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JOSÉ CARLOS ORIHUELA / JOSÉ IGNACIO TÁVARA
(editores)

PENSAMIENTO ECONÓMICO Y CAMBIO SOCIAL: HOMENAJE A JAVIER IGUÍÑIZ



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José Carlos Orihuela y José Ignacio Távara (editores)

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Av. Universitaria 1801, Lima 32, Perú
Teléfono: (51 1) 626-2650
Fax: (51 1) 626-2913
feditor@pucp.edu.pe
www.fondoeditorial.pucp.edu.pe

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A SOCIAL ECONOMICS FOR HUMANE AND SUSTAINABLE DEVELOPMENT

Charles K. Wilber

INTRODUCTION

Is development more than an economic process? Does economic development itself entail and/or require cultural and political change? Is the impact on human dignity of economic development policies an important criterion of success? Does development raise ethical issues as well as economic ones? Is the consumer-driven development in the advanced countries an appropriate model for developing countries in the globalizing world of today? These are among the core questions that social economists debate when considering the meaning and purpose of development. For example, see the work of Javier Iguíniz (2006, 2010), Denis Goulet (1978, 2006), Pete Danner (2002), James Weaver (2004), Kenneth P. Jameson (1989) and Charles K. Wilber (2008-2009, 2011). How social economists differ from mainstream economists will be discussed later but first the historical background to modern development needs to be explored.

HISTORICAL BACKGROUND

To begin the exploration of the role of cultural and political variables in development, it is worthwhile to briefly review the rise of the modern economy in the Western world. Two facts stand out from an examination of the history of modern market-driven development. First, it has succeeded in producing quantities of goods and services unprecedented in history; second, it has done so in a temporally and spatially uneven manner. The economies of some nations take off into a self-sustaining growth, with other nations eventually catching up. Still others, the loosely called «developing countries» seem to have been left hopelessly behind until 50 years ago. This pattern has occurred across nations, across regions within nations, and even across industries.

Most historians, whether their orientation is political, cultural or economic, recognize that the eighteenth century was a turning point in the nature of the Western world that saw momentous movements and events —intellectual, political, military, social, cultural and economic. In economic affairs, the eighteenth century began with Francois Quesnay's campaign against mercantilism and ended with the completion of the campaign by Adam Smith. In the process, the classical school of economics, a new social science, came into being. Finally, in the course of the century, the agricultural and commercial revolutions of the previous two centuries initiated the Industrial Revolution in England that formed the basis of our modern economies.

Now that self-regulated market capitalism had arrived, what were its characteristics? In its textbook purity, a free market economy is controlled, regulated and directed by markets alone. Socially beneficial outcomes in the production and distribution of goods are entrusted to this self-regulating mechanism, based on the expectation that human beings behave so as to achieve monetary gains.

In contrast, during preceding historical periods (and even today in many of the poor countries), markets were never more than accessories of economic life. Instead, the economic system was embedded in the

social-cultural system. In places like Babylonia and Greece the local markets (trading centers) were compatible with the established social way of life; markets did not expand at the expense of the society. Even under the mercantile system of the previous two centuries, where markets had expanded to involve a large part of the nation, they were not free markets, for they were subjected to centralized administration. Karl Mannheim argued that the move to self-regulating markets entailed a transformation from a regulated and socially-controlled mechanism into the very organizing principle of society itself (1950, p. 191).

Moreover, such a market-first institutional pattern cannot function unless other aspects of a society's life are subordinated to its requirements, which is what happened over time in today's developed economies. A market economy can only exist in a market society and the requisite process of social, cultural and institutional change evolved in conjunction with the transition to a market economy. Nations wanting to catch up economically are thus naturally led to the question of how such a market society can be created in countries far removed from Western culture and in a time span shorter than the century or two that was required in Europe. On the heels of this question, another follows close behind, which is whether the creation of such a market society should even be a goal of development. Needless to say, there is substantial disagreement over these questions.

For mainstream economists the interest in cultural and political issues has centered on its support of traits that contribute to economic growth, i.e. thrift, hard work and reinvestment by the middle class; hard work, obedience and contentment for the working class. The key is to discover the historical role of culture in generating the capitalist spirit of entrepreneurship. For example, what were the psychological conditions —the capitalist spirit— that accompanied and aided the development of a thriving market economy?¹ Greed and the pursuit

¹ The basic sources for this section are Tawney, 1926; and Weber, 1958.

of riches are nothing new. Money lending, commercial trading, piracy, plunder and other forms of unrestrained avarice are as old as history. But a way of life based on the rational, calculated pursuit of pecuniary profit through Smith's «truck, barter and exchange» and its organization into an economic system using free wage labor is a modern phenomenon.

