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**DEVELOPMENT
AS CAPABILITY EXPANSION***

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INTRODUCTION

In his *Grundlegung zur Metaphysik de Sitten*, Immanuel Kant argues for the necessity of seeing human beings as ends in themselves, rather than as means to other ends: "So act as to treat humanity, whether in thine own person or in that of any other, in every case as an end withal, never as means only".¹ This principle has importance in many contexts – even in analysing poverty, progress and planning. Human beings are the agents, beneficiaries and adjudicators of progress, but they also happen to be – directly or indirectly – the primary means of all production. This dual role of human beings provides a rich ground for confusion of ends and means in planning and policy-making. Indeed, it can – and frequently does – take the form of focusing on production and prosperity as the essence of progress, treating people as the means through which that productive progress is brought about (rather than seeing the lives of people as the ultimate concern and treating production and prosperity merely as means to those lives).

Indeed, the widely prevalent concentration on the expansion of real income and on economic growth as the characteristics of successful development can be precisely an aspect of the mistake against which Kant had warned. This problem is particularly pivotal in the assessment and planning of economic development. The problem does not, of course, lie in the fact that the pursuit of economic prosperity is typically taken to be a major goal of planning and policy-making. This need not be, in itself, unreasonable. The problem relates to the level at which this aim should be taken as a goal. Is it just an intermediate goal, the importance of which is contingent on what it ultimately con-

tributes to human lives? Or is it the object of the entire exercise? It is in the acceptance – usually implicitly – of the latter view that the ends-means confusion becomes significant – indeed blatant.

The problem might have been of no great practical interest if the achievement of economic prosperity were tightly linked – in something like a one-to-one correspondence – with that of enriching the lives of the people. If that were the case, then the pursuit of economic prosperity as an end in itself, while wrong in principle, might have been, in effect, indistinguishable from pursuing it only as a means to the end of enriching human lives. But that tight relation does not obtain. Countries with high GNP per capita can nevertheless have astonishingly low achievements in the quality of life, with the bulk of the population being subject to premature mortality, escapable morbidity, overwhelming illiteracy and so on.

Just to illustrate an aspect of the problem, the GNP per capita of six countries is given in table 1.1.1, along with each country's respective level of life expectancy at birth.

A country can be very rich in conventional economic terms (i.e., in terms of the value of com-

TABLE 1.1.1
Economic prosperity and life expectancy, 1985

Country	GNP per capita	Life expectancy at birth
China	310	69
Sri Lanka	380	70
Brazil	1,640	65
South Africa	2,010	55
Mexico	2,080	67
Oman	6,730	54

Source: *World Development Report 1987* (New York, Oxford University Press, 1988), Table 1.

modities produced per capita) and still be very poor in the achieved quality of human life. South Africa, with five or six times the GNP per capita of Sri Lanka or China, has a much lower longevity rate, and the same applies in different ways to Brazil, Mexico, Oman, and indeed to many other countries not included in this table.

There are, therefore, really two distinct issues here. First, economic prosperity is no more than one of the means to enriching the lives of people. It is a foundational confusion to give it the status of an end. Secondly, even as a means, merely enhancing average economic opulence can be quite inefficient in the pursuit of the really valuable ends. In making sure that development planning and general policy-making do not suffer from costly confusions of ends and means, we have to face the issue of identification of ends, in terms of which the effectiveness of the means can be systematically assessed. This paper is concerned with discussing the nature and implications of that general task.

THE CAPABILITY APPROACH: CONCEPTUAL ROOTS

The particular line of reasoning that will be pursued here is based on evaluating social change in terms of the richness of human life resulting from it. But the quality of human life is itself a matter of great complexity. The approach that will be used here, which is sometimes called the "capability approach", sees human life as a set of "doings and beings" – we may call them "functionings" – and it relates the evaluation of the quality of life to the assessment of the capability to function. It is an approach that I have tried to explore in some detail, both conceptually and in terms of its empirical implications.² The roots of the approach go back at least to Adam Smith and Karl Marx, and indeed to Aristotle.

In investigating the problem of "political distribution", Aristotle made extensive use of his analysis of "the good of human beings", and this he linked with his examination of "the functions of man" and his exploration of "life in the sense of activity".³ The Aristotelian theory is, of course,

highly ambitious and involves elements that go well beyond this particular issue (e.g., it takes a specific view of human nature and relates a notion of objective goodness to it). But the argument for seeing the quality of life in terms of valued activities and the capability to achieve these activities has much broader relevance and application.

