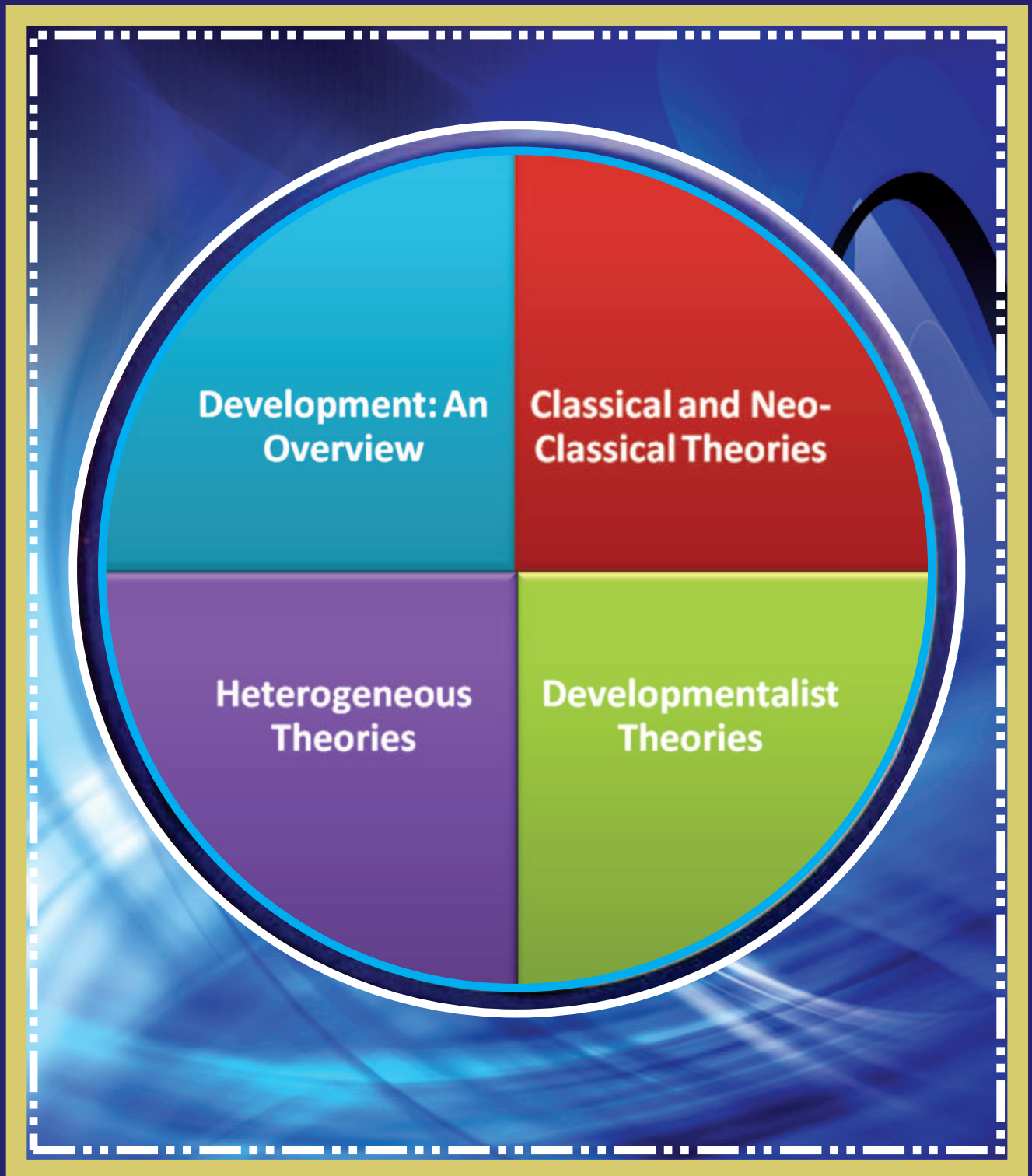




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PROGRAMME DESIGN COMMITTEE

Prof. Amita Shah Gujarat Institute of Development Research, Ahmedabad	Prof. P. Radhakrishnan Madras Institute of Development Studies, Chennai
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Prof. Nadeem Mohsin (Rtd) A.N.Sinha Institute of Social Sciences, Patna	Dr. Nehal A. Farooquee IGNOU, New Delhi
	Dr. P.V.K.Sasidhar IGNOU, New Delhi

PROGRAMME DESIGN COMMITTEE (REVISED)

Prof. T.S. Papola Institute for Studies in Industrial Development, New Delhi	Prof. Nadeem Mohsin (Rtd) A.N.Sinha Institute of Social Sciences, Patna
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Dr. S. Rubina Naqvi Hindu College, University of Delhi, Delhi	Dr. Nisha Varghese IGNOU, New Delhi
	Dr. Grace Don Nemching IGNOU, New Delhi

COURSE PREPARATION TEAM

Unit Writer:

Dr. Nisha Varghese
SOEDS, IGNOU (Unit 1 & 3)

Prof. Kumar B. Das
Utkal University, Bhubaneswar (Unit 2 & 4)

Editors:

Prof. S. K. Bhati (Content Editor)
NCERT, New Delhi

Mr. Praveer Shukla (Language Editor) New Delhi

Dr. Nisha Varghese, IGNOU

Prof. B. K. Pattanaik, IGNOU

Prof. Nehal A. Farooquee, IGNOU

Prof. P. V. K. Sasidhar, IGNOU

Course Coordinator : Dr.Nisha Varghese, E-mail : nishavarghese@ignou.ac.in

Programme Coordinators : Prof. P.V.K. Sasidhar, Prof. B.K. Pattanaik,
Prof. Nehal A. Farooquee,

PRINT PRODUCTION

Mr. S. Burman Deputy Registrar (Publication) MPDD, IGNOU, New Delhi	Mr. KN Mohanan Asst. Registrar (Publication) MPDD, IGNOU, New Delhi	Mr. Babu Lal Rewadia Section Officer (Publication) MPDD, IGNOU, New Delhi
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BLOCK 4 HETEROGENEOUS THEORIES

Block-4 of Course MDV-101 consists of four units namely Neo-liberal Theories, Dependency Theory, Human Capabilities Theory and Gandhian Theory.

Unit-1 on **‘Neo-liberal Theories’** discusses the history of Neoliberalism, its basic principles, its relevance in the new millennium and a critique of the theory.

Unit-2 on **‘Dependency Theory’**, discusses the origin of the theory, its main features and propositions. It also discusses the policy implications and a critical appraisal of the theory.

Unit-3 on **‘Human Capabilities Theory’**, discusses the basic concepts of the Capabilities Approach, its philosophical background and the theories of two pioneers of this theory: Professor Amartya Sen and Martha Nussbaum.

Unit-4 on **‘Gandhian Theory’** gives a detailed account of the Gandhian theory of development. It discusses the ideologies behind the Gandhian theory of development, its broad features, and other edifices of Gandhian perspectives on development.

UNIT 1 NEO-LIBERAL THEORIES

Structure

- 1.1 Introduction
- 1.2 History of Neo-liberalism
- 1.3 Liberalism Vs Neo-liberalism
- 1.4 Basic Principles of Neo-liberalism
- 1.5 Neo-liberalism and International Financial Institutions
- 1.6 Neo-liberalism in the New Millennium
- 1.7 A Critique of Neoliberal Development
- 1.8 Let Us Sum Up
- 1.9 References and Suggested Readings
- 1.10 Check Your Progress – Possible Answers

1.1 INTRODUCTION

Adam Smith, a British Economist, in his book *The Wealth of Nations* in 1776 suggested that for a nation to develop, there should be removal of government interventions in economic issues in the form of restrictions or tariffs on manufacturing and commerce. Until the Great Depression of 1930s, free trade was the primary economic policy followed by the United States and Britain. However, this free trade practiced by them had strong foundation of imperialism and colonialism so as to have access to raw materials to produce value added finished goods. The Great Depression of the 1930s led to the promulgation of Keynesian model of development in which John Maynard Keynes suggested government intervention in order to provide more equity in development. The Marshall plan in Europe and President Roosevelt's New Deal in the US helped these nations to see the benefit of social provisions such as health, education etc. In the 1940s and 1950s, most of the western countries believed in Keynesian policies. Even the World Bank and the International Monetary Fund were designed keeping the Keynesian principles in mind. The equalizing effect of Keynesian policies led to the diminishing of profits of the corporations and economic liberalism was revived and hence the term Neo-liberalism was coined. It is important that as a student of Development Studies you are updated with this theory and its evolution.

After reading this unit you will be able to:

- describe the evolution of Neo-liberalism in the West and in other parts of the world;
- differentiate between classical liberalism and neo liberalism;
- describe the basic instruments of Neo-liberalism; and
- critically analyze Neoliberal development.

1.2 HISTORY OF NEO-LIBERALISM

Neo-liberalism in the West

The genesis of neo-liberalism dates back to the 1930s when the west experienced the great depression as a consequence of overproduction. During that period, capitalism was expanding by means of increased productivity and decreased wages and this curtailed people's ability to purchase, thus creating a glut of goods in the market. Economists like John Maynard Keynes came forward with the idea of involvement of state on regulating capitalism in order to solve this crisis of overproduction. He suggested lowering of unemployment and raising the wages in order to increase consumer demand for goods. This economic model as suggested by Keynes was known as embedded liberalism which sought to strengthen the middle class workforce with the means to consume the overproduced basic commodities. This principle was widely accepted in US and Europe post World War II so as to ensure economic stability and social welfare around the world. The Bretton Wood Institutions (IMF and World Bank) were also developed in order to take care of the balance of payment problems that arose after the war. Embedded liberalism led to high growth rates in the 1950s 1960s. However, by early 1970s, the industrialized west faced the crisis of stagflation (high inflation and economic stagnation). Economists point towards two factors that led to stagflation: (1) the Vietnam War and (2) the oil crisis of 1973 which led to increased prices and slowing down of production. The conservatives however sight the high taxation of the wealthy and excessive economic regulation as the reasons for stagflation.

Following the recommendation of Milton Friedman, the then Chairman of the US Federal Reserve (1979), Paul Volcker argued in favour of increasing the interest rates in order to curb inflation. The interest rates went as high as 20% in 1981. The Volker shock led to massive recession, high unemployment thus having devastating effect on the working class, however, it cured inflation. The target of lowering down inflation through tight monetary policy was the first component of monetary policy which was put in place in 1980s. The then US president Reagan also believed in supply side economics giving more money to the rich with the assumption that they would invest in productive activities and create windfall gains which would eventually trickle down. Another neoliberal policy during his period was the deregulation of financial sector which eventually precipitated in the global financial crisis of 2008. Similar policies along with rampant privatization was also adopted around the same time by Margaret Thatcher in Britain. These policies however led to an unprecedented growth in social inequality in United States.

Neo-liberalism in the rest of the World

The history of Neo-liberalism in the international arena dates back to 1973 when under US pressure, the Arab states started circulating their extra petrodollars through Wall Street investment banks who in turn invested this extra flow of cash by spending it in the form of high interest loans to developing countries. As the Volcker shock hit in the early 1980s, the interest rates skyrocketed thus pushing many of the developing countries on the verge of default. This was popularly known as the Third World Debt Crisis. In order to resolve this crisis, the IMF stepped in and offered to roll over the

debts of developing countries on the condition that they would agree to a series of structural adjustment programmes. The structural adjustment programs aimed at market deregulation on the assumption that it would lead to economic efficiency and economic growth and thus help the developing countries to come out of the debt crisis. This was to be achieved by cutting government subsidies, trade tariffs, curbing the non-tariff barriers like regulations on labour, resource use and pollution. Similar Neoliberal principles are also promoted by organizations like World Bank and the World Trade Organization.

1.3 LIBERALISM Vs NEO-LIBERALISM

The classical liberalism sees the role of state as a night watchman, upholding only the most fundamental aspects of public order like the armed forces and law enforcement. Classical liberalism has a lot in common with the economic aspect of liberalism. Neo liberals on the other hand have shown greater willingness in allowing state to be an active participant in the economy. In Neo liberalism, the state tends to regulate the market and also to supply essential goods and services to everyone.

The classical liberals favour laissez-faire economic policies claiming that they lead to more freedom and democracy. Neo-liberals on the other hand refute this analysis and believe in active role of state in the economy in order to meet the most basic liberal goals. Classical Liberalism is based on constitutional democracy, limited involvement of government, individual liberty and basic human and civil rights needed for a decent human existence.

1.4 BASIC PRINCIPLES OF NEO-LIBERALISM

In this section you will read about the basic principles of Neo-Liberalism and also some thoughts of Neoliberal thinkers.

1.4.1 Basic Principles of Neo-Liberalism

Neo-liberalism revolves around two central principles: (1) that the factors of production get paid what they are worth and (2) that free markets will not let factors go waste. The Neo-liberal economics emphasizes on the neoclassical assumption that all economic agents are rational beings who act upon their own rational expectations. They argue that excessive unemployment is the result of government intervention into an otherwise perfectly self-adjusting system and hence the state should restrain itself from intervening.

Washington Consensus

The Phrase Washington Consensus was originally coined by John Williamson, Senior Fellow at the Washington based Institute for Economic Development. The policy instruments which were the principles of operation of the Washington Consensus and which applied mainly to the third world (mainly the borrowing countries) was described by John Williamson(1990:18) as including:

1. Fiscal Discipline: Large and sustained fiscal deficits by central and provincial governments are a main source of macroeconomic dislocation in the forms of inflation, balance of payments deficits and capital flight. These deficits result from lack of political courage in matching public expenditures to the resources available.