It was only after centuries of struggle that capitalism established its claim to legitimacy, for it involved a code of economic behavior and a system of human relations sharply at variance with traditional religious customs and values. Originality, self-confidence and tenacity of purpose were required to initiate and carry on this struggle. This was the role of entrepreneurs. They emerged partly because changing economic conditions helped the Reformation succeed and helped shape the development of new theologies and creeds. In turn, the emerging religious beliefs helped direct and shape the subsequent economic development. Economic reasons alone are insufficient to account for the extraordinary power of entrepreneurship and rational profit-seeking in the modern world.

ECONOMIC DEVELOPMENT IN THE POST-WAR PERIOD

Modern development economics was born after World War II with the acceptance of the inevitability of political, social and economic change in the non-industrialized countries. The problems of the poor countries of Southeastern Europe were the genesis of much of the initial work, and then the success in rebuilding Europe and Japan emboldened development economists to extend their work to the rest of the world. The break-up of the English and French colonial empires added further emphasis to issues of overcoming poverty. The growing cold war between the United States and its allies against the Soviet Union and its allies helped focus development attention on strategic areas of the so-called Third World. Development thought incorporated an optimism that change could be for the better and

that conscious reflection on and control over change, often through national governments and international organizations, could harness change and bring about development.

Thus the 1950s and 1960s were marked by optimism that world poverty could be conquered by economic growth. Since economists assumed that the question of the nature of a good society was already answered, the issue became one of solving certain practical problems. The good society was simply assumed to be an idealized version of the United States economy, that is, a market economy driven by a consumerist society. The key to a consumer society was growth of *per capita* income. Thus the vast bulk of the development literature focused on economic growth rates as a *deus ex machina* to solve all problems.

In the less developed countries of the world the 1970s saw the hope that poverty would be conquered quickly dashed by growing unemployment and inequality and the intractability of absolute poverty. However, the 1970s also witnessed the birth of a new optimism to replace the old. The pursuit of «growth with equity» or a strategy of targeting «basic human needs» would succeed where economic growth failed.

The 1980s ushered in a period of greater caution. It became widely recognized that world poverty would not be eliminated with simple economic panaceas. Resource shortages (particularly of energy), environmental destruction, rising protectionism in the industrial world, militarism in the Third World, the international arms race and the structure of the world economy all made the design of development strategies a complex problem in political economy rather than a simple technical economic issue.

The 1980s' loss of momentum, of hope in development, and of the courage to proceed stimulated free-market economists to attack development economics, attributing slackening development to the interference of government in the normal functioning of the economy,

in particular to distortions of the resource allocation role of prices. Out of the debt crisis of the 1980s came the so-called Washington Consensus² of economic development policy-makers.

This free market stance gained wide acceptance among economists who worked on Third World countries. In part this was a reflection of the World Bank's growing role in research on economic development. Unfortunately, the post-war decade of poorest development performance, the 1980s, was the decade the Bank's program was implemented most widely.

By the end of the 1990s the Washington Consensus began to fall apart. Economists became more aware of the problems created by fast economic growth and slow social change, as well as the difficulty of defining development correctly. Development economics had to learn that «all good things do not go together», that rapid growth and economic development may be accompanied by severe social and political problems such as the loss of deeply felt cultural values, the breakup of community, and the emergence of authoritarian governments.

It is now into the second decade of the twenty-first century, a time when the old verities are collapsing. The rise of the BRICs —Brazil, Russia, India and China— using a wide variety of development approaches dominates development discussions. The cold war is a distant memory, the Eastern European countries have moved from centrally-planned economies of the Soviet type to market-oriented less developed countries. Regional and ethnic conflicts have moved to center stage in the international political arena with the most notable

² The term was coined in 1989 by John Williamson, of the Institute for International Economics, to describe the conventional wisdom at the U.S. Treasury Department, the World Bank, and the International Monetary Fund on policy reforms that would aid development in Latin America. Over time the term took hold in public debate, where the Washington Consensus became synonymous with market fundamentalism, globally applied. A short-hand term was «get your prices right».

examples being the wars in Iraq and Afghanistan, the internal conflicts in much of the Middle East, in Somalia, Rwanda and much of Central Africa.

Despite all this, much has been accomplished since 1945. There has been rapid growth of GDP throughout the world, infant mortality has decreased dramatically, and life expectancy has increased rapidly, while access to education has been extended far beyond what would have been imaginable in 1945.

