions of the poor, and a concentration on goods and services for the poor, reflects the basic needs approach. Or, in capability terms, the focus is on the failure of some basic capability to function, where basic capabilities (very similar to basic needs) are «intended to separate out the ability to satisfy certain elementary and crucially important functionings» (1992, p. 45).

Perhaps the most important contribution of the human development approach, as embodied in successive Human Development Reports, has been to achieve growing acceptance that monetary income and GNP *per capita* is inadequate as the exclusive way of assessing outcomes, even when income is adjusted to allow for its distribution and measures of income poverty are included. The first report introduced the multidimensional Human Development Index (HDI) as a rough measure of human development across countries. Though it is agreed by all, including its initiators, to be a very imperfect measure of human development, the HDI has come nearest to achieving Seer's objective of dethroning GNP, while the multidimensional poverty indicator (MPI) has done the same for the measurement of poverty (Alkire & Foster, 2009). Of course, this does not mean that monetary incomes and GNP can be neglected —economic resources provide a fundamental means to achieve human development, while human development in turn feeds into higher growth (Ranis, Stewart *et al.*, 2000). But it does mean that well-being assessments should give priority to what happens to human lives, rather than what happens to the economy, and this has important implications for policy choice and sequencing.

Developments since the 1990s

Human Development and poverty reduction have gained a central role in policy since 1990. These objectives secured global acceptance with the Millennium Development Goals (MDGs) agreed in 2000. These goals include halving poverty by 2015 as well as a number of specific goals which would contribute to HD, such as towards improving maternal mortality, education and so on. The MDGs do not refer to income *per capita*, indicating a displacement of income by human-centred objectives. A new set of global development goals seems likely to be adopted post-2015, with continued central focus on multidimensional human objectives and on deprivation, although these seem likely to include «inclusive» growth as one of the principles[14].

[14] According to the 2013 Report of the UN High Level Panel Report on the Post 2015 Development Framework.

As an indication of the increasing acceptance of HD, many countries produced National Human Development Reports, and measures of MPI are increasingly being adopted alongside (and sometimes instead of) income poverty measures. This does not mean that GNP has been altogether displaced, but it is increasingly seen as a means to achieve human-centred objectives rather than an end in itself, for developed as well as developing countries. For example, a commission on the measurement of economic performance and social progress, instituted by President Nicolas Sarkozy, entitled its final report «Mis-measuring Our Lives: Why GDP Doesn't Add Up» (Stiglitz, Sen *et al.*, 2010). Among developed countries there is increasing acceptance of the view that subjective measures of well-being (measures of «happiness» or «life satisfaction») should supplement if not supplant income as a measure. (Easterlin, 2001; Layard, 2011). At the same time, the growing environmental pressures have led to the idea that any measure of progress, whether incomes, HD or happiness, must be «sustainable». The Sarkozy commission report includes all three elements, without reconciling them.

However, while there has been much progress in terms of changing the objectives, there has been less in changing policy. The most important concrete achievements of the HD approach are a rise in the proportion of resources low human development countries and donors devote to social expenditures and extensive introduction of cash transfers and other social protection programmes (Barrientos, Hulme *et al.*, 2008). In general, there has been progress in meeting MDGs, though some countries (and some targets) are «off track» (Fukuda-Parr, 2012; UNCTAD, 2012). Yet, there has been very little change in the thrust of economic policy —either in terms of the role of the market, or in relation to macro-economic stabilisation policies. One reason for this is that the analysis of human development has rarely explored what the approach means for macro-economic management, incentives and the allocation of resources or the role of the market.

In addition, of course, interest groups are particularly powerful in these areas which would make any challenge to conventional pro-market thinking especially difficult to achieve. Nonetheless, the financial crisis of the 2000s showed that developing countries were more expansionary and protected their social expenditures to a greater extent than in the debt crisis of the 1980s (Stewart, 2012; Martorano, Cornia *et al.*, 2013).

Conclusion

This paper has traced the source of ideas of human development over a fifty year period, showing how they emerged as a result of problems arising from previous approaches to development as well as intellectual advances. History continues to evolve and so do ideas. Today the biggest challenges to the approach are two-fold. First, to identify human-friendly economics, as achievements are being threatened by conventional austerity economics; and secondly, to incorporate ideas of sustainability into the approach, since environmental pressures, especially arising from global warming, represent the greatest threat to human development.

Although the idea of human development has gained widespread acceptance, major progress faces several constraints. First, most economic policy continues to be market-dominated, often leading to worsening income distribution (see e.g. Berry & Stewart, 1999; Morley, 1995; Cornia, 2004; Ball, Furceri *et al.*, 2013). At a macro-policy level, countries continue to be encouraged to adopt familiar «austerity» programmes in the face of economic fluctuations and crises. Secondly, exogenous or near-exogenous developments —notably HIV/AIDS, natural disasters and civil war— are having a serious deleterious impact on human development. Their incidence is worsened by rising inequality and adverse environmental effects.

The donor community is thus giving mixed messages on human development and poverty. On the one hand, the general idea that human development should be promoted and poverty reduced is generally agreed, and numerous programmes that promote human development receive support at a micro-level. But on the other hand, the pressures for more liberalisation in the economy and for orthodox macro-adjustment have continued unabated; these are not supportive of human development and can indeed threaten progress. Ironically, competitive pressures by the global economy have the same effect: there is downward pressure on taxation and expenditure so that economies remain competitive in the short-term, yet in the longer-run promoting human capacities through investment in education and health are essential for sustaining growth.

Developing countries themselves, of course, filter these contradictory messages though their own political systems. All are being pushed in a similar liberalising direction, but the pace of change varies, and some countries with progressive governments and strong traditions of supporting human investments succeed better than others in promoting human development (Ranis & Stewart, 2002). In Latin America, a number of countries have seen improved income distribution and social achievements in the 2000s (Cornia, 2011).

Nonetheless a major challenge for the HD approach is to change the process of development in an HD-supporting direction, as well as the objective. This requires a more radical rethinking of economic models, and more radical changes in the economic system than has been achieved hitherto.

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