2. Reducing public expenditures: When the government expenditures have to be reduced, the view is that spending on defense, public administration and subsidies, particularly for state enterprises, should be cut rather than primary education, primary healthcare and public infrastructure investment.
3. Tax Reform: The tax base should be broadened, tax administration improved, and marginal tax rates should be cut to improve incentives.
4. Interest Rates: Financial deregulation should make interest rates market determined rather than state-determined, and real interest rates should be positive to discourage capital flight and increase savings.
5. Competitive Exchange Rates: Exchange rates should be sufficiently competitive to nurture rapid growth in nontraditional exports but should not be inflationary-the conviction behind this is that the economies should be outward oriented.
6. Trade liberalization: Quantitative restrictions on imports should be eliminated, followed by tariff reductions, until levels of 10-20% are reached – the free trade ideal, however, can be temporarily contradicted by the need for protecting infant industries.
7. Encouraging Foreign Direct Investment: Foreign investment brings needed capital, skills and knowhow. Barriers impeding the entry of foreign firms should be abolished. Foreign and domestic companies should be allowed to compete on equal terms.
8. Privatization: State enterprises should be privatized. Private industry is more efficient.
9. Deregulation: All enterprises should be subject to the discipline of competition- this means deregulating economic activity in the sense of reducing state controls over private enterprise.
10. Securing Property Rights: Making secure and well defined property rights available to all at reasonable cost.

The Washington Consensus aimed at removing government intervention and promotion of market competition such that the individuals had the choice to invest their productive resources to various alternatives. It aimed at removal of restrictions in the movement of commodity and capital in and out of a country, making exports cheaper and free conversion of currencies into dollars. This model of development which promoted unrestricted globalization was first implemented in Latin American Countries in 1970s followed by Africa and Asia and was spread to almost all the developing countries by mid 1990s. Neo-liberalism was also the development model followed to reshape the Eastern European Regions in the Post Communist Period since 1990.

1.4.2 Some Thoughts on Neo-liberalism

1. Neo-liberalism by Deepak Lal

Deepak Lal, professor of political economy at the University College, London was critical of the development economists' skepticism of the efficiency of markets in less developed countries and their advocacy of supplanting (replacing) the price and market system with various forms of direct government control. Secondly, Lal was also critical of the emphasis of development economists on macro economic considerations like growth,

industrialization, investment and employment rather than micro-efficiency. However, Lal's micro-economic perspective has been refuted by several economists and also the World Bank which has cited the example of Korea and Taiwan who owe their success to right strategies at macro level rather than micro-efficiency. Studies show that in some less developed countries, government intervention has slowed economic growth while in other countries like Japan and East Asia, government intervention has accelerated it. This proves that it is not the presence or absence of government intervention but the nature of intervention that determines the direction of growth. Thirdly, Lal also advocated the idea of promoting exports while maintaining a *laissez-faire* regime on domestic producers. However, economists consider this idea of promoting exports and forcing *laissez-faire* on domestic producers as flawed. Countries whose domestic production and employment is affected by such export promotion policies may retaliate to such policies.

2. Neo-liberalism by Anne Krueger

Anne Krueger was the chief economist of the World Bank from 1982-1987 and she was the First Deputy Director of the International Monetary Fund in 2001. According to Professor Krueger, when the state uses its capacity to redistribute income to select elements of the society, it may lead to economic waste, social distrust and instability. For example, import licenses benefit those traders who receive the license. If the economic benefit of owning the license is more than the price of the license, the importer ends up receiving the benefits which he/she has not earned. Such gains which constitute the unearned sources of income are called rents. In less developed countries, the opportunities of such rents are widespread and it may result in the formation of a rent seeking society. According to Krueger, the state is a ready source of such rents through subsidies, tax exemptions, tariffs and similar government policies. Once such rents capture the interest of certain groups, these groups exert pressure on the state to maintain such policies. Such policies drain the economy of its dynamism and the costs of production become too high and consumers end up paying high prices. Therefore, Krueger and other neoliberal thinkers advocate minimizing the role of state through privatization programmes, removal of tariff and non-tariff barriers to trade, ending of subsidies and removal of any such policy that may create gains for special interest groups.

In this section you have read about the history of Neo-Liberalism in the western world and in the rest of the world. You have also read about the basic principles of Neo-Liberalism. Now try and answer the questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. Write any four basic principles of Neo-liberalism?

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2. What is the difference between Liberalism and Neo-liberalism?

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1.5 NEO-LIBERALISM AND INTERNATIONAL FINANCIAL INSTITUTIONS

The two important international financial institutions viz. the World Bank and the International Monetary Fund came into existence in 1944 at an international conference held at Breton Woods, New Hampshire. The IMF was formed in order to extend short term loans to countries facing balance of payment problems. The World Bank (which was then known as the International Bank for Reconstruction and Development) was formed to provide long term private bank loans for investments in productive activities. In 1950s the World Bank considered development akin to economic growth which depended on public investment on infrastructure and hence provided loans for construction of infrastructure like roads, railways, power facilities etc. The Banks' emphasis shifted to education and third world agriculture in 1960s. In the 1970s, the World Bank adopted the 'basic needs' approach to development assistance and its focus shifted to promoting decent living conditions by providing food, clothing and housing services. The basic idea was to raise the productivity of the poor and to bring them into the economic system. During the 1970s most of the third world countries had borrowed huge sums to finance development projects. However, due to the increase in oil prices in 1973, most of the non-oil producing third world slipped into serious debt. This situation was seen as an opportunity by the commercial banks of London and New York to recycle the petrodollars as loans to the third world countries. The situation worsened with the third world countries and these loans were being used by them to merely repay the interest on the old debt. Realizing the intensity of the financial crisis, the banks refused to lend more and most of these countries ended up in major balance of payment deficits. Mexico was the first country to experience this debt crisis, followed by Argentina, Brazil and many other countries. The World Bank and the IMF then intervened and imposed structural adjustment conditions on the borrowing countries. During this crisis, the World Bank's emphasis changed in favour of changing economic policies of developing countries by avoiding overvalued exchange rates, reducing public spending commitments and having an open trade regime. The Bank then emphasized more on efficient industrialization and open trade by supporting policy reforms and structural changes in a neoliberal direction. The Bank reports that state protection of industries had rendered them inefficient and led to inefficient and inferior quality of production. The World Bank suggested policy reforms in three main areas: trade reforms, macroeconomic policies to reduce government deficits, lower inflation and ensure competitive exchange rates and an environment favouring domestic competition by removing price controls, reforming labor market regulations and rationalizing investment regulations. In 1990s, the World Bank's emphasized on market friendly state intervention and good governance. The World Development Report of 1990 addressed the issue of dealing with poverty for the first time by focusing on policies

1.6 NEO-LIBERALISM IN THE NEW MILLENNIUM

The key institutional actors of Neo-liberalism widened in the new millennium including besides US and International Financial Institutions a broader group of wealthy countries like the G7 and G8, the United Nations (UNDP). The key terms in the direction of Neo-liberalism in the new millennium include the Millennium Development Goals (MDGs), Debt Relief and the most recent Sustainable Development Goals (SDGs). The UN Millennium Declaration was adopted by the largest gathering of world leaders in the history of UN at the Millennium Summit held at the UN in September 2000 committing to a global partnership to reduce extreme poverty and also set out a series of time bound targets to be achieved by 2015. In June 2005 the Finance Ministers of G8 countries agreed to provide additional financial resources so as to increase the financing capacity of IMF, World Bank and Africa Development Bank for 100% debt cancellation of the outstanding loans of 18 of the poorest countries in the world. This initiative came to be known as 'debt relief' which meant writing off \$40 billion owed by very poor countries to foreign lenders by refinancing IMF and World Bank. The SDGs came into effect in January 2016.

1.7 A CRITIQUE OF NEOLIBERAL DEVELOPMENT

There are several critique of Neo-liberalism which state that the term itself is in need of some explanation and critical challenge. Some of the critiques of Neo-liberalism are as under:

1. Polanyi (1944:57): There was nothing natural about laissez-faire; free markets could never have come into being merely allowing things to take their course..... laissez-faire itself was enforced by state.
2. One of the claims made by Neoliberal theory is that the price systems in the market are in line with the individual knowledge leading to a price competitive economic order and thus promoting development. However, it is argued that prices do not take into account social and environmental costs which makes them socially irresponsible and environmentally destructive.
3. Neoliberals are also criticized for the context in which they use the term 'freedom' and 'free individuals'. It is criticized for using 'free individuals' as a synonym for the entrepreneur or the capitalist and 'freedom' as a synonym for their freedom to earn money. It is criticized for being a policy that favours the rich. In US, the income figures of highest earning 1% of the population varied from 20% immediately prior to the Great Depression, down to 10% during the Keynesian 1950s, 1960s and 1970s and then going up again to 15-20% during 1990s and 2000s under the neoliberal policy regime (Alvaredo, Atkinson, Piketty and Saez, 2014).
4. Neo-liberalism is also criticized for favouring a capitalist system which promotes economic growth. The natural consequences of this profit

making endeavor is depleted resources, excessive energy usage and increased levels of pollution. These relations between economic growth and environment necessitate human and societal change.

In the above sections you have read about neo-liberalism and its relation to international financial institutions, the critique of neo-liberalism and neo-liberalism in the new millennium. Now try and answer the questions given in *Check Your Progress-2*.

Check Your Progress 2

- Note:** a) Write your answer in about 50 words.
b) Check your answer with possible answers given at the end of the unit.

1. How were the international financial institutions instrumental in promoting structural reforms in the third world countries?

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2. Write any two critiques of neoliberalism?

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1.8 LET US SUM UP

In this unit you have read about the history of evolution of Neo-liberalism. The basic principles of Neo-liberalism as outlined in the Washington Consensus have also been discussed. The role of international financial institutions like the World Bank, International Monetary Fund and the World Trade Organization in promoting Neo-liberalism in the developing countries has also been discussed in detail. Finally the unit deals with the critiques of neoliberal development.

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1.10 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

1. Four basic principles of Neo-liberalism are
 1. Tax Reform: The tax base should be broadened, tax administration improved, and marginal tax rates should be cut to improve incentives.
 2. Interest Rates: Financial deregulation should make interest rates market determined rather than state-determined, and real interest rates should be positive to discourage capital flight and increase savings.
 3. Competitive Exchange Rates: Exchange rates should be sufficiently competitive to nurture rapid growth in nontraditional exports but should not be inflationary-the conviction behind this is that the economies should be outward oriented.
 4. Trade liberalization: Quantitative restrictions on imports should be eliminated, followed by tariff reductions, until levels of 10-20% are reached – the free trade ideal, however, can be temporarily contradicted by the need for protecting infant industries.

2. The difference between liberalism and Neo-liberalism are as follows

The classical liberalism sees the role of state as a night watchman, upholding only the most fundamental aspects of public order like the armed forces and law enforcement. Neo liberals on the other hand have shown greater willingness in allowing state to be an active participant in the economy. In Neo liberalism, the state tends to regulate the market and also to supply essential goods and services to everyone.

The classical liberals favour laissez-faire economic policies claiming that they lead to more freedom and democracy. Neo-liberals on the other hand refute this analysis and believe in active role of state in the economy in order to meet the most basic liberal goals.

Classical Liberalism is based on constitutional democracy, limited involvement of government, individual liberty and basic human and civil rights needed for a decent human existence.

Check Your Progress 2

1. After 1973 when the oil prices shot up, the non oil producing countries slipped in serious debt. After a certain point, the banks refused to lend further to these countries and they faced major balance of payment crisis. The World Bank and the IMF then intervened and imposed structural adjustment conditions on the borrowing countries. During this crisis, the World Bank's emphasis changed in favour of changing economic policies of developing countries by avoiding overvalued exchange rates, reducing public spending commitments and having an open trade regime. The Bank then emphasized more on efficient industrialization and open trade by supporting policy reforms and structural changes in a neoliberal direction. The Bank's reports that state protection of industries had rendered them inefficient and led to inefficient and inferior quality of production.

Heterogeneous Theories

2. Two critiques of Neo-liberalism include:
 1. Polanyi (1944:57): There was nothing natural about laissez-faire; free markets could never have come into being merely allowing things to take their course..... laissez-faire itself was enforced by state.
 2. One of the claims made by Neoliberal theory is that the price systems in the market synchronizes individual knowledge leading to a price competitive economic order and thus promoting development. However, it is argued that prices do not take into account social and environmental costs which makes them socially irresponsible and environmentally destructive.

UNIT 2 DEPENDENCY THEORY

Structure

- 2.1 Introduction
- 2.2 The Dependency Theory of Development
- 2.3 Approaches to Dependency
- 2.4 Criticisms of Dependency Theory
- 2.5 Let Us Sum Up
- 2.6 References and Suggested Readings
- 2.7 Check Your Progress - Possible Answers

2.1 INTRODUCTION

In the earlier two units, you read classical and Marxian theories of development. In this unit, you will study the dependency theory of development. Dependency theory is a body of social science theories. It contends that resources flow from a periphery of poor and underdeveloped states to a core of wealthy states, enriching the latter at the expense of the former. It is a central contention of dependency theory that poor states are impoverished and rich states are enriched, by the way poor states are integrated into the world system. In the next unit, you will be reading the Gandhian theory of development, which is based on Gandhian thoughts.

After studying this unit, you should be able to:

- explain the dependency theory of development, and the basic characteristics of a dependent economy;
- distinguish between the Marxian and non Marxian approaches of dependency theory; and
- narrate criticisms of dependency theory.

2.2 THE DEPENDENCY THEORY OF DEVELOPMENT

Our discussion on the dependency theory of development is comprised of the characteristics of a dependent economy, approaches to dependency, and criticisms of dependency theory. Dependency theory evolved around 1950 as a reaction to some earlier theories of development. Dependency theory was popular in the 1960s and 1970s as a criticism of modernization theory. The main propounders of dependency theory are: Prebisch, Singer, Paul Baran, Paul Sweezy, C. Furtado, F H Cardoso, Gunnar Myrdal, A Gunder Frank, Girvan, and Bill Warren. Many of these scholars focused their attention on Latin America. The leading dependency theorist in the Islamic world is the Egyptian economist, Samir Amin.

Earlier theories held that all societies progress through similar stages of development. They say that at some time in the past, today's developed were in a situation that is similar to that faced by today's underdeveloped areas. Therefore, the task of helping the underdeveloped areas out of poverty is to accelerate them along the supposed common path of development by various means, such as investment, technology transfers, and closer integration

into the world market. Dependency theory rejected this idea, arguing that underdeveloped countries are not merely primitive versions of developed countries; rather they have unique features and structures of their own. They are weaker members in a world market economy and the developed nations were never in an analogous position. They never had to exist under the patronage of more powerful countries than themselves. Dependency theorists argued, in opposition to free market economists, that underdeveloped countries needed to reduce their connectedness with the world market so that they might pursue their own path, more in keeping with their own needs, and less dictated by external pressures.