CONSUMPTION-DRIVEN DEVELOPMENT

The over-riding reality of today's world is the factual interdependence among the peoples of that world brought about by globalization. Promoting the consumerist development model of the advanced countries is suspect in a world of an ever-increasing demand for scarce resources.

While there are a number of reasons to be concerned with the role of consumerism in the development process, there are three that are most prominent. First, while it is recognized that development helps people by creating jobs, excessive consumption by some individuals and nations while at the same time other individuals and nations suffer from want is ethically problematic and frequently counterproductive. Second, an excessive focus on individual consumption as the engine of development can threaten the Earth's environment, and thus is not only ethically unacceptable but again counterproductive. Third, treating consumption as the primary goal of development—that is, focusing on *having* instead of *being*—fails to respect human dignity and the culture of which it is a part. These are issues embraced by social economists but discussed warily, if at all, by mainstream economists.

While all three issues will be discussed, at least briefly, it is this third concern that will receive the most attention.

SOCIAL ECONOMICS

Many social economists question the free market model with its emphasis on fulfilling consumer preferences as the primary criterion of human welfare and as the engine of economic growth and development. The hardcore premises of social economics in contrast to mainstream economics are:

1) the person is the basic unit of the economy, 2) who acts freely but within certain limits, self-interestedly but often with regard for others, and calculatedly but at times impulsively, whimsically, or altruistically, in a self-regulating economy which from time to time must be constrained deliberately in order to serve the common good³ and to protect the weak and the needy, 3) whose economic behavior is grounded in reason and in faith⁴, changing as economic conditions change but at times reflecting moral rules and principles, predictable and unforeseeable, and knowable with mathematical certainty and empirical precision but sometimes mysterious and beyond human understanding, and 4) whose worth at times may be construed instrumentally but finally is not reducible to economic calculus because it rests squarely on the conviction that humans have a worth and dignity beyond measure (2007, pp. 1-2).

³ The common good is defined by Dempsey (pp. 272-273) as the fulfillment of the needs of human beings which arise from their living together, as in the case of public health, instead of each one living alone. Two characteristics set these needs off: (1) they are common to all, and (2) they can be met only through the united efforts of all members of the community acting together. The fulfillment of these common needs depends critically on each person contributing to the community because the community by itself has nothing to contribute to its members apart from what its various members contribute to it (Dempsey, pp. 219-220). Thus is the common good dependent on contributive justice.

⁴ Reason discovers truth from direct, personal experience; faith accepts truth on the word of another.

These premises explain why social economics sees the economic world differently and approaches policy questions differently from mainstream economics. To them:

[...] Economic acts are both moral and economic. They are economic in that they are necessary means for persons to act and survive. At the same time the acts are moral or immoral insofar as they relate to dealing justly with other people and in using material things as means to their ultimate good and purpose. Thus economics is both a praxis and a science... As a science it... may be correct or incorrect but not morally right or wrong. As a praxis, however ... economic acts or economic conduct... can also be judged unjust, imprudent, intemperate, and in general moral or immoral (Danner, 2002, p. 44).

Instead of the neo-classical *homo economicus*, social economists focus on the whole person, sometimes labeled *homo socio-economicus*⁵. This enables them to utilize concepts usually excluded from mainstream economics: needs, power, equity, gender, culture, family, institutional context, among others. This focus requires social economists to incorporate value frameworks that include the use of terms such as fairness, human dignity, human rights, and the common good.

Clearly the view of human behavior in social economics is much richer than in neo-classical economics but that very richness of detail causes problems for economic research and policy-making. The power of the rational actor model is that its simplicity lends itself to formal modeling and empirical research in a way impossible for the more complex models of social economics. But is there really an advantage?

⁵ However, of late, O'Boyle has been using instead «the acting person» and «the person in action». See his article in *Markets and Morality*, 2007. The reasons are to underscore the difference between the individual and the person and to highlight *acting* as critical to *being* more. Also see Danner's *The Economic person*.

The collapse of the Washington Consensus has opened up the debate on best approaches to development. No longer do the prescriptions of free-market economists hold sway without question. More and more policy proposals on development issues recognize the problems of consumerism, sustainability and human dignity posed by social economists.

DEVELOPMENT ETHICS

For social economists, economics and ethics are inherently intertwined (see Dutt & Wilber, 2010). Development ethics, as espoused by social economists, is closely connected with all the themes on the meaning of development but goes well beyond them. This section briefly examines the main themes of development ethics that are found in the writings of social economists working on development.