Among the classical political economists, both Adam Smith and Karl Marx explicitly discussed the importance of functionings and the capability to function as determinants of well-being.⁴ Marx's approach to the question was closely related to the Aristotelian analysis (and indeed was apparently directly influenced by it).⁵ Indeed, an important part of Marx's programme of reformulation of the foundations of political economy is clearly related to seeing the success of human life in terms of fulfilling the needed human activities. Marx put it thus: "It will be seen how in place of the wealth and poverty of political economy come the rich human being and rich human need. The rich human being is simultaneously the human being in need of a totality of human life-activities – the man in whom his own realization exists as an inner necessity, as need."⁶

COMMODITIES, FUNCTIONINGS AND CAPABILITY

If life is seen as a set of "doings and beings" that are valuable, the exercise of assessing the quality of life takes the form of evaluating these functionings and the capability to function. This valuational exercise cannot be done by focusing simply on communities or incomes that help those doings and beings, as in commodity-based accounting of the quality of life (involving a confusion of means and ends). "The life of money-making", as Aristotle put it, "is one undertaken under compulsion, and wealth is evidently not the good we are seeking; for it is merely useful and for the sake of something else."⁷ The task is that of evaluating the importance of the various functionings in human life, going beyond what Marx called, in a different but related context, "commodity fetishism".⁸ The functionings themselves have to be examined, and

the capability of the person to achieve them has to be appropriately valued.

In the view that is being pursued here, the constituent elements of life are seen as a combination of various different functionings (a "functioning n-tuple"). This amounts to seeing a person in, as it were, an "active" rather than a "passive" form (but neither the various states of being nor even the "doings" need necessarily be "athletic" ones). The included items may vary from such elementary functionings as escaping morbidity and mortality, being adequately nourished, undertaking usual movements etc., to many complex functionings such as achieving self-respect, taking part in the life of the community and appearing in public without shame (the last a functioning that was illuminatingly discussed by Adam Smith⁹ as an achievement that is valued in all societies, but the precise commodity requirement of which, he pointed out, varies from society to society). The claim is that the functionings are constitutive of a person's being, and an evaluation of a person's well-being has to take the form of an assessment of these constituent elements.

The primitive notion in the approach is that of functionings – seen as constitutive elements of living. A functioning is an achievement of a person: what he or she manages to do or to be, and any such functioning reflects, as it were, a part of the state of that person. The capability of a person is a derived notion. It reflects the various combinations of functionings (doings and beings) he or she can achieve.¹⁰ It takes a certain view of living as a combination of various "doings and beings". Capability reflects a person's freedom to choose between different ways of living. The underlying motivation – the focusing on freedom – is well captured by Marx's claim that what we need is "replacing the domination of circumstances and chance over individuals by the domination of individuals over chance and circumstances".¹¹

UTILITARIAN CALCULUS VERSUS OBJECTIVE DEPRIVATION

The capability approach can be contrasted not merely with commodity-based systems of evalua-

tion, but also with the utility based assessment. The utilitarian notion of value, which is invoked explicitly or by implication in much of welfare economics, sees value, ultimately, only in individual utility, which is defined in terms of some mental condition, such as pleasure, happiness, desire-fulfilment. This subjectivist perspective has been extensively used, but it can be very misleading, since it may fail to reflect a person's real deprivation.

A thoroughly deprived person, leading a very reduced life, might not appear to be badly off in terms of the mental metric of utility, if the hardship is accepted with no-grumbling resignation. In situations of long-standing deprivation, the victims do not go on weeping all the time, and very often make great efforts to take pleasure in small mercies and to cut down personal desires to modest – "realistic" – proportions. The person's deprivation, then, may not at all show up in the metrics of pleasure, desire-fulfilment etc., even though he or she may be quite unable to be adequately nourished, decently clothed, minimally educated and so on.¹²

This issue, apart from its foundational relevance, may have some immediate bearing on practical public policy. Smugness about continued deprivation and vulnerability is often made to look justified on grounds of lack of strong public demand and forcefully expressed desire for removing these impediments.¹³