Hans Singer and Raúl Prebisch, the prominent dependency theorists, observed that the terms of trade for underdeveloped countries, relative to the developed countries, had deteriorated over time. The underdeveloped countries were able to purchase fewer and fewer manufactured goods from the developed countries in exchange for a given quantity of their raw materials exports. This idea is known as the Singer-Prebisch thesis. Prebisch, an Argentinian economist at the United Nations Commission for Latin America (UNCLA), went on to conclude that the underdeveloped nations must employ some degree of protectionism in trade if they were to enter a self-sustaining development path. He argued that import substitution industrialization (ISI), but not a trade-and-export orientation, is the best strategy for underdeveloped countries.

The advocates of dependency theory believe that the theories of Smith, Ricardo, and the other European classical economists are not suitable to an analysis of the dualistic dependent structure of many nations such as Brazil, Mexico, and India. According to the dependency theorists, the less developed countries are to be understood as part of the global process. Their fate is merely to provide inputs for advanced nations. They provide low wage manufacturing under adverse terms of trade. Dependency analysis was built on the ideas of structuralists, more specifically, on the distinction between centre and the periphery made by Prebisch. The centre is viewed as the cause, and the periphery as the effect. Dependency theory found the causes for the lack of development to be external to the socioeconomic formations of the LDCs (Less Developed Countries). It does not treat dysfunctional institutions of the LDCs as the cause of backwardness. Internal institutional structures such as corruption levels, unproductive land holdings, concentration of wealth, and unresponsive political systems are never considered the causes of underdevelopment. Many dependency theorists advocate social revolution as an effective means to reduce economic disparities in the world system.

The basic premises of dependency theory are

- i. Poor nations provide natural resources and cheap labor. They are export destinations for obsolete technology and for markets for the wealthy nations, without which, the latter could not have the standard of living they enjoy. Poor nations are at a disadvantage in their market interactions with wealthy nations.
- ii. Wealthy nations actively perpetuate a state of dependence by various means. This influence may be multifaceted, involving economics, media control, politics, banking and finance, education, culture, sport,

and all aspects of human resource development, including the recruitment and training of workers.

- iii. Wealthy nations actively counter all attempts made by dependent nations to resist their influences by means of economic sanctions, and, possibly, by the use of military force. The poverty of the countries in the periphery is not because they are not integrated into the world system, or not fully integrated as is often argued by free market economists, but because of how they are integrated into the system.

The Characteristics of Dependent Economy

After knowing the fundamentals of dependency theory, let us now discuss the characteristics of a dependent economy. Dependency is said to have been created with the industrial revolution, with the expansion of European empires around the world, and due to the superior military power and accumulated wealth of these empires. Some argued that before this expansion, the exploitation was internal, with the major economic centers dominating the rest of the country. The establishment of global trade patterns in the nineteenth century, allowed capitalism to spread globally. The wealthy became more isolated from the poor, because they gained disproportionately from imperialistic practices. This control ensures that all profits in less developed countries are remitted to the developed nations. It prevents domestic reinvestment, causing capital flight and, thus, it hinders economic growth.

The underlying conditions for dependency of any country are as follows:

- i) exporting firms are primarily owned by foreigners
- ii) exports are dominated by one, or a few commodities
- iii) the export sector dominates the economy, and imports are larger in relation to GDP
- iv) mineral and petroleum products are produced under conditions of vertical integration.

The characteristics of a dependent economy are as follows:

- i) economic growth is not self activating
- ii) profits are normally repatriated, but not reinvested
- iii) the production of export industries is dependent on imported inputs
- iv) income, employment, and growth are determined by
 - a) the prices and the demand conditions of international market
 - b) the willingness of transnational corporation to invest
- v) income, employment and growth are conditioned by
 - a) changes in the prices and types of imports
 - b) economic fluctuation abroad
 - c) changes in taste and fashion
 - d) changes in technologically created substitutes
- vi) backward and forward linkages of export activities are very rare
- vii) foreign capital, foreign technology, and management are dominant economic actors.

According to Vernengo (2004), the *sine qua non* of the dependency relationship is not the difference in technological sophistication as traditional dependency theorists believe. It is the difference in financial strengths between core and peripheral countries. In fact, the peripheral countries are incapable of borrowing in their own currencies.

So far, you have read about the dependency theory of development and the characteristics of dependent economy. Now, answer the following questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.
b) Check your answer with possible answers given at the end of the unit.

1) What are the characteristics of a dependent economy?

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2) Explain the basic premise of dependency theory.

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2.3 APPROACHES TO DEPENDENCY

There are two main streams in dependency theory: The Structuralist stream, typified by the works of Prebisch, and Furtado; and the Marxist stream, developed by Baran, Sweezy, and Frank. Thus, two approaches are developed by two classes of economists.

They are

- i) the Marxian theory of dependency
- ii) the Structuralist theory of dependency

The Marxian Theory of Dependency

This theory was developed from a Marxian perspective by Paul Baran in 1957 and is detailed in his book, *The Political Economy of Growth*. Dependency theory shares many points with earlier Marxist theories of imperialism. It continues to attract interest from Marxists. Celso Furtado of Brazil was one of the first economists to use the term 'dependency' and to argue that development and underdevelopment are two aspects of one economic structure. Both Keynes and Myrdal greatly influenced his thinking concerning the link between the economy and power, the crucial role of the state, and the ways in which the international economy influenced, or constrained, the development process of national economies. After a political coup in 1964, Brazil strictly followed the development strategy of industrialization which generated a social exclusion process in the country.

According to Furtado, however, development should be a social process. So, he argued for the necessity of incorporating Brazil's vast population of poor workers, farmers, and marginalized people into a process of inclusive social development. In his view, industrialization can unleash new social forces and pressures which bring about a process of inclusive social development.

Being the head of National Bank of Brazil, Furtado focused on the northeast region and observed that the income gap between poor farmers and those residing in Sao Paul was greater than the income gap between the average income in Sao Paul and Europe in the 1950s. He created SUDENE (Superintendency for the Development of the Northeast), a Brazilian government agency created in 1959, which was designed to promote industrial development and land reform in the northeast region to counteract 'internal colonialism', as manifested in the exclusion of the northeast from Brazil's economic growth. According to Furtado, the northeast faced falling terms of trade for its commodity exports, and falling terms of trade in relation to its income earnings on the industrial goods bought from Sao Paul and Rio. Development and underdevelopment are one totality constantly produced within the structure of the economy. He maintained that there was a necessary link between FDI-led growth and rising internal inequality. To overcome dependence, the underdeveloped nations would have to create their own economic plans.

Marx believed that capitalism is characterized by creative destruction. It has two effects: destruction, and regeneration. Paul Baran emphasized the destruction side of capitalism in underdeveloped countries. He did not find evidence of regeneration. Rather, the monopoly capitalism of the twentieth century, unlike the competitive capitalism of the nineteenth century, had a vested interest in maintaining backwardness and dependence in the periphery. Baran's analytical contribution led to the flowering of the pessimistic and stagnationist school of dependency in Latin America and Africa. Baran's favourite example of the destructive effects of capitalism was that of India. He found that Indian social scientists, having experienced British imperialism, had developed concepts very similar to the dependency theorists of the late nineteenth century.

Baran's theoretical point of departure was an analysis of economic surplus. He defined economic surplus as the mass of resources (actual and potential) which a society could have at its disposal, in order to facilitate economic growth. It is the amount that might be reinvested in productive ways to increase the future level of social output. This surplus is the residual from total income after society's basic needs for food, clothing, shelter, and human companionship have been met. But, this surplus may be grossly misused. It may be utilized to erect sumptuous and multiple residences for the rich, or it may be wasted through a variety of ways of conspicuous consumption. The military, or the church may make tremendous demands on the surplus, or it may be drained away by foreign power *via* plunder, or, by simple profit repatriation as a result of foreign control over less developed countries. The historical analysis made by Baran makes it clear that the sources of poverty of less developed countries are found in the extraction of this surplus under colonialism. Thus, colonialism blocked the potential for change. Backwardness and poverty is perpetuated in these regions. According to him, the oppression of the feudal lords was ruthless,

but tempered by tradition. It was further worsened by the domination of both foreign and domestic capitalists.

According to dependency theory, the exploitation of the people is multiplied because the oppression and violence inherited from the feudal past is combined with the rationality and intelligent rapacity of the capitalists. The fruits of capitalism were not to raise productive wealth in many countries such as India. These fruits went abroad and served to support a parasitic bourgeoisie at home. People lived in abysmal misery, and they had no prospect of a better future. Poverty and underdevelopment continued. They lost their time honoured means of livelihoods, their arts and crafts. There was no modern industry to provide new ones in their place. They were thrust into extensive contact with the advanced science of the west, yet they remained in a state of darkest backwardness.

By reviewing the history of colonialism, Baran made the following conclusions

- i) profit margins fall due to the workers demand for higher wages
- ii) foreign capital becomes the targeted source of increasing state revenue (by imposing higher taxes and higher royalty payments, for example)
- iii) foreign exchange control is imposed to curb the funds flowing out of the country as repatriated profits
- iv) tariffs on imported wage goods are imposed to protect domestic manufacturing.

Theoretically speaking, the state could break this deadlock by opting for new programmes that would make import substitution industrialization (ISI) more successful and dynamic. But the state, in the backward regions, is incapable of making the decisions needed to move forward on any front of development ladder. Baran argued that political revolution is necessary to break this pattern. He argued that by following the capitalistic route, these countries are not expected to achieve Rostow's stage of 'high mass consumption'. Instead, these countries would head towards their economic and social graveyards. Thus, by following the socialistic route, the less developed countries could reasonably expect some relief from poverty.

The Structuralist Theory of Dependency

There is a group of structuralist dependency theorists who are not Marxians. They reject the perspective of stagnation. Amongst them, the most reputed writer was Fernando Henrique Cardoso, an active Brazilian sociologist and economist of international repute. He argued that nations on the periphery suffer from a type of 'peripheral capitalism'. One of the important features of these economies is economic stagnation, or, in the words of Andre Gunder Frank, an eminent dependency writer, 'development of underdevelopment'. Cardoso says that the dependent countries are not stagnant. The societies and economies of the periphery are continuously evolving. There are three major stages in the economic history of LDCs.

The first is the agro-export stage of the colonial period, when economic dualism was prevalent. During this stage, pre-capitalist sectors of artisans, petty producers, and peasant producers accounted for the bulk of economic activity. At this stage, some sectors, such as precious metals, minerals, and

tropical products are integrated with the world market. The production of these exportables takes place in modern and semi-capitalist enclaves.

The second is the stage of developmentalist alliances. After the Second World War, some LDCs experienced major transformation through import substitution industrialization (ISI). In this stage, a new social structure of accumulation is created which is based on the collective interest of industrial workers, peasants, and capitalists.

The third is a corporatist regime stage, where there are drastic curbs on democracy, unions, universities, and other areas of society where dissent might be encountered. The populist orientation of the second stage (in which social security, minimum wage legislation, public health care, and public education are expanded) is broken. There are drastic cuts in the state's budget for public services. Above all the TNCs (transnational corporations) are welcomed. They become pivotal in the new process of accumulation, and are central to the growth process.

According to the structuralists, one should not be surprised at some economic progress, nor should one think LDCs are powerless to shape their destiny. The third stage is not immutable either. There is no continuous stagnation. Under this new regime in which the authoritarian state and TNCs cooperate, some economic growth and development does occur. The TNCs keep costs down in the era of global competition. GDP rises, and even the standards of living of the masses may improve. There is a new process of capital accumulation which Cardoso terms 'associated dependent development'. Cardoso rejects the possibility of a political shift towards a revolution in these countries, during this stage. As the economic growth created by the new alliance between domestic capital and TNCs progress, some new possibilities for the working class, the techno-bureaucracy and the state open up.

The paradox is that the actual dependence of Caribbean countries became much more acute in the 1980s and 1990s. The heightened foreign indebtedness increased the economic vulnerability of these LDCs. It exposed them to pervasive external intrusions into domestic policy making in the form of conditionalities imposed by the Washington based international financial institutions, and bilateral donors. The establishment of WTO, in 1994, significantly constricted the policy space previously available to developing countries. National development, which was an accepted objective in the era of decolonization, was been replaced by the *mantra* of global integration. The new dependency associated with globalization is presented as interdependence in an effort to conceal the asymmetries. Thus, the wheel has come full circle from the 1960s. According to Girvan, this new orthodoxy calls for renewed critical analysis from an updated dependency perspective.

These non industrialized countries are caught in a post colonial torpor. They continue to specialize in one, or a few raw material exports. These nations are described as dependent economies stuck on the periphery of progress. The centre- periphery relationship results in a dependent development pattern. They seemed incapable of autonomously altering their economic structures. This is characterized by the alliance of international and local capital. The state also joins this alliance as an active partner. The

resulting triple alliance is a fundamental factor in the emergence of “updated dependent development”.

According to the non Marxist version of dependency theory, a dependent system

- i) fosters financial /technological penetration by developed capitalist countries
- ii) produces an unbalanced economic structure, both, within the peripheral societies, and between them, and the centers
- iii) leads to limitations on self sustained growth in the periphery
- iv) favours structural imbalance and specific patterns of class relations
- v) requires modifications in the state’s role.

Thus, the main characteristics of a dependent economic system are

- i) the regression in both, agriculture and small scale industry
- ii) the concentration of activities in export oriented agriculture and/or mining.
- iii) a rapidly growing tertiary sector, with hidden unemployment
- iv) chronic current account balance deficits
- v) structural imbalances in political and social relationships
- vi) the comprador element and rising importance of state capitalism and indebtedness
- vii) strong and self-repeating ups and downs, called business cycles

Many economists argue that political independence is sufficient to thwart all the impediments to social and economic progress. It gradually removes all barriers to development. The spread of capitalist methods of production sweeps away outmoded institutions and structures. Both, the advanced nations and the LDCs will grow. So a dependency relationship is not a zero sum game. Warren argues that capitalism sweeping into LDCs at a rapid rate brings an incomparably higher standard of living to the masses than any previous socioeconomic system. Warren’s brash analysis has been overtaken by the facts of LDCs. The durability of retarding factors disturbed dependency economists. Therefore, many dependency theorists argue that becoming developed requires right decisions and proper policies. It does not just happen to a country, like *manna* from heaven, or, just as a consequence of the spread of capitalism. Thus, the economic growth of these LDCs is only possible by adopting appropriate economic policies.