First, social economists are concerned not so much with economic growth *per se* but with the increase in the material well-being of the poor. But they go beyond that. For instance, they engage in ethical discussions of why one should care about the poor. Goulet, for example, argues that individuals, groups and nations who are better off have obligations to those who are worse off, calling this «solidarity». One can provide religious and philosophical justifications of absolute respect for the dignity of the human person, regardless of gender, ethnic group, social class, religion, age or nationality. But Goulet also argues that such obligations follow from some empirical realities; that is, the fact that the rich and poor are involved in one socio-economic unity and that the activities of one group have important effects on the other. For this reason all groups have a responsibility towards others. Since the rich arguably have a larger influence, they may be held to be especially responsible for the poor. These concerns are relevant not only within countries but also between countries, especially in the context of globalization (see Goulet, 2002).

Second, there is a stress on the environment, not only because of the contribution that it makes to material well-being—an issue which is often stressed by mainstream economists and that was mentioned above—but mainly because of its intrinsic importance. There is a recognition of a relation of human beings with nature, facilitating responsible use, respectful of biological cycles and the equilibrium of ecosystems—especially those of tropical forests—and in solidarity with future generations.

Third, development is much more than material well-being. It incorporates other changes including, particularly, that of values. Goulet (2006) has argued forcefully that development is fundamentally a question of human values and attitudes, goals defined by societies for themselves, and criteria for determining what are tolerable costs to be borne, and by whom, in the course of change. Modernization is not the goal if it is imposed from outside, especially if it destroys values that are of central importance to those who are experiencing development. Social economists also acknowledge the problems of over-consumption. Material goods, of food, housing, medicine and for security, are important because they contribute something essential to human well-being. They also argue against ever-increasing consumption of material goods and consumerism, where the focus is on «having» and not «being» (Wilber, 2011). While for many people this view of materialism and consumerism has religious overtones, recent research on subjective well-being also points out that beyond a certain level of income and consumption further increases do not add significantly, or sometimes not at all, to increases in happiness (see further discussion in the section on globalization below).

Fourth, if development is recognized as a means to an end, what is it a means to and how do we find out these ends? Social economists go well beyond the technical focus of much of the literature on the meaning of development by proposing ways in which one can select and weight different ends so they can be included in the concept

of development. Some, such as Goulet, focus on religious traditions because of the major hold they have on many societies, but argue for an enlightened and critical borrowing of these traditions such as that espoused by Mahatma Gandhi rather than a fundamentalist one (Goulet, 2005). More importantly, they recommend that development scholars and practitioners examine what people in developing societies, especially the poor who are not trapped by vested interests, want. They argue that authentic development occurs only when people themselves decide what they mean by development (Goulet, 1989; Wilber, 2011).

Not only do mainstream economists and social economists have different views of human nature and the role of ethics but they work out of different conceptions of history—one of historical progress versus one less deterministic, more convoluted.

CONVOLUTED HISTORY, CONVOLUTED DEVELOPMENT

The starting point for thinking about development is usually some conception of history. Social economists claim that we must be wary of the view of historical progress that is common to both mainstream economics and Marxian political economy. History as we live it simply does not seem to be moving in that direction. The parable of historical progress is a metaphor that may be useful in studying an abstraction—civilization or socialism—but it is misplaced in studying the actual development of a particular country such as Peru or Uganda.

Nisbet summarizes the difficulty succinctly and elegantly:

The relevance and utility of the metaphor of growth are in direct proportion to the cognitive distance of the subject to which the metaphor is applied. The larger, more distant or more abstract the subject, the greater the utility of metaphor-derived attributes. [...] It is something else entirely, however, when we try, as much social theory at present is trying, to impose these concepts of

developmentalism upon, not constructed entities, but the kind of subject matter that has become basic in the social sciences today: the social behavior of human beings in specific areas and within finite limits of time. Efforts to extract this further from the metaphor of growth are [...] wholly unsuccessful (1969, pp. 267-268).

It might be revealing to examine an alternative view of history, one which comes out of the writings of the Latin American novelist, Gabriel García Márquez. In his major work, *One Hundred Years of Solitude*, García Márquez provides us with a parable of Latin American history since independence which is quite at variance with the progress notion. History moves forward, progresses, but it is always doubling back upon itself. In some cases the march of history gets mixed up and only later resumes its «natural» course. This view we can call «convoluted history» (see Jameson, Weaver & Wilber)⁶.