AMBIGUITIES, PRECISION AND RELEVANCE

There are many ambiguities in the conceptual framework of the capability approach. Indeed, the nature of human life and the content of human freedom are themselves far from unproblematic concepts. It is not my purpose to brush these difficult questions under the carpet. In so far as there are genuine ambiguities in the underlying objects of value, these will be reflected in corresponding ambiguities in the characterization of capability. The need for this relates to a methodological point, which I have tried to defend elsewhere, that if an underlying idea has an essential ambiguity, a precise formulation of that idea must try to cap-

ture that ambiguity rather than attempt to lose it.¹⁴ Even when precisely capturing an ambiguity proves to be a difficult exercise, that is not an argument for forgetting the complex nature of the concept and seeking a spuriously narrow exactness. In social investigation and measurement, it is undoubtedly more important to be vaguely right than to be precisely wrong.¹⁵

It should be noted also that there is always an element of real choice in the description of functionings, since the format of "doings" and "beings" permits additional "achievements" to be defined and included. Frequently, the same doings and beings can be seen from different perspectives, with varying emphases. Also, some functionings may be easy to describe, but of no great interest in the relevant context (e.g., using a particular washing powder in doing the washing).¹⁶ There is no escape from the problem of evaluation in selecting a class of functionings as important and others as not so. The evaluative exercise cannot be fully addressed without explicitly facing questions concerning what are the valuable achievements and freedoms, and which are not. The chosen focus has to be related to the underlying social concerns and values, in terms of which some definable functionings and capabilities may be important and others quite trivial and negligible. The need for selection and discrimination is neither an embarrassment nor a unique difficulty for the conceptualization of functioning and capability.¹⁷

In the context of some types of welfare analysis, for example, in dealing with extreme poverty in developing economies, we may be able to go a long distance in terms of a relatively small number of centrally important functionings and the corresponding capabilities, such as the ability to be well-nourished and well-sheltered, the capability of escaping avoidable morbidity and premature mortality and so forth.¹⁸ In other contexts, including more general problems of assessing economic and social development, the list may have to be much longer and much more diverse.¹⁹ The task of specification must relate to the underlying motivation of the exercise as well as dealing with the social values involved.

QUALITY OF LIFE, BASIC NEEDS AND CAPABILITY

There is an extensive literature in development economics concerned with valuing the quality of life, the fulfilment of basic needs and related matters.²⁰ That literature has been quite influential in recent years in drawing attention to neglected aspects of economic and social development. It is, however, fair to say that these writings have been typically comprehensively ignored in the theory of welfare economics, which has tended to treat these contributions as essentially *ad hoc* suggestions. This treatment is partly the result of the concern of welfare theory that proposals should not just appeal to intuitions but also be structured and founded. It also reflects the intellectual standing that such traditional approaches as utilitarian evaluation enjoy in welfare theory, and which serves as a barrier to accepting departures even when they seem attractive. The inability of utility-based evaluations to cope with persistent deprivations was discussed earlier, but in the welfare-economic literature the hold of this tradition has been hard to dislodge.

The charge of "*ad hoc*-ness" against the development literature relates to the different modes of arguing that are used in welfare theory and in development theory. As far as the normative structure is concerned, the latter tends to be rather immediate, appealing to strong intuitions that seem obvious enough. Welfare theory, on the other hand, tends to take a more circuitous route, with great elaboration and defense of the foundations of the approach in question. To bridge the gap, we have to compare and contrast the foundational features underlying the concern with quality of life, needs etc. with the informational foundations of the more traditional approaches used in welfare economics and moral philosophy such as utilitarianism. It is precisely in this context that the advantages of the capability approach become perspicuous. The view of human life seen as a combination of various functionings and capabilities, and the analysis of human freedom as a central feature of living, provide a differently

grounded foundation route to the evaluative exercise. This informational foundation contrasts with the evaluative bases incorporated in the more traditional foundations used in welfare economics.²¹