2.4 CRITICISMS OF DEPENDENCY THEORY

Some free market economists, such as Peter Bauer and Martin Wolf, write primarily for non economists. They argue against the path of dependency theorists. Autonomous path of periphery countries leads to higher corruption, domestic opportunity costs, lack of competition and sustainability in these countries. By late 1970s, a chorus of voice dissented against dependence theory.

The arguments of dependency theorists are criticized as follows

- i) The countries on the periphery of development are not destined to stagnation. So, dependency theory is an incomplete and inaccurate description of the socioeconomic conditions of LDCs.
- ii) There are many dependent countries on the periphery. They do change their economic structure. According to Prof Warren, they have achieved very rapid economic growth.
- iii) This theory does not highlight how the countries that follow a dependent development pattern suffer from a variety of economic ills, such as regressive income distribution, an emphasis on luxury goods, underutilization and exploitation of human resources, over reliance of foreign firms for capital intensive technology, and the perennial problems of poverty and unemployment.
- iv) This theory has no relevance to many nations which are neither in the periphery, nor in the centre. They are called semi periphery countries.
- v) One need not accept dependency as a necessarily zero sum game in which the periphery loses, and the centre gains. The dependency condition provides opportunities for a win-win game, in which both developed countries and LDCs gain from each other.
- vi) With the economic growth of India and East Asian economies, dependency theory has lost its validity. It is more widely accepted in disciplines such as history and anthropology.

So far, you have read about the various approaches to dependency and the criticisms of dependency theory. Now, answer the following questions given in *Check Your Progress-2*.

Check Your Progress 2

- Note:** a) Write your answer in about 50 words.
 b) Check your answer with possible answers given at the end of the unit.

- 1) What are the main stages in economic history of LDC?

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- 2) Write two important criticisms of dependency theory.

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2.5 LET US SUM UP

At the outset, you studied the dependency theory of development. It covers the meaning and characteristics of a dependent economy. We studied the Marxian and the Structuralist theory of dependency in detail. Finally, we discussed the criticisms of dependency theory of development.

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2.7 CHECK YOUR PROGRESS - POSSIBLE ANSWERS

Check Your Progress 1

1. The dependent economy has the following characteristics
 - i) the economic growth is not self activating
 - ii) profits are normally repatriated, but not reinvested
 - iii) the production of export industries is dependent on imported inputs
 - iv) income, employment, and growth are determined by
 - a) the prices and demand conditions of international market
 - b) the willingness of transnational corporation to invest
 - v) income, employment, and growth are conditioned by
 - a) changes in the prices and types of imports
 - b) economic fluctuation abroad
 - c) changes in taste and fashion
 - d) changes in technologically created substitutes

- vi) backward and forward linkages of export activities are very rare.
- vii) foreign capital, foreign technology, and management are dominant economic actors.

2. The basic premises of dependency theory are

- i) Poor nations provide natural resources and cheap labor. They are an export destination for obsolete technology, and for markets for the wealthy nations without which the latter could not have the standard of living they enjoy. Poor nations are at a disadvantage in their market interactions with wealthy nations.
- ii) Wealthy nations actively perpetuate a state of dependence by various means. This influence may be multifaceted, involving economics, media control, politics, banking and finance, education, culture, sport, and all aspects of human resource development, including recruitment and training of workers.
- iii) Wealthy nations actively counter all attempts made by dependent nations to resist their influences by means of economic sanctions and, possibly, the use of military force. The poverty of the countries in the periphery is not because they are not integrated into the world system, or not 'fully' integrated as is often argued by free market economists, but because of how they are integrated into the system.

Check Your Progress 2

1. There are three major stages in the economic history of LDCs. The first is the agro-export stage of the colonial period, when economic dualism was prevalent. During this stage, pre-capitalist sectors of artisans, petty producers, and peasant producers accounted for the bulk of economic activity. The second is the stage of developmentalist alliances. In this stage, a new social structure of accumulation is created which is based on the collective interest of industrial workers, peasants, and capitalists. The third is a corporatist regime stage, where there are drastic curbs on democracy, unions, universities, and other areas of society where dissent might be encountered.
2. Two important criticisms of dependency theory are:
 - i) The countries on the periphery of development are not destined to stagnation. So, dependency theory is an incomplete and inaccurate description of the socioeconomic conditions of LDCs.
 - ii) There are many dependent countries on the periphery. They do change their economic structure. According to Prof Warren, they have achieved very rapid economic growth.

UNIT 3 HUMAN CAPABILITIES THEORY

Structure

- 3.1 Introduction
- 3.2 Philosophical Background of Capability Approach
- 3.3 The Basic Concepts of Capability Approach
- 3.4 Sen's Capability Approach
- 3.5 Martha Nussbaum's Capability Theory of Justice
- 3.6 Let Us Sum Up
- 3.7 References and Suggested Readings
- 3.8 Check Your Progress – Possible Answers

3.1 INTRODUCTION

There is a paradigm shift in the concerns for process of development from those related to economic growth to those of inclusion and equitable distribution. Haq in 1990 wrote in the Human Development Report that the basic objective of development is to create an enabling environment in which people can enjoy long, healthy and creative lives. Though the material welfare of the people is an important indicator of development, it is not a sufficient indicator for the same. There have been several attempts to address the issue of inclusion. The Capability Approach is one such attempt and has been employed extensively in the context of human development. United Nations Development Programme has also used this approach as a broader and deeper alternative to narrowly economic indicators such as growth in GDP per capita. The capability approach considers poverty as a deprivation in the capability towards living a good life and development or getting a sustainable source of income is understood as capability expansion. The capability approach was articulated by Professor Amartya Sen in 1980s. This approach is different from the approaches to ethical evaluation which focus on availability of means to lead a good life. Capability approach focuses on the capability of individuals in achieving the life they have reason to value. Another version of capability approach was provided by philosopher Martha Nussbaum in her capability theory of justice. Nussbaum has come out with a list of central capabilities deriving from the requirements of human dignity and which she urges to be incorporated into national constitutions and guaranteed to all up to a certain threshold.

After Reading this unit you will be able to:

- explain philosophical background of Capability Approach;
- discuss about the basic concepts of Capability Approach;
- discuss Sen's Capability Approach Theory; and
- critically discuss Martha Nussbaum's Capability Theory of Justice.

3.2 PHILOSOPHICAL BACKGROUND OF CAPABILITY APPROACH

Before discussing the basic concepts and important theories given by eminent proponents like Amartya Sen and Martha Naussbaum, it is pertinent to discuss

a few important approaches advocated by classical philosophers. Important among them were Aristotle, Adam Smith and Karl Marx.

(i) Aristotle and Capabilities Approach

He defines capabilities as the freedom to achieve different combinations of functionings or different lifestyles. Aristotle's concept of Eudaimonia is living or doing well. There are certain goods that are needed to reach Eudaimonia. He equates eudaimonia to perfect happiness which is acquired when people live well. It may be referred to a set up in which the state helps in enabling a person to be capable of functions and eventually lead a good life. This assessment of individuals cannot be based on a single scale for example the scale of wealth. The assessment will necessarily be an assessment of plurality or a set of capabilities an individual ought to have.

According to Crespo (2013) "Aristotle viewed the economy primarily as a human action intended to use things to live the "good life" –a life of virtues leading to eudaimonia or human fulfillment. Amartya Sen agrees with Aristotle on a number of issues, including 1) the relation among Economics, Ethics and Politics, 2) the role of wealth in a "good life", 3) the conception of eudaimonia, and 4) the process of choosing the activities leading to eudaimonia. Sen perceives a connection between his concepts of 'functionings' and 'capabilities' and the Aristotelian concepts of *ergon* and *dynamis*, respectively. He also agrees with Aristotle in maintaining the non-commensurability of goods and on focusing on ends rather than means". According to Prof. Sen, Aristotle's view of human good is the closest conceptual connection to the capabilities approach. However, Sen's approach differs from the Aristotle's approach in the way they tackle functionings and capabilities. While Aristotle believes in the possibility of defining a list of functioning that constitute human good living, Sen's approach does not require defining such a list. For example, Sen derives the approach of seeing wealth as not the ultimate good but as a recourse that is used for acquiring more freedom to lead the kind of lives we have reason to value. Thus the concept of function in Sen's approach has Aristotelian roots. However, Sen differs from Aristotle in defining capability.

In the same way, Frey (2013) opined that "The distinction between capability and function closely parallels the Aristotelian distinction between potentiality (*dynamis*) and actuality (*energia*); capabilities capture what humans are potentially and functionings capture the specific and unique way capabilities are realized by specific individuals in unique situations. Using a list of capabilities to outline human nature in its potentiality helps to set the minimal thresholds that must be met in order for humans to live lives of dignity without overly specifying or determining how individual turn these capabilities into functionings. In this way, capabilities represent different realms of freedom or choice."

(ii) Adam Smith and capabilities approach:

Adam Smith in his book titled "The Nature and Causes of Wealth of the Nations" talks about social necessities. Here, Adam Smith refers as 'necessities' not just to the commodities which are very essential to support life but also to those commodities which the customs of the country renders it indecent for creditable people, even of the lowest order, to be without. According to Eiffe (2008), "The prototype capability *"to appear in public*

without shame” first forwarded by Smith and often cited in Sen’s work, demands different commodities in different times and places”. For example, though a linen shirt may not be seen as a necessity, in most parts of Europe, even a daily wage labourer would be ashamed to appear in public without a linen shirt. Thus the concept of necessities varies from place to place. This has great similarity to the concept of basic capabilities in ‘capabilities approach’ which refers to the set of capabilities needed to achieve the threshold level of well being.

Also Sen argues that markets generate freedom and hence should be valued for it. The challenges the markets have to face is judicious distribution of substantial freedom. “Both Smith and Sen advocate the view that free competition will have positive effects under special institutional and social arrangements. In such a system government is in charge of balancing economic progress and social needs in society. According to this view, the state has to enable its citizens and to promote their development potential. The freedom related approach admits a change of perspective and turns back to Smith. From technical economic analysis we can now turn again to an integrated approach of specific ethical and political elements. The concept of capability owes much to this holistic view. Well-being is not determined by the possession of economic resources, but by the capabilities into which these resources can be converted. Markets, therefore, have to be valued in terms of the capabilities they are able to generate” (Eiffe, 2008).

The Smithian philosophy in capabilities approach is its connection with real life and life’s needs and conditions.

(iii) Karl Marx and Capabilities Approach

The Justice component of the capabilities approach which is emphasized in Nussbaum’s theory has its roots in Karl Marx’s philosophy of distribution of goods according to needs as one of the essentials for justice. “Marx, through his conception of the alienation of a human individual from his or her labor, updates Aristotle’s notion that practical reason transforms those characteristics that humans share with other living beings.” (Frey, 2013). According to Marx, enhancement of development through reduction of worktime of people, positively affects development of human capabilities. “Nussbaum offers the following quote from Marx as evidence: “It is obvious that the human eye gratifies itself in a way different from the crude, non-human eye; the human ear different from the crude ear, etc...The sense caught up in crude practical need has only a restricted sense. For the starving man, it is not the human form of food that exists, but only its abstract being as food; it could just as well be there in its crudest form, and it would be impossible to say wherein this feeding activity differs from that of animals.” (Frey, 2013).

3.3 THE BASIC CONCEPTS OF CAPABILITY APPROACH

Capabilities approach has emerged as a new theoretical framework about wellbeing, development and justice. The evolution of this framework dates back to Aristotle, Adam Smith and Karl Marx. However, Prof. Amartya Sen pioneered this approach and it was further developed by Martha Nussbaum and a several other scholars. The capability approach states that freedom to achieve wellbeing is a matter of what people are capable to do and to be and hence the kind of life they are effectively able to lead.

The capability approach can be considered as a framework which involves the following exercises:

1. Assessing the individual well being
2. Evaluating and Assessing the social arrangements
3. Designing policies for social change in the society

The capabilities approach prioritizes some of the beings and doings of people and their opportunities to realize those beings and doings. In simpler words, capabilities approach tells us what information to look at if we are to judge how well someone's life is going. To apply this approach one needs to decide on the beings and doings that matter and one also should know how to aggregate each person's functionings and capabilities for overall assessment of wellbeing. The capability approach is a theory that helps us to conceptualize the notions of poverty, inequality and wellbeing rather than an explanatory theory which explain these concepts.

A few basic concepts constituting the important components of Capability Approach are discussed below (Wells):

1. Functionings and Capabilities

- a. **Functionings:** Functioning means the various states that humans can be, also termed as 'beings' and various activities that humans can undertake, also known as the 'doings'. Some examples of 'beings' are being well nourished or undernourished, being housed in a comfortable setup, being educated or illiterate, being included in a supportive social system or being a part of a criminal network, being happy or being depressed etc. Different kinds of 'doings' include travelling, studying, nurturing a child, voting, debating, killing animals, stealing, donating money for charity etc.
- b. **Capabilities:** Capabilities include the opportunities or freedom a person has to achieve the functionings. Eg. If we take travelling as a functioning then the opportunity one gets to travel is the corresponding capability. Functionings and capabilities can be differentiated as the realized and the effectively possible. It is the same as the difference between the achievements and the valuable opportunities from which a person can choose.

2. A measure for interpersonal comparisons

The capability approach identifies 'functionings' and 'capabilities' as the best measures for most interpersonal evaluations. The interpersonal evaluations should be based on people's 'functionings or their beings and doings and their 'capabilities' or the opportunities they have to achieve those functionings. The beings and doings together make life valuable. In interpersonal comparisons, functionings are considered as achieved well being and capabilities are considered as the freedom to pursue wellbeing. Sen calls it "well-being freedom" (Sen 1992: 40).

Functionings can vary from the very basic things needed for human existence like being adequately nourished, being in good health, escaping morbidity and premature mortality to more complex things like being decently employed, having self-respect and an active social and community life.