Let us briefly review the story of the book to aid our understanding. It is the history of a village, Macondo, from its founding to its demise, as seen through the eyes and lives of one family, the Buendias. Ostensibly there is the progress which we call development. From an obscure, virtually deserted swamp Macondo grows and its people prosper. Macondo experiences technical or scientific progress as new inventions become known: ice, the astrolabe, the pianola. It experiences economic progress as the diversity of activities increases, the capstone being the arrival of a banana company which raises *per capita* GDP substantially. It also experiences political modernization as the national political structure develops and incorporates Macondo into its bosom.

Throughout these experiences of progress, there are doubts. The inventions of science, known for years elsewhere, are used by the gypsies to dominate the people of Macondo. The banana company effects substantial changes in the town and the people; but when the company

⁶ This section draws on the interpretation of Marquez by Professor Kenneth P. Jameson.

cannot have its own way, it leaves town and calls down a tremendous rain which «purifies» the town of its past. In addition, the political structure is often quite repressive and unresponsive.

But the real questioning of historical progress comes from viewing the lives of the Buendias. Every generation has two recurring tendencies. One is the «Aurelio» tendency, calm and reflective, given to studying the historical manuscript of the family, yet when challenged, able to react with fury. In one case the fury was so great as to drive Colonel Aurelio to lead thirty-two unsuccessful rebellions.

The other recurring tendency is the «Jose Arcadio» tendency. This describes modernizers, the entrepreneurs, who participate and enjoy the new changes which history is bringing them, and usually die a violent death. But history is more complex than simply continuity and repetition. For at one point the twins, Aureliano Segundo and Jose Arcadio Segundo, are mixed up; and they live part of their lives acting as the other. Finally history triumphs and brings them back to their own nature.

But underlying the currents of history is one consistent concern: the attempt to understand and to decipher the parchments left by Melquiades the gypsy. There is a gradually growing understanding, which reaches its fruition when the last Aureliano, Babilonia, learns to read the parchments which are the entire history of his family condensed into one moment. As he reads, that history ends and is blown away by the wind «because races condemned to one hundred years of solitude did not have a second opportunity on earth».

This is certainly a different version of history. Yet it is a version which may fit the process of development better than the idea of «progress», and it is one which can place development economics in a useful perspective. In some sense these economists are attempting to decipher the parchments of development, to read and understand the history of development in the poor countries of the world. In addition, they are doing so in an effort to wipe out that history, to call forth

the wind to banish underdevelopment and to facilitate policy which can bring about meaningful development.

The import of García Márquez's parable of convoluted history is that there is no simple historical march of progress. There are no general paths to development just as there is no general definition of development. Each people must write its own history. As Denis Goulet says regarding the strategy of development pursued by Guinea-Bissau: «Paradoxically, the lesson of greatest importance is that *the best model of development is the one that any society forges for itself on the anvil of its own specific conditions*» (1978, p. 52).

What does this mean for the development economist? There is an interesting parallel in modern medicine in a tension between the «scientific» explanation of a disease and the diagnosis a clinician makes for a particular patient. This is well described by Tolstoy in *War and Peace*:

Doctors came to see Natasha, both separately and in consultation. They said a great deal in French, German and in Latin. They criticised one another, and prescribed the most diverse remedies for all the diseases they were familiar with. But it never occurred to one of them to make the simple reflection that they could not understand the disease from which Natasha was suffering, as no single disease can be fully understood in a living person; for every living person has his complaints unknown to medicine—not a disease of the lungs, of the kidneys, of the skin, of the heart, and so on, as described in medical books, but a disease that consists of one out of the innumerable combinations of ailments of these organs (Hauerwas *et al.*, 1977).

While Tolstoy's depiction of every illness as a unique event may no longer be justified, economic development is even more of an art than medical diagnosis. Economic theorists can scientifically explain the results of under-pricing capital regardless of country or time.

Development economists, on the other hand, are diagnosticians of the particular illnesses of particular countries at specific points in time. They are forced to transcend a specific scientific paradigm to become artisans of the particular.

DEVELOPMENT IN THE AGE OF GLOBALIZATION

How might we apply the social economist's personalist view of consumption and convoluted view of historical progress to the development process taking place in the world today? Here are a few thoughts that are at least suggestive (see Hochsbergen & Wilber).

The variety of «economies» in the world today is vast, ranging from that of the Amazonian Indian tribes to the sophisticated and integrated Swedish or Swiss economies. If we can escape the bounds of our ethnocentrism, it may come as a surprise that a clear ranking in terms of success or desirability may not be possible when we compare economies. An Amazonian Indian given the opportunity to live in New York might die rather than benefit from the opportunity.