The "basic needs" literature has, in fact, tended to suffer a little from uncertainties about how basic needs should be specified. The original formulations often took the form of defining basic needs in terms of needs for certain minimal amounts of essential commodities such as food, clothing and shelter. If this type of formulation is used, then the literature remains imprisoned in the mould of commodity centered evaluation, and can in fact be accused of adopting a form of "commodity fetishism". The objects of value can scarcely be the holdings of commodities. Judged even as means, the usefulness of the commodity-perspective is severely compromised by the variability of the conversion of commodities into capabilities. For example, the requirement of food and of nutrients for the capability of being well nourished may greatly vary from person to person, depending on metabolic rates, body size, gender, pregnancy, age, climatic conditions, parasitic ailments and so on.²² The evaluation of commodity holdings or of incomes (with which to purchase commodities) can be at best a proxy for the things that really matter, but unfortunately it does not seem to be a particularly good proxy in most cases.²³

RAWLS, PRIMARY GOODS AND FREEDOMS

The concern with commodities and means of achievement, with which the motivation of the capability approach is being contrasted, happens to be, in fact, influential in the literature of modern moral philosophy as well. For example, in John Rawls' outstanding book on justice (arguably the most important contribution to moral philosophy in recent decades), the concentration is on the holdings of "primary goods" of different people in making interpersonal comparisons. His theory of justice, particularly the "difference principle", is dependent on this procedure for interpersonal comparisons. This procedure has the feature of

being partly commodity-based, since the list of primary goods includes "income and wealth", in addition to "the basic liberties", "powers and prerogatives of offices and positions of responsibility", "social bases of self-respect" and so on.²⁴

Indeed, the entire list of "primary goods" of Rawls is concerned with means rather than ends; they deal with things that help to achieve what we want to achieve, rather than either with achievement as such or even with the freedom to achieve. Being nourished is not part of the list, but having the income to buy food certainly is. Similarly, the social bases of self-respect belong to the list in a way self-respect as such does not.

Rawls is much concerned that the fact that different people have different ends must not be lost in the evaluative process, and people should have the freedom to pursue their respective ends. This concern is indeed important, and the capability approach is also much involved with valuing freedom as such. In fact, it can be argued that the capability approach gives a better account of the freedoms actually enjoyed by different people than can be obtained from looking merely at the holdings of primary goods. Primary goods are means to freedoms, whereas capabilities are expressions of freedoms themselves.

The motivations underlying the Rawlsian theory and the capability approach are similar, but the accountings are different. The problem with the Rawlsian accounting lies in the fact that, even for the same ends, people's ability to convert primary goods into achievements differs, so that an interpersonal comparison based on the holdings of primary goods cannot, in general, also reflect the ranking of their respective real freedoms to pursue any given - or variable - ends. The variability in the conversion rates between persons for given ends is a problem that is embedded in the wider problem of variability of primary goods needed for different persons pursuing their respective ends.²⁵ Hence, a similar criticism applies to Rawlsian accounting procedure as applies to parts of the basic-needs literature for their concentration on means (such as commodities) as opposed to achievements or the freedom to achieve.

FREEDOM, CAPABILITY AND DATA LIMITATIONS

The capability set represents a person's freedom to achieve various functioning combinations. If freedom is intrinsically important, then the alternative combinations available for choice are all relevant for judging a person's advantage, even though he or she will eventually choose only an alternative. In this view, the choice itself is a valuable feature of a person's life.

On the other hand, if freedom is seen as being only instrumentally important, then the interest in the capability set lies only in the fact that it offers the person opportunities to achieve various valuable states. Only the achieved states are in themselves valuable, not the opportunities, which are valued only as means to the end of reaching valuable states.

The contrast between the intrinsic and the instrumental views of freedom is quite a deep one, and I have discussed the importance of the distinction elsewhere.²⁶ Both views can be accommodated within one capability approach. With the instrumental view, the capability one is valued only for the sake of the best alternative available for choice (or the actual alternative chosen). This way of evaluating a capability set by the value of one distinguished element in it can be called "elementary evaluation".²⁷ If, on the other hand, freedom is intrinsically valued, then elementary evaluation will be inadequate, since the opportunity to choose other alternatives is of significance of its own. To bring out the distinction, it may be noted that if all other than the chosen alternative were to become unavailable, then there would be a real loss in the case of the intrinsic view, but not in the instrumental, since the alternative chosen is still available.

In terms of practical application, the intrinsic view is much harder to reflect than the instrumental view, since our direct observations relate to what was chosen and achieved. The estimation what could have been chosen is, by its very nature, more problematic (involving, in particular, assumptions about the constraints actually faced by the person). The limits of practical calculations are

set by data restrictions, and this can be particularly hard on the representation of capability sets in full, as opposed to judging the capability sets by the observed functioning achievements.