Similarly in interpersonal evaluation, the ends of personal well-being ie. Freedom, justice and development should be conceptualized in terms of people's capabilities. Capability analysis demands that in interpersonal evaluation, we adopt a holistic approach and ask which sets of capabilities are open to that person. Is a person forced to choose between two major functionings which both reflect the person's basic needs. For example to a low skilled single person, holding a job to generate income sufficient to feed the family and to care for children at home and provide them with care and supervision are both basic needs and basic moral duties and the person should not be forced to make a hard choice between the two functionings.

3. Distinction between means and ends

While valuing something, the capability approach emphasized that we should be clear whether we value it as an end or a means to achieve a valuable end. The capability approach evaluates policies and the changes brought about in the society in terms of their impact on people's capabilities and functionings. For Example:

- (i) Capability approach questions whether people are able to have good health and if the resources needed for this capability like access to health care, knowledge and awareness about health issues, proper sanitation, access to clean drinking water etc are present.
- (ii) It asks if people have the resources to achieve the capability of being well nourished such as having access to sufficient amounts of nutritious food.
- (iii) It concerns itself with the questions like if people have access to quality education, supportive community activities, political participation etc.

Because of the difference of people's ability in converting the means into ends, capability approach holds that it is more important to focus on the ends than the means. Means cannot be taken as reliable proxies of ends unless all people have the same capacity to convert those means to ends. Hence capability approach focuses on people's ends which are expressed in terms of 'beings' like being literate, being employed, being mobile etc. However, the capability approach does not undermine the importance of means in achieving the ends. The material or financial resources like availability of commodities and legal entitlements to them are equally important but they should not be seen as the ends of well-being. Abundance of food in a locality means nothing to a starving person who has nothing to exchange for it.

4. Conversion factors

In modern days, there are several goods available at our disposal. There are also several functionings to be achieved. These goods facilitate in achieving the functionings. For example, the functioning of mobility at a faster pace can be achieved by a motorbike or a car. These goods (motorbike/car) help us in achieving the functioning of mobility. The relation between a good and the achievement of related functioning is known as 'conversion factor'. It is the degree to which a person can convert a resource into a being or doing. Conversion factor differs from person to person. For example a person who has learned cycling in

childhood will have a better conversion factor in terms of riding a bike as compared to someone who does not know cycling.

The conversion factor can be classified as Personal, Social and Environmental Conversion Factors. Personal Conversion Factor refers to physical condition of a person like health, education, skills etc. Social Conversion Factor refers to the social conditions like social norms and practices, power relations in gender, class, race etc. The Environmental Conversion Factor refers to the environment conditions like pollution levels, climate, vicinity to seismic zones, seas etc. Thus the capability approach takes a holistic approach in assessing the well being of a person.

5. Basic capabilities

Capabilities refer to a wide range of opportunities needed for well-being. However, basic capabilities refer to the list of capabilities absolutely necessary for a person to escape poverty and deprivation. These are those capabilities essential to meet a threshold level of well-being. This threshold level of capabilities will vary from country to country depending upon their stage of development. The set of basic capabilities in a developed country will include those capabilities which are not absolutely necessary for survival whereas those in less developed countries will include only those capabilities as basic which are absolutely necessary for survival. Thus other than being a measure to analyse poverty, the capabilities approach also helps in analyzing inequality in developed countries.

6. Capabilities as freedoms

Capabilities as freedom refers to availability and access to various opportunities in front of a person to choose from. The person should be free to choose from the available opportunities. For example, a person who wants to commute from one place to another should have different options available and the person should be free to choose from the available options.

Till now you have read about the basic concepts of capability approach and the philosophical background of the capability approach. Now try and answer the questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1. What do you understand by basic capabilities?

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2. How does the distinction between capability and function parallel with Aristotalean philosophy?

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3.4 SEN'S CAPABILITY APPROACH

Amartya Sen, in 1980, in his Tanner Lectures on human values titled 'Equality of What' in Stanford University, questioned the adequacy of using marginal or total utility and primary goods for measuring equality. The social systems should aim to expand people's capabilities or their freedom to achieve beings and doings which they value. A test of freedom is whether they have more freedom than they had in the past and a test of inequality is whether people's capabilities are equal or unequal. (Alkire and Deneulin, 2009).

Various concepts by Amartya Sen in his Capability Approach are discussed below:

(i) Functionings

Functionings are *doing* activities or *being* in a state that contributes to a person's wellbeing e.g. having a good job, being healthy, being educated, being well nourished etc. Functionings need not be always focused on survival but may also be focused on relationships, empowerment etc. Functionings should be distinguished from the commodities employed to achieve them. For example, the basic purpose of a bicycle is to provide transportation. However, the ability of a bicycle to provide transportation will depend on the characteristics of those who try to use it. Even if a person without legs finds bicycle to be a valuable possession, our evaluative system should be cognizant of the fact that he/she still lacks transportation.

(ii) Capability

Capabilities refers to a set of various functionings that a person is able to achieve. It is the freedom that a person enjoys to choose to lead a kind of life that he/she has reason to value. Resources are considered as inputs but their value depends on an individuals' ability to convert it into a valuable functioning. For example, bicycle is an input and its value depends on whether or not a person can use it for transportation which again depends on a person's physiology (such as health), social norms, and physical environment (such as road quality). An individual's capability set is the set of valuable functionings that an individual has real access to. Achieved functionings are those they actually select. For example, an individual's capability set may include access to different functionings relating to mobility, such as walking, bicycling, taking a public bus or a private car and so on. The functioning they actually select to get to work may be a private car. Capabilities are like a person having many coins with which he/she can buy many things, similarly, a person with different capabilities can enjoy many different activities. Sen's view is that well-being achievements should be measured in functionings and well-being freedom is reflected by a person's capabilities set.

(iii) Agency

Agency is the third important concept of Sen's capability approach. Agency refers to an individual's ability to pursue his/her goals that he/she values. A person who possesses this ability or agency is the agent. According to Sen, an agent is the one who acts and brings about change. Agency also stresses on other important characteristics of an individual like self determination, self reliance, self direction, empowerment etc.

"In Sen's view:

- Agency is exercised with respect to goals the person values and has reason to value.
- Agency includes effective power as well as direct control, that is, it includes not just individual agency but what one can do as a member of a group, collectively or political community.
- Agency may advance well being or may address other goals – for example relating to the good of one's family or community, of other people and of art and the environment.
- To identify agency entails an assessment of whether the agent's goal are in some way reasonable – a person who harms or humiliates others would not, in this view, be exerting agency.
- The agent's responsible for a state of affairs should be incorporated into his or her evaluation of it."(Alkire and Deneulin, 2009).

(iv) Choosing the most important functionings for a good life

Sen's evaluation of a person's well-being is based on his/her capability to live a life that he/she has reason to value. Well-being according to Sen cannot be evaluated in terms of the resource wealth possessed by a person or by the subjective well-being of a person. For evaluating the capability of a person to lead a life she values, we need to first determine the functionings that matter the most for a person to lead that kind of a life. One of the ways is to list out the constituents of a flourishing life as done by Martha Nussbaum in her "Capability Theory of Justice". However, Sen does not approve of this approach arguing that the most legitimate source of decision about the type of life one has reason to value must be the people themselves and any social scientist or philosopher can only provide useful ideas and arguments. Sen emphasizes on a social choice exercise requiring both public reasoning and democratic procedures of decision-making.

Sen suggests identification of crucially important capabilities (like education, health, nutrition, shelter etc.) associated with basic needs which can be helpful in setting up moral and political priorities. This kind of an exercise can be helpful in assessing the extent and nature of poverty in developing countries. However, this kind of approach has its own limitations in terms of evaluating individual's capabilities as this approach is helpful only in assessing how well the people's lives are going in terms of the basics.

(v) Evaluation of Capabilities to Live a Good Life

Once the set of valuable functionings have been defined, the next step is to map the set of those functionings that people have real access to.

Evaluating capabilities also concerns with assessing the freedom that people have to choose high quality options. Though the eradication of malaria from an area may not increase the options of people living in that area, but it does enhance their capabilities. The capability approach allows a very wide range of dimensions of advantage to be positively evaluated. Capability Approach can be used to examine the determinants of the relationship between people and commodities. Some of the determinants are:

- (1) *Individual physiology*: People differ in individual physiology such as the variations associated with illnesses, disability, age, and gender. In order to achieve the same functionings, some people may have special needs for non-standard commodities – such as prosthetics for a disability. Some of these disadvantages, such as blindness, may not be fully ‘correctable’ even with tailored assistance.
- (2) *Local environment diversities*: These include diversities such as climate, epidemiology, and pollution which can impose particular costs such as more or less expensive heating or clothing requirements.
- (3) *Variations in social conditions*: Social conditions include provision of public services like education and security, and the nature of community relationships, across class or ethnic divisions.
- (4) *Differences in relational perspectives*: Customs and conventions determine the commodity requirements and expected standards of behaviour and consumption. For example, local requirements in terms of acceptable clothing may vary widely from place to place.
- (5) *Distribution within the family*: distributional rules practiced within a family for example, the allocation of food and health-care between children and adults, males and females.

3.5 MARTHA NUSSBAUM’S CAPABILITY THEORY OF JUSTICE

Martha Nussbaum has worked extensively on Capability Approach. In this section you will read about the structure and criticisms of Nussbaum’s Capability Approach and its relationship to Amartya Sen’s work.

3.5.1 Structure and Development of Nussbaum’s Capability Theory

Martha Nussbaum developed a very systematic, extensive, and influential capability theory of justice and her theory is based on *dignity*, a *list of fundamental capabilities*, and a *threshold*.

Nussbaum’s list of The Central Human Capabilities (Reproduced from Nussbaum’s book titled *Creating Capabilities* 2011)

- “1. *Life*. Being able to live to the end of a human life of normal length; not dying prematurely, or before one’s life is so reduced as to be not worth living.
2. *Bodily Health*. Being able to have good health, including reproductive health; to be adequately nourished; to have adequate shelter.

3. *Bodily Integrity*. Being able to move freely from place to place; to be secure against violent assault, including sexual assault and domestic violence; having opportunities for sexual satisfaction and for choice in matters of reproduction.
4. *Senses, Imagination, and Thought*. Being able to use the senses, to imagine, think, and reason – and to do these things in a “truly human” way, a way informed and cultivated by an adequate education, including, but by no means limited to, literacy and basic mathematical and scientific training. Being able to use imagination and thought in connection with experiencing and producing works and events of one’s own choice, religious, literary, musical, and so forth. Being able to use one’s mind in ways protected by guarantees of freedom of expression with respect to both political and artistic speech, and freedom of religious exercise. Being able to have pleasurable experiences and to avoid non-beneficial pain.
5. *Emotions*. Being able to have attachments to things and people outside ourselves; to love those who love and care for us, to grieve at their absence; in general, to love, to grieve, to experience longing, gratitude, and justified anger. Not having one’s emotional development blighted by fear and anxiety. (Supporting this capability means supporting forms of human association that can be shown to be crucial in their development.)
6. *Practical Reason*. Being able to form a conception of the good and to engage in critical reflection about the planning of one’s life. (This entails protection for the liberty of conscience and religious observance.)
7. *Affiliation*.
Some of the important aspects related to affiliation are:
 - A. Being able to live with and toward others, to recognize and show concern for other human beings, to engage in various forms of social interaction; to be able to imagine the situation of another. (Protecting this capability means protecting institutions that constitute and nourish such forms of affiliation, and also protecting the freedom of assembly and political speech.)
 - B. Having the social bases of self-respect and nonhumiliation; being able to be treated as a dignified being whose worth is equal to that of others. This entails provisions of nondiscrimination on the basis of race, sex, sexual orientation, ethnicity, caste, religion, national origin.
8. *Other Species*. Being able to live with concern for and in relation to animals, plants, and the world of nature.
9. *Play*. Being able to laugh, to play, to enjoy recreational activities.
10. *Control Over One’s Environment*.
 - A. Political. Being able to participate effectively in political choices that govern one’s life; having the right of political participation, protections of free speech and association.
 - B. Material. Being able to hold property (both land and movable goods), and having property rights on an equal basis with others; having

the right to seek employment on an equal basis with others; having the freedom from unwarranted search and seizure. In work, being able to work as a human being, exercising practical reason, and entering into meaningful relationships of mutual recognition with other workers.”

Nussbaum’s theory is concerned with the concept of human dignity in contrast to Sen’s emphasis on freedom. Her list of 10 fundamental capabilities have been tested and adapted over the course of an extensive cross-cultural dialogue carried out by her, particularly in India. The threshold specifies the minimum requirements of justice and every individual should have capabilities at least to this degree must be entitled to each capability which must be ensured by their governments and relevant international institutions. Human dignity requires access to these capabilities, but a life lacking in any of these whether from external deprivation or individual choice, does not imply to be any less than human life. However, choice and deprivation are different. Any person lacking access to these capabilities reflects the societies neglect and its failure to respect human dignity. Respecting a person’s choice of not taking up her opportunities to certain capabilities is also an aspect of respecting that person’s dignity.

3.5.2 Criticisms of Nussbaum’s Theory

Nussbaum’s capability theory of justice received quite intense criticism. Her theory has been criticized on the following accounts taken from :

- Some have criticized her list of Central Human Capabilities which they say are ‘intellectualized Aristotelian list. (Okin 2003);
- Her list is also said to reflect the values of a typical 21st century american liberal than a set of universal values or a contemporary global overlapping consensus (Stewart 2001);
- Her theory has been described as over-specified and paternalistic and her list of capabilities is said to have missed out some of the important capabilities. They theory cannot be used of measurement of quality of life. (Alkire 2005, 35-45).

Till now you have read about criticism of Sen’s capability approach and Martha Nussbaum’s capability theory of justice. Now try and answer the questions given in *Check Your Progress-2*.

Check Your Progress 2

- Note:** a) Write your answer in about 50 words.
b) Check your answer with possible answers given at the end of the unit.

1. What are functionings?

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3.6 LET US SUM UP

A country's progress cannot be measured by mere economic indicators. For example, if a country's Gross Domestic Product shows an increasing trend, but so does the percentage of its people deprived of basic education, health care, and other opportunities, is that country really making progress? Conventional economic indicators cannot grasp how the world's billions of individuals are really managing. The capability approach offers a better alternative to judge the progress and development of a nation. In this unit you read about the basic concepts of capability approach, the philosophies from which this approach takes its roots and also about the theories of two of the most renowned pioneers of this approach ie. Professor Amartya Sen and Martha Nussbaum. This unit would have inspired you to think beyond economics while talking of well being of the people.