The reason why economic growth, beyond providing for basic subsistence, may not bring a sense of greater well-being, why the pleasures our new possessions bring melt into thin air, is that beyond a subsistence level what really matters is not one's possessions but one's psychological economy, one's richness of human relations and freedom from the conflicts and constrictions that prevent us from enjoying what we have. The consumerist development model leads to a culture in which material goods are seen as an acceptable substitute for these non-material needs. The creative and rewarding use of leisure should be at least as central a concern in the development process as also the need for sustaining and meaningful work.

Unfortunately, in modern industrial economies, whether advanced or developing, it is perfectly rational for people to accept a philosophy of consumerism. People have little opportunity to choose meaningful

work because the nature of jobs is determined by competitive pressures. The demand for labor mobility disrupts the sense of community found in traditional settings. And the enjoyment of nature is attenuated by urbanization and the degradation of nature resulting from industrial and consumption practices. Thus, the only thing left under the individual's control is consumption. And it is true that consumption can substitute, however inadequately, for the loss of meaningful work, community, and a decent environment. With enough income people can buy bottled water, place their children in private schools, buy a mountain cabin, and obtain the education necessary to get a more interesting job. Of course for the vast majority of people this is just a dream, whether in advanced or developing countries.

The key to a humane and sustainable development is to regard economic growth as a means to other things, not just as an end in itself. The major change that has occurred over time in development economics regarding the meaning of development is the shift from the emphasis on growth of GDP and *per capita* consumption to one that focuses on income distribution and poverty and on the fulfillment of basic needs. There also has been a shift in emphasis regarding the importance given to environmental issues. However, these do not change the meaning of development in a fundamental way. The focus on distribution and poverty in later years maintains the earlier emphasis on measuring material means of development, although the focus has changed from average *per capita* income growth to how income is distributed among people, and to how the people at the lower end of the income scale are doing. The focus on non-market production and externalities such as the environment and the role of household production improves the measurement of material production and takes into account the depletion of resources due to production.

The focus on issues posed by modernization—which has occurred mostly outside economics—draws attention to changes beyond increases in the material means of development, to ways by which

these material means can be increased, and the process of making people more inclined to value material means. Modernization, thus, is somewhat expansive, but enlarges the meaning of development only in a certain direction which involves the imposition of certain kinds of Western values on other cultures and in a way which is instrumental to growth. These observations imply that the focus is still strongly on the material means of development, and not on the meaning or objective of development itself. According to Lawrence Harrison, the basic thesis of modernization theory is that «values, beliefs, and attitudes are a key but neglected factor in understanding the evolution of societies and that the neglect of cultural factors may go a long way toward explaining the agonizingly slow progress toward democratic governance, social justice, and prosperity in so many countries [...]» (2006, p. XIII). In Harrison's view, progress in such basic areas as life, health, liberty, prosperity, education and justice, depends on the adoption of a democratic capitalist way of life, which in turn depends on (Western?) cultural orientations.

A more fundamental change in the approach to the meaning of development came with the basic needs fulfillment and «quality of life» approaches (see Morris, 1979; Streeten *et al.*, 1981). Unlike modernization theorists like Harrison, whose prescription is to criticize local culture and to enact policies to bring people into the modern world, Sen (1988), a major proponent of the change in emphasis away from material well-being or «opulence» notes that GDP and GDP *per capita*, even after overcoming the problems of income and wealth distribution and non-market production and externalities, only relate to the means of achieving high levels of well-being during a certain period of time.

At least four problems arise from this. First, GDP and its variants examine only a certain period of time and they do not take what Sen calls a more integral view of a person's life. Such a view would include interdependencies over time and the length of life. These issues can

be taken into account by including measures of how long people live and by emphasizing factors that are related to interdependencies over time, such as education. Second, GDP and its variants focus on only material means of development and leave out non-material means such as political and social ones. He argues that many of these non-material means are also ends, and discusses these ends more systematically. Third, Sen argues that the *ends* of development refer to the achievement of a better life for people which, in addition to its *length*, also relates to the *nature* of life. He points out that: «People value their ability to do certain things and to achieve certain types of «beings» (such as being well nourished, being free from avoidable morbidity, being able to move about as desired, and so on). These «doings» and «beings» may be generically called «functionings» of a person» (Sen, 1988, p. 15). Finally, one needs to go beyond what people achieve, to emphasize the process by which choices are made, not just in the negative sense of the absence of restraints on individual choices but in the positive sense of people being free to choose. Sen thus focuses on choices open to individuals in terms of functionings, or what he calls capabilities. In this view, well-being depends not on what is actually chosen by individuals, but on the set of choices over which they are free (capable) to choose (thereby distinguishing between people who cannot buy enough food to maintain their weight and people who choose to fast or to go on a diet). Another way of stating Sen's point is that he is concerned with being «free from» not just «free to». The idea of being «free for» making better choices is not part of Sen's approach. To Sen, if a person has the opportunity to attain education, participation, primary goods etc., then that is a step up and a break with the prevailing economic doctrines.