There is no real loss involved in using the capability approach in this reduced form if the instrumental view of freedom is taken, but there is loss if the intrinsic view is accepted. For the latter, a presentation of the capability set as such is important.

In fact, neither the instrumental view nor the intrinsic view is likely to be fully adequate. Certainly, freedom is a means to achievement, whether or not it is also intrinsically important, so that the instrumental view must be *inter alia* present in any use of the capability approach. Also, even if we find in general the instrumental view to be fairly adequate, there would clearly be cases in which it is extremely limited. For example, the person who fasts, that is, starves out of choice, can hardly be seen as being similarly deprived as a person who has no option but to starve because of penury. Even though their observed functionings may be the same, at least in the crude representation of functionings, their predicaments are not the same.

In practice, even if in general the capability approach is used in the reduced form of concentrating on the chosen functioning combination, some systematic supplementation would be needed to take care of cases in which the freedom enjoyed is of clear and immediate interest. There may be no great difficulty in doing this supplementation in many cases, once the problem is posed clearly enough and the data search is made purposive and precise. Sometimes it would be useful to redefine the functionings in what is called a "refined" way, to take note of some of the obviously relevant alternatives that were available, but not chosen. Indeed, fasting is an example of a "refined" functioning, and contrasts with the unrefined functioning of "starving", which does not specify whether or not this was by choice.²⁸ The important issue does not concern the existence or not of some actual word (such as fasting) that reflects the refined functioning (that is largely a matter of linguistic convention), but assessing whether or not such re-

fining would be central to the exercise in question, and if central, deciding how this might be done.

As a matter of fact, the informational base of functionings is still a much finer basis of evaluation of the quality of life and economic progress than various alternatives more commonly recommended, such as individual utilities or commodity holdings. The commodity fetishism of the former and the subjectivist metric of the latter make them deeply problematic. Thus, the concentration on achieved functionings has merits over the feasible rivals (even though it may not be based on as much information as would be needed to attract intrinsic importance to freedom). And in terms of data availability, keeping track of functionings (including vital ones such as being well-nourished and avoiding escapable morbidity or premature mortality) is typically no harder – often much easier – than getting data on commodity use (especially divisions within the family), not to mention utilities.

The capability approach can, thus, be used at various levels of sophistication, and how far we can go would depend much on the practical consideration of what data we can get and what we cannot. In so far as freedom is seen to be intrinsically important, the observation of the chosen functioning bundle cannot be in itself an adequate guide for the evaluative exercise, even though the freedom to choose a better bundle rather than a worse one can be seen to be, in some accounting, an advantage even from the perspective of freedom.²⁹

The point can be illustrated with a particular example. An expansion of longevity is seen, by common agreement, as an enhancement of the quality of life (though, strictly speaking, I suppose one can think of it as an enhancement of the quantity of life). This is so partly because living longer is an achievement that is valued. It is also partly so because other achievements, such as avoiding morbidity, tend to go with longevity (and thus longevity serves also as a proxy for some achievements that too are intrinsically valued). But greater longevity can also be seen as an enhancement of the freedom to live long. We often take this for granted on the solid ground that given the option, people value living longer, and thus the observed

achievement of living longer reflects a greater freedom than was enjoyed.

The interpretative question arises at this precise point. Why is it evidence of greater freedom as such that a person ends up living longer rather than shorter? Why can it not be just a preferred achievement, but involving no difference in terms of freedom? One answer is to say that one always does have the option of killing oneself, and thus an expansion of longevity expands one's options. But there is a further issue here. Consider a case in which, for some reason (either legal or psychological or whatever), one cannot really kill oneself (despite the presence in the world of poisons, knives, tall buildings and other useful objects). Would we then say that the person does not have more freedom by virtue of being free to live longer though not shorter? It can be argued that if the person values, prefers and wishes to choose living longer, then the change in question is in fact an expansion of the person's freedom, since the valuation of freedom cannot be dissociated from the assessment of the actual options in terms of the person's evaluative judgements.³⁰

The idea of freedom takes us beyond achievements, but that does not entail that the assessment of freedom must be independent of that of achievements. The freedom to live the kind of life one would take to live has importance that the freedom to live the kind of life one would hate to have does not. Thus, the temptation to see more freedom in greater longevity is justifiable from several points of view, including noting the option of ending one's life and being sensitive to the evaluative structure of achievements, which directly affect the metric of freedom. The bottom line of all this is to recognize that the use of the capability approach even in the reduced form of concentrating on the achieved functionings (longevity, absence of morbidity, avoidance of undernourishment etc.) may give more role to the value of freedom than might have been initially apparent.