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3.8 CHECK YOUR PROGRESS – POSSIBLE ANSWERS

Check Your Progress 1

1. Basic capabilities refers to a list of capabilities necessary for a person to escape poverty and deprivation. While capabilities in itself refers to a wide range of opportunities, the term basic capabilities restricts itself

to some basic and essential opportunities or capabilities needed to meet a threshold level of well-being. This threshold of well being will be different for countries under different stages of development.

2. The distinction between capability and function closely parallels the Aristotelian distinction between potentiality (dynamis) and actuality (energia); capabilities capture what humans are potentially and functionings capture the specific and unique way capabilities are realized by specific individuals in unique situations. Using a list of capabilities to outline human nature in its potentiality helps to set the minimal thresholds that must be met in order for humans to live lives of dignity without overly specifying or determining how individual turn these capabilities into functionings. In this way, capabilities represent different realms of freedom or choice.

Check Your Progress 2

1. Functionings are *doing* activities or *being* in a state that contributes to a person's wellbeing e.g. having a good job, being healthy, being educated, being well nourished etc. Functionings need not be always focused on survival but may also be focused on relationships, empowerment etc. Functionings should be distinguished from the commodities employed to achieve them. For example, the basic purpose of a bicycle is to provide transportation. However, the ability of a bicycle to provide transportation will depend on the characteristics of those who try to use it. Even if a person without legs finds bicycle to be a valuable possession, we should nevertheless be able to note within our evaluative system that he/she still lacks transportation.
2. Nussbaum's list of The Central Human Capabilities include:
 1. *Life*
 2. *Bodily Health*
 3. *Bodily Integrity*
 4. *Senses, Imagination, and Thought*
 5. *Emotions*
 6. *Practical Reason*
 7. *Affiliation.*
 8. *Other Species*
 9. *Play*
 10. *Control Over One's Environment.*

UNIT 4 GANDHIAN THEORY

Structure

- 4.1 Introduction
- 4.2 Gandhian Economic Philosophy
- 4.3 The Main Features of Gandhian Development Theory
- 4.4 The Rural Development Model Based on Gandhism
- 4.5 A Critical Appraisal of Gandhian Development Theory
- 4.6 Let Us Sum Up
- 4.7 References and Suggested Readings
- 4.8 Check Your Progress - Possible Answers

4.1 INTRODUCTION

In the previous three units we discussed the most advocated theories of development. In this unit you will study the Gandhian theory of development. Although, Mahatma Gandhi was not a development economist, yet his theory is important to development. The Gandhian theory of development is based on the ideologies of Mahatma Gandhi, who is regarded in India as the Father of the Nation. At the outset, Gandhian economics rejects the precepts and assumptions of mainstream economics. It represents an alternative to mainstream economic theories as a way to promote economic progress without emphasizing material pursuits, or compromising human development.

After studying this unit you should be able to:

- discuss Gandhian economic philosophy;
- analyze the main features of Gandhian development theory;
- explain the rural development model based on Gandhism; and
- spell out the criticisms of Gandhian theory.

4.2 GANDHIAN ECONOMIC PHILOSOPHY

Gandhi's economic philosophy was greatly influenced by Ruskin's *Unto This Last*. From this book: he learnt: (a) that the good of the individual is contained in the good of all; (b) that a lawyer's work has the same value as the barber's, in as much as all have the same right to earn from their work; and, (c) that a life of labour, i.e., the life of the tiller of the soil and the handicraftsman is the life worth living. Further, Gandhi was also inspired by the ideas of Thoreau, Tolstoy, and Kropotkin. Tolstoy's principles of simplicity, asceticism, and equalitarianism became a part of Gandhi's philosophy. Besides, the Indian scriptures (the Bhagavad Gita, and the Upanishads) and Indian saints such as Kabir, Mira, and Guru Nanak, also left a deep impression on Gandhi.

Gandhi's ideas on economics are embedded in his philosophy of life. Gandhian economics differs from mainstream economics in the following manner

- 1) It replaces the assumption of the perfect mobility of labour with the assumption that community and family stability should have priority.

- 2) It rejects the more-is-always-better principle. It replaces the axiom of non-satiation with a principle of limits, the recognition that there is such a thing as 'enough' material wealth.
- 3) It recognizes that consuming more than 'enough' creates more problems than it solves, and causes consumer satisfaction or utility to decline, rather than increase.
- 4) It aims at a better quality of life, rather than higher standards of living as propagated by other economists.

Let us have a clear idea of Gandhi's philosophy of life to understand Gandhian economics. Gandhi viewed life as a whole, and not in its isolated compartments. According to the Indian scriptures, there are four aspects of an individual's life: *Artha* (money), *Kama* (desire), *Dharma* (righteousness), and *Moksha* (liberation). These aspects are interrelated, and, therefore all of them should be harmoniously developed. Money is required to satisfy the basic requirements of life, however, it is not the end in itself. Man's aim is not to multiply worldly desires and engage his whole life in acquiring wealth to satisfy all his desires. The goal of life is to control desire and transform it, through righteousness, into liberation. He argues for the liberation of man from the cyclical order marked by artha, kama, dharma and moksha. According to him, true happiness lies in the all round development of a human being's personality, and in living a full life. Gandhi's ideas on economics are a part of his general philosophy of life. In these ideas, he outlined principles on which he wanted to build the ideal socialist society. The principles are as follows:

- 1) **Humanism:** Man is both the means, and the end of all activity. He is also the measure of performance. Everything functions with a human face. All ideas, institutions, and actions are to be judged in terms of whether they help in building a better man.
- 2) **Simple Living:** Gandhi had faith in materialism without lust and passion. Material progress must be subservient to moral growth. The ultimate aim of man is not to accumulate wealth and enjoy luxuries of life, but to attain the higher values of life, and to lead a simple and full life. Simple living and high thinking should be the motto of life.
- 3) **Social Justice:** Society is divided between rich and poor, between the strong and the weak, between the privileged and unprivileged, and between the elite and the masses. The principle of social justice requires that the former must help the latter in fulfilling their basic requirements. The ideal functioning of the society must aim at providing social justice and reducing inequalities.
- 4) **Non Violence:** Social change is to be brought about through non violent methods. Ends and means are inseparable in life, and only good means yield good results. An ideal society can only be established by adopting peaceful and non violent means, and not through hatred and war. In Gandhian economics, the principle of non violence means the following things: (a) the absence of capitalistic exploitation; (b) the decentralization of production units; (c) cheaper defence organization; (d) less inequality of income; and (e) self sufficiency of communities.
- 5) **Love and Co-operation:** An ideal society should be established on the principles of love and cooperation. In such a society, the love of others

and not self love; co-operation and not egocentric acts, pre-dominate. Relation between humans should be based on truth, love, and cooperation, and not on money and matter.

- 6) **Harmony:** The ideal economic condition according to Gandhi is self sufficiency of the economy. For this, the following harmonies should be maintained: (a) the requirements of the people must be in harmony with the resources of the economy and,; (b) production technology should match the country's requirements.

In this section you studied about Gandhi's economic philosophy, and now you should be able to answer the questions given in *Check Your Progress-1*.

Check Your Progress 1

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

- 1) How does Gandhian economics differ from mainstream economics?

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- 2) Briefly explain Gandhi's concept of social justice.

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4.3 THE MAIN FEATURES OF GANDHIAN DEVELOPMENT THEORY

The body of Gandhian thought on development is as follows

- i) The Gandhian philosophy of economic concepts that are related to development
- ii) Gandhian principles of self-sufficiency
- iii) The Gandhian theory of balanced growth
- iv) The Gandhian doctrine of trusteeship
- v) Gandhian model of sustainable development
- vi) The Gandhian sarvodaya plan
- vii) Gandhian concepts of austerity and abstinence

4.3.1 The Gandhian Philosophy of Economic Concepts Related to Development

Gandhi developed the following economic ideas and concepts which are consistent with his economic philosophy.

1. **Capital:** According to Gandhi, capital is the source of all wealth. It is required for producing commodities and paying wages to the workers. Capital is of two types: money capital and labour capital. A labourer's skill is his capital. Both money capital and labour capital are necessary for production. Gandhi observed, 'Just as the capitalist cannot make his capital fructify without the cooperation of labour, similarly the working man cannot make his labour fructify without the cooperation of capital.' For better industrial relations, both capital and labour need to be organized. It is easy to organize capital but not labour. This weakens the workers' bargaining position and increases the possibility of exploitation of labour. An entrepreneur's power to exploit labour depends upon the extent of concentration of capital in the hands of capitalists. Gandhi suggested two methods to reduce the evil effects of the concentration of capital. According to him:
 - The ownership of capital should be decentralized; and
 - If the concentration of capital is considered essential, the state should have the full control over the use of capital.
2. **Labour:** The exploitation of labour is an evil of the capitalist system. It causes unrest among the workers, and, if it persists for a long time, it provokes them to revolt against the system. According to Gandhi, the exploitation of labour is measured as a difference between what the worker gets, and what he deserves. Whenever a worker is paid less than the basic wage rate, or the minimum living wage rate, he is said to be exploited. The exploitation of labour is a normal feature of capitalism. The capitalists, in their effort to increase profits, tend to reduce wages. The extent of exploitation can be minimized by stabilizing the wage rate at a reasonable level. The ultimate solution lies in bridging the gap between the capitalists and the workers. Gandhi was totally against making a man a cog in the giant wheel of industry. His view was that people should not lose their independence, identity, and, thus, their creativity.
3. **Profits:** In the Gandhian view, the term profit is used in the residuary sense. Profit is equal to total receipt minus production costs. Capital depreciation and distribution costs are negligible in this scheme of production. Thus, the main costs of production are expenditure on raw materials, and payments to the workers. Profit is the excess of total receipts over these costs. Technological improvements are beneficial to the entrepreneurs and harmful to the workers. With the introduction of machinery, the entrepreneur's profit increases, while the workers face unemployment, and reductions in wages. Gandhi did not consider profit to be essential for the survival of a firm.
4. **Employment:** Gandhi emphasized employment. The full employment of human resources is the primary need of a country. By full employment, Gandhi meant the employment of each and every individual. Full employment cannot be attained through the development of large scale industries. These industries generally use capital intensive and labour saving technologies, and do not provide sufficient employment opportunities. Moreover, most unemployed people live in rural areas. The cause of rural underemployment is the seasonal nature of agriculture. The agricultural workers work on land for six months and for the other

six months they remain idle. It will be disadvantageous for the mechanized industries to employ such underemployed casual labour. Again, the underemployed agricultural workers have religious, cultural and social attachments with rural life, and, therefore, cannot be expected to leave their homes easily for employment in the urban industries. Thus, mechanization and large scale production provides no solution to the problem of unemployment in the agriculture-based, over-populated economies. As Gandhi pointed out: "Mechanization is good when the hands are too few for the work intended to be accomplished. It is an evil when there are more hands than required for the work, as is the case in India." The problem of unemployment, according to Gandhi, can be tackled only by developing village and cottage industries. These industries are capital-saving and labour-using. They take employment opportunities to the doors of the unemployed and ideally fit in with the rural conditions.

5. **Production:** Gandhi advocated production by the masses. He preferred the decentralization of small units of production to the concentration of large scale units in a few places. He wanted to carry the production units to the homes of the masses, particularly in villages. One advantage of the village and cottage industries is that they increase employment. Another advantage is related to the consideration of efficiency. There are many reasons to believe that it is cheaper to produce any commodity in small and cottage industries because: (a) no separate establishment charges are required (b) integration of cottage industries with agriculture (c) very few tools are needed; (d) no problems of storage; (e) negligible cost of transporting goods to the consumers (f) no waste - duplication - due to competition, and (g) no problem of over production. All these factors make the production by the small units economical. Small is beautiful. This is the logic behind the Gandhian scheme of decentralization of village and cottage industries.
6. **Technology:** It is erroneous to think that Gandhi was against technology. The essence of science is acquiring knowledge through experimentation. Gandhi offered, on behalf of the Spinners' Association, a prize of a lakh of rupees for the invention of a *charkha*, a spinning wheel, which could be made and repaired in the villages, and would produce four times the yarn spun on the traditional *charkha*. He had no objection to the use of machinery to increase production and improve the condition of the workers. But he did not approve of machinery that, in his view, produced goods along with starvation. He was against the indiscriminate multiplication of machinery. Gandhi said, "What I object to is the *craze* for machinery, not machinery as such. The craze is for what they call labour saving machinery. Men go on 'saving labour' till thousands are without work, and thrown on the open streets to die of starvation." For Gandhi, human consideration was supreme, and that of science and technology was secondary.
7. **Poverty and Inequality:** Gandhi was not an economist. But he had a clear understanding of the issues of poverty and income inequality. Poverty is not created by the poor man himself. According to him, poverty and inequality are inextricably connected. Poverty is the manifestation of affluence itself. The anatomy of affluence appears to be fair. But means to gather this status is unfair and illegitimate. Thus,

the poverty of many is caused by the richness of some. Man's greed has resulted in poverty, and it is the cause of persistence of poverty in the economy. Gandhi said, "I suggest that we are thieves in a way. If I take anything that I do not need for my own immediate use, and keep it, I steal it from somebody else. I venture to suggest that it is the fundamental law of Nature, without exception, that Nature produces enough for our wants from day to day, and if only everybody took enough for himself and nothing more, there would be no pauperism in this world, there would be no man dying of starvation in this world."

According to Gandhi, economics which disregards moral values is untrue. He introduced moral values as a factor in regulating all economic transactions and international commerce. He was not advocating socialism *per se* but humanistic values. He contended, "My ideal is equal distribution, but so far as I can see, it is not to be realized. I, therefore, work for equitable distribution."

- 8. The Principle of Satyagraha:** Gandhi adopted the principle of Satyagraha as a movement of civil disobedience and tax resistance. Gandhi laid down preconditions as absolutely necessary for the practice of Satyagraha. These are as follow:

First, there can be no Satyagraha for an unjust cause. Otherwise the principle of truth will be flouted.