Despite the enormous contribution that it makes, there are some problems with the functionings and capabilities approach. For instance, people can disagree about what list of functionings should be included and what weight should be given to each one in evaluating

overall well-being, and moreover, these lists and weights may change depending on what is actually achieved by people, issues that Sen calls «value heterogeneity» and «value endogeneity». Sen's «solutions» to these problems are generally of a technical nature, that is, by examining well-being in terms of partial orderings, on which there is general agreement across people, and also in terms of evaluations before and after the change.

The consumer-driven development of the West did not have goals other than the enrichment of those entrepreneurs undertaking the investments that drove the economy. Two facts stand out from the history of development under this Western consumerist model. It has been successful in producing amounts of goods and services unprecedented in history; *and* it has done so in a temporally and spatially uneven manner, i.e. development has proceeded very unevenly between countries, and among regions within countries. It developed both North America and South America, but one more so than the other. Certain countries and regions became dynamic centers of development while others stagnated on the periphery. Then the process shifted, and once-growing areas stagnated and stagnant ones developed. And, of course, development has proceeded cyclically through booms and busts in each country and region. This process extends to individual industries and even households. These imbalances are naturally generated by the process of consumerist-led market development.

One of the great economists of the twentieth century, Joseph Schumpeter, captures this dynamic process in his concept of Creative Destruction: «The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates [...] [These developments] incessantly revolutionize the economic structure from within, incessantly destroying the old one, incessantly creating a new one» (1950, p. 83).

The price of this creation of new products, new jobs, new technologies, new industries is the destruction of the old products, jobs, technologies, and industries. And the closing or relocation of plants with their loss of jobs hurts families and communities —here and now. The new plants and jobs frequently are located elsewhere and use a new generation of workers. The gains are in new and lower cost products for people as consumers.

In industrial and poor countries alike this creative-destructive process has created socio-political tensions both because of its uneven nature and because of its challenge to traditional values and ways of life. Today this is true particularly in countries with strong Islamic roots and in countries where readily identifiable minorities control the wealth of the society.

Amy Chua argues that in much of the world ethnic minorities dominate their respective economies —Chinese in South East Asia, East Indians and Europeans in Africa, and Spanish descendants in Latin America. Expanded free markets resulting from globalization exacerbate the ethnic disparities in wealth and income, resulting in increased social and political instability. In this setting, democracy can become the vehicle for a huge ethnic backlash from the dominated majority, led by demagogues preaching revenge (2002).

Professor Chua was writing this book when the 9/11 terrorist attacks occurred in the United States. In explaining the number of people in poor nations who rejoiced, she writes: «The attack on America was an act of revenge directly analogous to the bloody confiscations of white land in Zimbabwe, or the anti-Chinese riots and looting in Indonesia fueled by the same feelings of envy, grievance, inferiority, powerlessness, and humiliation» (p. 207).

Joseph Stiglitz's work emphasizes the problems of inequality, instead of ethnic differences, and the necessary countervailing policies (2003, 2006). He argues that globalization has the potential to make the poor nations better off but only if proper policies are used and if each

country's history, culture, and economy are taken into account. Poorly designed policies will increase instability and vulnerability to external shocks, reduce economic growth, and increase poverty.

The key problem is that globalization policies have not been carefully prepared nor have they been fair. In fact, they have been wrong-headed, incorporating an insistence upon free market ideology resulting in a too rapid implementation of liberalization. The outcome has been increased destitution and social conflict in many poor nations.

Developing solutions is difficult because the world economy differs from any country's domestic economy. In every domestic economy there is a sovereign power, the central government, that establishes the framework and rules for carrying on economic exchange. In the United States the Constitution empowers the federal government to regulate interstate commerce. No state can impose import tariffs on goods produced in other states. The federal government sets minimum wages, environmental regulations, payroll taxes, safety requirements and so on that are binding on all of the states.