Second, Satyagraha excludes the use of violence in any form, in thought or action.

Third, Satyagraha presupposes a clear distinction between a willing obedience to the laws which are good, and opposition to those which are immoral. The superiority of the law of conscience has to assert itself over other laws.

Fourth, Satyagraha is an instrument available only to those who have no hatred towards their opponents.

Fifth, a Satyagrahi must have the capacity and willingness to sacrifice. That is why Gandhi insisted more on a small revolutionary minority rather than a whole majority.

Sixth, Satyagraha means constant engagement in constructive social work so that Satyagraha as a struggle does not become negative.

Seventh, Satyagraha calls for total humility on the part of those who practice it.

And, Last, Satyagraha is the expression of discipline and sincerity. It challenges the honesty and capacity for national work, and willingness to submit to discipline.

4.3.2 The Gandhian Principle of Self-Sufficiency

The goal of Gandhian development is to build a self-sufficient society. Each community should be self-reliant. Gandhi regarded an area covered by a radius of five miles as the basic unit of self-containment. The production of each basic unit should be linked with the natural consumption requirements of those living in it. The natural consumption requirements of a basic unit depends on

- a) the geological situation of the unit

- b) the physiological and temperamental condition of people
- c) the traditions and customs of the community
- d) the occupational pattern and cultural attainments of people.

As physical, psychological, and temperamental conditions in regions vary, the consumption requirements also differ from region to region, and the production plans of each region must take into account these differences. The production plan should not only be linked with the consumption requirements of the people, but also be synchronized with the availability of natural resources, and human potentialities, combined with climatic conditions. Gandhi's thinking on socioeconomic issues was greatly influenced by the American writer, Henry David Thoreau. Throughout his life, Gandhi sought to develop ways to fight India's extreme poverty, backwardness and socioeconomic challenges, as a part of his wider involvement in the Indian independence movement. Gandhi's championing of Swadeshi and non-cooperation was centered on the principles of economic self-sufficiency. Gandhi sought to target European-made clothing and other foreign products, as not only a symbol of British colonialism, but as the source of mass unemployment and poverty in India. European industrial goods had left many millions of India's workers, craftsmen and women without a means of livelihood. By championing homespun khadi clothing and Indian-made goods, Gandhi sought to incorporate peaceful civil resistance as a means of promoting national self-sufficiency. Gandhi led the farmers of Champaran and Kheda in a satyagraha against the mill owners and landlords who were supported by the British government. He wanted to end oppressive taxation, and other policies that forced the farmers and workers and defend their economic rights. A major part of this rebellion was a commitment from the farmers to end caste discrimination and oppressive social practices against women. With that objective, he launched a cooperative effort to promote education, health care, and self-sufficiency by producing clothes and food that were made locally.

Gandhi and his followers also founded numerous *ashrams* in India and South Africa. He was of the opinion that the *ashram* promotes a lifestyle of self-sufficiency, personal, and spiritual development, and works for wider social development. The *ashram* included small farms and houses constructed by the inhabitants themselves. All inhabitants were expected to help in any task necessary for promoting the values of equality. Gandhi also espoused the notion of trusteeship, which centered on denying material pursuits and coveting wealth. *Ashram* residents act as trustees of other individuals and the community and manage economic resources and property, accordingly.

During India's freedom struggle as well as after independence in 1947, Gandhi's advocacy of homespun *khadi* clothing, the *khadi* attire, which included the Gandhi cap, developed into popular symbols of nationalism and patriotism. India's first prime minister, Jawaharlal Nehru was a socialist as well as a close supporter of Gandhi. While Nehru was influenced by Gandhi's aversion to the brand of socialism practiced in the Soviet Union, he was also an exponent of industrialization, and critical of Gandhi's focus on rural economics.

Gandhi made a trenchant critique of machinery, saying that it was a grand, yet awful, invention. Modernization is, in both theory and practice, more

exclusive and less inclusive process. In *Hind Swaraj* he observes, “It is machinery that has impoverished India”. Further, he says: “Machinery is the chief symbol of modern civilization; it represents a great sin”. Gandhi’s concern was not trivial. One needs to address the question of the appropriate choice of technique when looking at a real economy.

Despite the emphasis on self-sufficiency, as suggested by the Doctrine of Swadeshi, the Gandhian perspective has a theory of international trade. It emerged out of the mixture of Gandhian idealism and Gandhian pragmatism. The distinctive features of this trade theory may be noted as follows.

- a) It accepts the logic of the principle of comparative advantage, but rejects it as the sole basis for trade among nations.
- b) It accepts reciprocal need, rather than reciprocal demand, as the determinant of terms of trade among nations.
- c) It postulates an international economic order based on international cooperation and understanding of mutual need, rather than on market forces and competition.
- d) It is guided by a purpose higher than the purpose of pure economic gain. That is the moral purpose embodied in the notion of service to govern the flow of trade among nations. It suggests an international economic policy which is the antithesis of “beggar-my-neighbour” policy, well-known in modern international economics.
- e) It is an economic doctrine into which is infused the philosophical principle of *Ahimsa*, of non-violence and non-exploitation.
- f) It offers the maximum protection against unequal distribution of gains from trade among nations, in sharp contrast with the conventional doctrine of international trade.

Foreign trade does not play a significant role in the Gandhian type of self-contained community. The consumption needs of the community are such that they can be satisfied by the commodities available with the community. Similarly, the production technology is also based on the availability of different factors of production. Thus, aggregate supply is equal to the aggregate demand, and there is no over production or under production. Imports in such a system, are allowed only if there is surplus output of equal value to be exported in exchange. In this way, only bi-lateral trade is permitted with areas outside the self-contained region.

4.3.3 The Gandhian Theory of Balanced Growth

According to Gandhi, the right choice is not to plunge into capitalist development, but to develop a ‘communaucratic’ social economy, based on decentralized rural life. “The end to be sought”, he wrote, “is human happiness, combined with full mental and moral growth”. Thus, the Gandhian doctrine of economic growth, being a part of his general theory of growth, cannot meaningfully be formulated purely in economic terms. He visualized balanced growth which manifests in the manner described below.

- a) **Philosophical Balance:** a balance between economic progress and moral progress. To achieve such a balance, one must shift the emphasis from maximization to optimization of production, from abundance to adequacy of the production of material goods and services.

- b) **Structural Balance:** a balance between the rural and urban sectors of the economy. To achieve such a balance, the growth of the urban sector must not take place at the expense of the rural sector. Here, one must shift the emphasis from centralization to decentralization of economic activities.
- c) **Ecological Balance:** a balance in the relationship between man and his environment. Long before social concern grew over the environmental crisis in the Western industrial societies, Gandhi showed his awareness of this crisis as a natural byproduct of uncontrolled economic progress, and autonomous development of modern large scale technology. He stressed the need for making a deliberate choice of technology, and for restraints on the level of production, in order to maintain a proper balance between man and his environment.
- (d) **Technological Balance:** a balance between small scale and large scale technologies. Gandhi's views on technology have often been misinterpreted. Gandhi was not opposed to the use of modern technology, as such. He was opposed to indiscriminate, non-selective adoption of imported technology, based purely on its effect on productive capacity. In the context of the Indian economy, he saw a tremendous need for the development of small scale technology that would increase the efficiency of rural production without creating any technological displacement of labour. At the same time, he saw the need for large scale technology for which the ideal location would be large urban centres. The point that he strongly emphasized was that the adoption of Western technology to economize on labour, and to expand production at the cost of rural de-industrialization and mass unemployment was not the proper choice of technology, under the prevailing economic conditions in India. He endorsed a proper mix of technology in order to optimize the social benefits of science and technology.
- e) **Distributional Balance:** a balance in income distribution. Given the existence of gross inequality, to achieve greater balance would require strategies to redistribute income. In the context of a growing economy, Gandhi's doctrine may be interpreted as a doctrine of dynamic equilibrium in the pattern of income distribution so that exploitation is reduced to the minimum. In modern growth theories, the problem of income distribution is generally assumed away. Gandhi was fully aware that a high rate of growth does not necessarily guarantee an equitable distribution of income. The latter issue is tied up, not so much with the rate of growth, as with the pattern of growth. This is the reason why Gandhi opposed Western style economic progress through urban oriented, large scale industrialization. He would settle for a slower rate of growth for the sake of a greater diffusion of technology and productive capacity to revitalize the rural economy, as well as for the sake of a greater regional balance in the distribution of income.

4.3.4 The Gandhian Doctrine of Trusteeship

Gandhian philosophy always aims at bringing economic equality through non-violent social change. Gandhi propounded the doctrine of trusteeship as a way to realize such change. The peaceful removal of economic inequalities is possible if the rich, after meeting their reasonable needs, hold the surplus wealth in trust for society. In this way, the rich man is not dispossessed of

his surplus wealth, but he is required to use this wealth in the broader interest of the community, and not in his personal interest. The doctrine of trusteeship is based on the idea that everything is from God, and belongs to God. Therefore, it is for God's people as a whole, and not for a particular individual. Thus, if an individual possesses more than his proportionate share, he becomes a trustee of that surplus amount for God's people. As to the question of the determination of the successor of the trustee, Gandhi replied that the original trustee is to be allowed to make his choice, but that choice is to be finalized by the state. Thus, a check is put on the state as well as on the individual. A summary of Gandhi's doctrine of trusteeship follows.

- a) Trusteeship provides a means of transforming the present capitalist order of society into an egalitarian one; it gives no quarter to capitalism, but gives the present owning class a chance of reforming itself. It is based on the faith that human nature is never beyond redemption.
- b) It does not recognize any right of private ownership of property except in as much as it may be permitted by society for its own welfare.
- c) It does not exclude legislative regulation of the ownership and use of wealth.
- d) Thus, under state regulated trusteeship, an individual will not be free to hold or use his wealth for selfish satisfaction or in disregard of the interest of society.
- e) Just as it is proposed to fix a decent minimum living wage, even so a limit should be fixed for the maximum income that could be allowed to any person in the society. The difference between such minimum and maximum incomes should be reasonable and equitable and variable from time to time, so much so that the tendency would be towards obliteration of the difference.
- f) Under the Gandhian economic order, the character of production will be determined by social necessity and not by personal whim or greed (Pyarelal, 1965).

A non-exploitative technology must not create hierarchy and privilege. It must not encourage centralism. For these reasons, technology must satisfy four basic conditions: (i) the operators must have full control of the technology; (ii) the technology must not replace the worker; (iii) the technology must increase the productivity of the workers; and (iv) it must produce goods and services needed by the worker.

4.3.5 The Gandhian Model of Sustainable Development

We are living part of Earth's life, owned and operated by the Earth. Our attitude towards the earth is defective and dangerous. Our deepest folly is the notion that we own it and can exploit it to our advantage. Gandhi's ideas are relevant for protecting the environment and to preserve the carrying capacity of Mother Earth. Gandhi emphasizes three aspects: economy, society and environment. He says, the present materialistic lifestyle has to be changed for sustainable development. Gandhian economics guides us towards a sustainable lifestyle.

The Gandhian model suggests the following steps to attaining a sustainable lifestyle.

- 1) **Sustainable agriculture:** We should give up chemical fertilizers and pesticides and substitute them with bio-manures and bio-pesticides. Vermi culture and vermi compost is a must for restoring the health of the soil.
- 2) **Khadi and village industries** are eco friendly. They create employment and alleviate poverty. So we should promote *khadi* and products of *village* industries.
- 3) **Appropriate technologies:** We should adopt technologies which are simple, and which our villagers are able to comprehend and operate themselves. The use of electricity should be avoided, or kept to the minimum.
- 4) **Renewable energy sources:** Coal and petroleum are nonrenewable energy sources and are getting exhausted very fast. Solar energy is limitless and inexhaustible. We can harness solar energy for heating and lighting. Water and wind energies can also be harnessed for producing electricity.
- 5) **Sylviculture (or tree plantation):** Cutting trees for fuel and for the construction of houses is inevitable. Our policy should be to plant two trees for every tree we cut. Trees as a source of energy are non-renewable if we only cut them and do not grow them.

Gandhi's advocacy of democratic trusteeship was supported by Schumacher's concept, 'Small is Beautiful'. According to Gandhi, Democratic Trusteeship should have the "responsibility for a bundle of assets instead of ownership of them". This is a neat description of how we all have to learn to live in this planet. The trustees should be responsible for the bundle of assets – the air, sea, and land – through which nature and our life evolved, and is sustained. These assets should not to be selfishly fought over, bought, sold, and pillaged. There is life beyond acquisitive capitalist motivation. We have to hold the earth and its resources in trust for all of its peoples. We must encourage and educate people to reduce their acquisitive spirit. No change of machinery or no amount of modernization can solve our social malaise, which consists in the egotism and greed of human nature. According to Gandhian thought, under democratic common ownership, "man's spirit can be freer so that he can become more creative, productive and responsible". The Gandhian focus is on the simplicity of life based on minimum human needs. According to Gandhi, "the earth has enough resources for our needs – not for our greed". If we follow Gandhi's advice – especially following the economy of cooperation of the honey bees and birds, keeping Gandhiji's ideals in mind we can surely achieve a sustainable lifestyle. A sustainable life style automatically ensures sustainable development.

4.3.6 Gandhian Sarvodaya Plan

Gandhi was a practical idealist. He said that true economics stands for social justice and moral values. He never spoke in terms of economics logic or jargon. He advocated the dignity of man and the dignity of labour to redress the sufferings of the people. He advocated moral growth, not material development. He said we must replace apathy with sympathy, exploitation with benevolence, profit with welfare, and materialistic development with human development. He demonstrated the bankruptcy of modern civilization based on materialistic parameters as a solution for social problems. He said

that cities are plague spots. He said that previously, the British were ruling, but now their philosophy, their technology, and lifestyle rule us.

Gandhi was convinced that the salvation of the Indian economy depends on rural development. Rural development depends on agricultural development, which is the integration of both, the farm and nonfarm activities of the village economy. He never accepted the inherent contradiction between economic development and human development. So he thought of integrating and establishing harmony between both the two, through *sarvodaya*. Having set the goal, he also worked out schemes for achieving it. For achieving the goal of non violent socialism, Gandhi presented the *sarvodaya* plan. The *sarvodaya* plan provides the foundations, on which the economic organization of a nation striving for the ideals of socialism is to be built. *Sarvodaya* means all round wellbeing of all. He argues for the combination of purity of ends and nobility of means. The objective of the *sarvodaya* plan is the establishment of *sarvodaya* social order on the principles of non violence, truth, love, and cooperation. The *sarvodaya* plan includes:

- a) Economic equality and communal harmony
- b) Full attention to the cultivators and the labourers
- c) All cultivators organizing their own committees
- d) All labourers forming their own unions
- e) Education for all (technical or basic)
- f) Hand-spinning in every family

Gandhi's *sarvodaya* is essentially a programme for the regeneration of the Indian village. Gandhi suggested a number of products that cottage industries in villages could make i.e. gur, baskets, ropes, brooms, oil, etc. *Khadi* is the sun of the village system. *Khadi*, according to Gandhi, is the central industry on which all other village industries revolve. The employment of carpenters and blacksmiths engaged in the production of the *charkha*, or spinning wheels, and of weavers, dyers, and printers of cloth, depend upon the demand for *Khadi*. Moreover, Gandhi related many religious and moral values to the *charkha*. In his *Khadi* scheme, Gandhi proposed the following measures to develop the khadi industry:

- Compulsory introduction of spinning in all primary and secondary schools;
- The cultivation of cotton in areas where it is not grown;
- The organization of weaving by multipurpose cooperative societies;
- All employees in the education and co-operative departments, municipal, district boards, and gram *panchayats* would be required to pass a test in spinning, in order to qualify;
- Control of prices of handloom cloth woven of mill yarn;
- The imposition of a ban on the use of mill cloth in areas where the hand woven cloth was in abundance;
- The use of hand spun cloth in all government, and textile and weaving departments; the old cloth mills would not be allowed to expand, and new ones would not be opened; and
- The import of foreign yarn, or cloth to be banned.

The revitalization of the village economy, among other things, includes measures such as the development of village and cottage industries, the improvement of village sanitation, protection from robbers and wild animals, the development of agriculture, conducting all activities on co-operative basis, the constitution of village *panchayats*, self-sufficiency in basic requirements, the removal of illiteracy, and the abolition of the caste system. Special attention would be provided to the development of village industries, sanitation, and hygiene. In short, the basic objective would be to develop the village into a complete, self-sufficient republic.

This is a long range programme. The immediate task is to establish *sarvodaya* at the village level. To start with, social order should change according to *sarvodaya* principles in each village. Therefore, Gandhi evolved schemes for the regeneration of villages and revitalization of village economy. Gandhi's struggle against poverty and unemployment, and his work of national reconstruction starts from the village. The purpose is to bring all-round development of the village and make it a self-sufficient economic unit. Gandhian activists such as Vinoba Bhave and Jayaprakash Narayan were involved in the Sarvodaya Movement, which sought to promote self-sufficiency amidst India's rural population by encouraging land redistribution, socioeconomic reforms, and promoting cottage industries. The movement sought to combat the problems of class conflict, unemployment, and poverty while attempting to preserve the lifestyle and values of rural Indians, which were eroding with industrialization and modernization. Sarvodaya also included *bhoodan*, or the gifting of land and agricultural resources by the landlords (called *zamindars*) to their tenant farmers in a bid to end the medieval system of *zamindari*. Bhave and others promoted *bhoodan* as a just and peaceful method of land redistribution in order to create economic equality, land ownership, and opportunity without creating class based conflicts. *Bhoodan* and *sarvodaya* enjoyed notable successes in many parts of India, including Maharashtra, Gujarat, Karnataka, and Uttar Pradesh.

4.3.7 Gandhian Concepts of Austerity and Abstinence

Mahatma Gandhi stated that "there is enough for everyone's need and but not for everyone's greed." He was of the opinion that the nature has managed it in such a way that there will be a balance in the eco-system, and that everybody gets enough of what they need, in order to have good life. Unfortunately, man being greedy, violates nature's rule and exploits others in order to fulfill his greed. He appealed to human beings to be austere and follow the principle of abstinence for the welfare of all.

You are now familiar with the main features of Gandhian development theory after reading this section. Now, answer the questions given in *Check Your Progress-2*.

Check Your Progress 2

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) What is a self-reliant village economy?

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- 2) What was Gandhi's idea on poverty and inequality?

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4.4 THE RURAL DEVELOPMENT MODEL BASED ON GANDHISM

India has achieved impressive growth in production and income. However, India's efforts to remove poverty and inequality in rural areas have failed. The reason for this is that strategies for rural development have been aimed primarily at raising production, without any understanding of social and class structure and their relation to production and its distribution. According to Gandhi, the salvation of the Indian economy depends on rural development and rural transformation. The prevailing agrarian situation indicates that this cannot be brought about in the context of India's present obsession with economic growth, and the trend of economic development in the world, in general. In the present state of socio-politico-economic affairs, the current growth model benefits the dominant class of the population at the cost of the rural poor. Some aspects of the Gandhian model, e.g., the expansion of village and cottage industries, the decentralization of production and wealth, and the institution of trusteeship by the state, and confiscation of excess wealth, may be implemented to build the social base for economic prosperity.

Gandhi emphasized decentralization to ensure the dignity of labour. He said, "A human state will be a decentralized society of equal partners". According to Gandhi, labour has four components: (a) bread labour, a kind of minimum physical labour which must be performed by everybody, from philosophers to ordinary labourers; (b) earning labour for living, as is normally understood in economics; (c) labour as an instrument for self actualization; and (d) as a method of service to others. Once this four-fold view of labour is accepted, no degree of division of labour can really dehumanize man.

The Gandhian concept of Man is one of an integral man, and the Gandhian concept of society is that of an integral society. The Gandhian model is based on an integral transformation of Man and society. In the Gandhian conception, the processes of individual transformation and political transformation are inevitably interconnected. The Gandhian concept basically pursues the unity of the individual and the social order. Gandhi stresses the unity of private and public life. In the Gandhian view, private life must be transparent, and in that transparency, we can see the public life, too. In Gandhian thought, the stress is on the unity of the individual and social praxis. The Gandhian view may be seen as the 'Unity of Existence'.

The social, economic, and political subsystems are closely interwoven as an organic whole, and the poor man remains outside that enclosure. His voice, his priorities, and his problems remain unheard. So, Gandhi argued against the central planning. Gandhian paradigm has the following features

- i) The cause of all contradictions is centralism. It may be described as a situation in which a few control the means and the power to make decisions which affect many that are left out. The elective representative system of the present type is centralist.

- ii) Centralism, as the source of social contradiction, has two major loci: (a) the sphere of production (economy); and (b) power (state).
- iii) Centralism in production leads to exploitation. Centralism in power leads to oppression. The two centralisms reinforce each other.
- iv) The victims of centralism, who are exploited and oppressed, alone will initiate change. No meaningful process of change can be generated by the centralist.
- v) The process of change started by the victim will only reproduce the system if it copies the centralist system. So, the praxis of change should fulfil the following conditions:
 - a) The praxis must be broadly based, that is, it should be a mass movement.
 - b) The mass movement should not be characterized by centralism in its ideology, or in its organization.
 - c) If the movement becomes centralist in its organization, then it will acquire the characteristics of the state.
 - d) The movement should be free of violence. It should be firmly rooted in the ideology of non-violence. This characteristic of the movement to expose exploitation and oppression gives it the moral force of truth against non-truth.
 - e) Individuals have a central role in this praxis. The individuals can be a moral force by incarnating the values of trust and nonviolence.

Therefore, the Gandhian model advocated the idea of decentralization, which ensures the people's participation. The Gandhian decentralized approach strengthens the feedback system which ensures self-correction and self-direction. It emphasizes *gram swaraj* (village autonomy) and human values. It emphasizes production by the masses, but not mass production. It emphasizes labour intensive technology, small scale village and cottage industries, handicrafts, charkha and the use of renewable energy, and ecological balance. The decentralized model removes all kinds of constraints, and ensures three types of balance

- Spatial balance
- Sectoral balance
- Operation balance

According to Gandhian thought, rural development is not a tailor made programme, or a process which can be triggered by outside agencies and authorities. The advantages of decentralization are:

- i) It allows better political and administrative penetration;
- ii) It raises efficiency and better implementation of development plans;
- iii) It facilitates better coordination between central, state, and local agencies;
- iv) It raises sensitivity and flexibility, and institutionalizes peoples' participation;

- v) It reduces red-tapism and the diseconomies of scale, inherent in centralization; and
- vi) It ensures greater equity in resource allocation and income distribution.

4.5 A CRITICAL APPRAISAL OF GANDHIAN DEVELOPMENT THEORY

Gandhian economic thought appears to be very logical and impressive. However, it suffers from following deficiencies:

- 1) Gandhi was not an economist in any professional sense. His economic ideas lack systematization, and lay scattered here and there in his writings. He attempted no economic analysis and presented no theoretical model.
- 2) In fact, Gandhi has not studied the writings of the western economists. He only studied Marx and that, too, late in his life during his detention in 1942. Whatever he wrote or said about economics was the natural outburst of his ethical and philosophical thought, and was not adopted from any book.
- 3) His thinking on economics does not contain any technical knowledge that has analytical value. He was a practical idealist and was immediately interested in solving the problems of poverty and inequality in his country.
- 4) The solutions he suggested called for a socioeconomic revolution through non-violent means. According to him, to achieve this objective, the country must act according to *sarvodaya* principles. This is a most unpractical solution. It is a great fantasy to expect that the rich would shed their acquisitive tendencies and would help their poor brethren to ameliorate their poverty.
- 5) With the acceptance of *sarvodaya* principles, the rich are unable to free themselves from the lust for profit. And production does not expand due to obsolete methods of production. It leads to perennial stagnation.
- 6) Universalizing the idea of non-violence, he hoped, would bring about a change of heart. However, to think that all countries would follow the path of non-violence is mere wishful thinking.

Despite the generally inoperative nature of Gandhian philosophy, Gandhi must be credited for emphasizing the role of small scale industries and agriculture in the development of the Indian economy. Almost all the economists recognize the importance of small scale industries, and the need for their decentralization in an overpopulated and rural based underdeveloped country. Gandhi also correctly realized that in such an economy, reorganization and revitalization of agriculture is a pre-condition to economic development. Development has to evolve from the people.

Now that you have a fairly good understanding of the rural development model based on Gandhian theory, and also various criticisms against Gandhian theory, answer the following questions given in *Check Your Progress-3*.

Note: a) Write your answer in about 50 words.

b) Check your answer with possible answers given at the end of the unit.

1) Describe the main aspects of the Gandhian model of rural development.

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2) What are the main criticisms of Gandhian Theory?

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4.6 LET US SUM UP

In this unit we dealt with Gandhi's philosophy, and his economic ideas and concepts. We explained how Gandhian economics differs from mainstream economics. The Gandhian doctrine of Trusteeship and self-sufficiency have been analyzed. We also explained the Gandhian model of rural development and balanced growth. The sustainable development based on Gandhian ideas was described. The criticism against the Gandhian theory of economic development has also been narrated.

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4.8 CHECK YOUR PROGRESS-POSSIBLE ANSWERS

Check Your Progress 1

1. Gandhian economics differs from mainstream economics in the following ways:
 - i) It replaces the assumption of the perfect mobility of labour with the assumption that community and family stability should have priority;
 - ii) It rejects more-is-always-better principle. It replaces the axiom of non-satiation with a principle of limits, the recognition that there is such a thing as 'enough' material wealth;
 - iii) It recognizes that consuming more than 'enough' creates more problems than it solves, and causes consumer satisfaction, or utility to decline, rather than increase; and
 - iv) It aims at providing a better quality of life rather than higher standards of living, as propagated by other economists.
2. Society is divided between the rich and the poor, between the strong and the weak, between the privileged and unprivileged, and between the elite and the masses. The principle of social justice requires that the former must help the latter in fulfilling their basic requirements. The ideal functioning of society aims at providing social justice, and reducing inequalities.

Check Your Progress 2

1. The self-contained village is the goal of the Gandhian production scheme. Each community should be able to satisfy the needs of its people. The production of each community should be linked with the natural consumption requirements of the community. The natural consumption requirements depend on: (a) geological situation (b) physiological condition (c) traditions and customs (d) occupational pattern and cultural attainments of the people.
2. According to Gandhi, poverty and inequality are two sides of the same coin. Both are inextricably connected. Poverty is the manifestation of affluence itself. The anatomy of affluence appears to be fair. But, the means to obtain this status is unfair and illegitimate. Thus, the poverty of many is caused by the richness of some. The greed of Man has resulted in poverty, and it is the cause of the persistence of poverty in the economy.

Check Your Progress 3

1. Some aspects of the Gandhian model of rural development are: the expansion of village and cottage industries, decentralization of production and wealth, the institution of trusteeship by state, confiscation of excess wealth which may be implemented to build the social base for economic prosperity.

2. Some of the criticisms of the Gandhian theory are
- 1) His economic ideas lack systematization and lay scattered here and there in his writings. He attempted no economic analysis and presented no theoretical model.
 - 2) The solutions that he suggested call for a socio-economic revolution through non-violent means. To achieve this objective, the country must act according to *sarvodaya* principles. It is a most unpractical solution. It is a great fantasy to expect that the rich would shed their acquisitive tendencies, and would help their poor brethren to ameliorate their poverty
 - 3) With the acceptance of *sarvodaya* principles, the rich are unable to free themselves from the lust for profit. And, production does not expand due to obsolete methods of production. It leads to perennial stagnation only.

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Block	Unit Nos	Unit Titles
1	Development: An Overview	
	1	Development – Concept and Paradigms
	2	Economic Development
	3	Human Development
	4	Political Development
2	Classical and Neo-Classical Theories	
	1	Classical Theories
	2	Neo-Classical Theories
	3	Marxian Theory
	4	Schumpeter Theory
3	Developmentalist Theories	
	1	Balanced Development Theories
	2	Unbalanced Development Theories
	3	Rostow's Stages of Economic Growth and Development
	4	Developmental State Theory
4	Heterogeneous Theories	
	1	Neo-Liberal Theories
	2	Dependency Theory
	3	Human Capabilities Theory
	4	Gandhian Theory