This is not the case in the world economy. There is no central government to set the rules. Prior to World War I the hegemonic power of Great Britain set the rules of the international economy. During the inter-war years Great Britain was too weak and the result was chaos in the international economy. After World War II, the Bretton Woods Agreement and the hegemonic power of the United States controlled the world economy. As the Bretton Woods system was abandoned and the relative power of the United States waned in the 1970s, coordination in the international economy was left to unregulated markets, supplemented with Economic Summits and the WTO, to reestablish international coordination.

These efforts to organize the world economy on pure free-market principles—mainly by preachment—have not been successful. World economic growth has slowed; in many areas of Africa and Latin America

growth actually became negative during the 1980s and 1990s. Trade imbalances have become extreme. Instability of exchange rates has become endemic in many areas. And the foreign debt borne by many countries, now including the United States, has had a constricting effect on the renewal of economic growth.

The interdependent nature of international markets and of the various national economies means that individual policies regarding exchange rates, trade, capital flows, and debt issues will be more effective if set within supra-national programs that encourage and coordinate them. Just as it has been necessary for all countries, developed and undeveloped alike, to introduce various measures to control the workings of their domestic economies for the common good, it is time to extend those measures to the international economy. We cannot continue to practice one kind of economics up to our frontiers and another kind beyond them.

While there is no single model of development and each country must chart its own path, the reality is that most countries other than the BRICs must conform their policies to the fact that globalization is here to stay and opting out is not possible without great cost—both economic and human.

SOCIAL POLICIES FOR A HUMANE AND SUSTAINABLE DEVELOPMENT

Good Governance. Achieving the benefits and attenuating the transitional costs of globalization requires good governance in individual countries. This is dependent on the rule of law, democracy, and the provision of basic needs for the population. Without good governance, undesirable side-effects can swamp the benefits of globalization and liberalization. Corruption, organized crime, drug trafficking and widespread non-compliance can be the result. Good governance must develop

from within the poor country itself but international organizations, NGOs and countries such as the United States giving aid can provide experience, advice and possibly conditionality on aid, trade and investment.

Social Programs. Creating policies to protect people, particularly the poorest, from increased hardships is a major challenge of globalization. Public revenue and expenditure in most of Africa and parts of Latin America have declined since the 1980s. *Per capita* real expenditure on basic education and health has also fallen. In general, servicing payments on foreign and domestic debt is the primary reason for reduced public expenditures in the social sectors. Increased reliance has been placed on regressive consumption taxes to generate the necessary revenue. Some countries have made major efforts to maintain social expenditures for the poor. The World Bank has been of some help by increasing its lending to basic education and health and by making protection of these sectors a conditionality of structural adjustment loans.

International Governance. While globalization can bring increased productivity to poor countries and improve the condition of their poor, there is no guarantee that it will automatically happen. International flows of finance, investment, and capital goods are notoriously unstable and as countries liberalize they become more susceptible to these instabilities. A more effective international institutional framework for oversight, regulation and compensation is necessary to deal with shocks emanating from the volatility of short-term international financial flows. The only way this will work is if countries begin to deal with international capital flows, making them less fluid by regulating them and beginning to tax them. The goal of free capital flows is to move capital to where it can contribute most to production. In fact, however, capital moves as much for speculative and financial reasons that often have little to do with productivity.

Debt Forgiveness, Aid and Trade. Further debt reduction/forgiveness is necessary to reduce the debt-servicing obligations of the least developed countries, particularly in Africa. Such reductions could free up budgetary resources for use elsewhere. As a requirement of debt forgiveness, creditor countries could insist that the released resources be used for basic education, health and nutrition.

CONCLUSION

An adequate agenda of domestic and international economic policies requires good intentions, clear analysis of the issues, and sustained carry through. All are in short supply in an international economy driven by self-interest, both personal and national. Even more difficult is the problem presented by Professor Chua. The present style of globalization threatens to generate a whirlwind of political backlash. We need to heed the warning given by James Weaver, economist, Church of Christ minister and social activist, in a talk entitled «Globalization with a Human Face»:

I have wondered about which human face represents the globalization system of the future. There are many candidates. One can see the face of John Maynard Keynes at Bretton Woods, NH in 1944 working to create a new international political economic order that would prevent another Great Depression and world war. One can see the face of a woman in Vietnam who has gotten a job in a Nike shoe factory. One can see the face of Jody Williams and the NGOs, who got most nations in the world to sign a treaty to ban the use of land mines. One can see the face of an auto worker protesting in Seattle because he lost his job when his factory relocated to Mexico. One can see the face of an AIDS patient in South Africa. One can see the face of Osama bin Laden (2004).

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