INEQUALITY, CLASS AND GENDER

The choice of an approach to the evaluation of well-being and advantage has bearings on many

exercises. These include the assessment of efficiency as well as inequality. Efficiency, as it is normally defined, is concerned with noting overall improvements, and in standard economic theory, this takes the form of checking whether someone's position has improved without anyone's position having gone down. A situation is efficient if and only if there is no alternative feasible situation in which someone's position is better and no one's worse. Obviously, the content of this criterion depends crucially on the way individual advantage is defined. If it is defined in terms of utility, then this criterion of efficiency immediately becomes that of "Pareto optimality" (or "Pareto efficiency", as it is sometimes – more accurately – called). On the other hand, efficiency can be defined also in terms of other metrics, including that of the quality of life based on the evaluation of functionings and capabilities.

Similarly, the assessment of inequality too depends on the chosen indicator of individual advantage. The usual inequality measures that can be found in empirical economic literatures tend to concentrate on inequalities of incomes or wealth.³¹ These are valuable contributions. On the other hand, in so far as income and wealth do not give adequate account of quality of life, there is a case for basing the evaluation of inequality on information more closely related to living standards.

Indeed, the two informational bases are not alternatives. Inequality of wealth may tell us things about the generation and persistence of inequalities of other types, even when our ultimate concern may be with inequality of living standard and quality of life. Particularly in the context of the continuation and stubbornness of social divisions, information on inter-class inequalities in wealth and property ownership is especially crucial. But this recognition does not reduce the importance of bringing in indicators of quality of life to assess the actual inter-class inequalities of well-being and freedom.

One field in which inequalities are particularly hard to assess is that of gender difference. There is a great deal of general evidence to indicate that women often have a much worse deal than men do, and that girls are often much more

deprived than boys. These differences may be reflected in many subtle as well as crude ways, and in various forms they can be observed in different parts of the world – among both rich and poor countries. However, it is not easy to determine what is the best indicator of advantage in terms of which these gender inequalities are to be examined. There is, to be sure, no need to look for one specific metric only, and the need for plurality of indicators is as strong here as in any other field. But there is still an issue of the choice of approach to well-being and advantage in the assessment of inequalities between women and men.

The approach of utility-based evaluation is particularly limiting in this context, since the unequal deals that obtain, particularly within the family, are often made "acceptable" by certain social notions of "normal" arrangements, and this may affect the perceptions of women as well as men of the comparative levels of well-being they respectively enjoy. For example, in the context of some developing countries such as India, the point has been made that rural women may have no clear perception of being deprived of things that men have, and may not be in fact any more unhappy than men are. This may or may not be the case, but even if it were so, it can be argued that the mental metric of utility may be particularly inappropriate for judging inequality in this context. The presence of objective deprivation in the form of greater undernourishment, more frequent morbidity, lower literacy etc. cannot be rendered irrelevant just by the quiet and ungrumbling acceptance of women of their deprived conditions.³²

In rejecting utility-based evaluations, it may be tempting to go in the direction of actual commodities (enjoyed by women and men, respectively) to check inequalities between them. There is here the problem, already discussed earlier in this paper, that commodity-based evaluations are inadequate because commodities are merely means to well-being and freedom and do not reflect the nature of the lives that the people involved can lead. But, in addition, there is the further problem that it is hard – sometimes impossible – to get confirmation on how the commodities belonging to

the family are divided between men and women, and between boys and girls.

For example, studies on the division of food within the family tend to be deeply problematic since the observation needed to see who is eating how much is hard to carry out with any degree of reliability. On the other hand, it is possible to compare signs of undernourishment of boys and girls, to check their respective morbidity rates etc., and these functioning differences are both easier to observe and of greater intrinsic relevance.³³

There are indeed inequalities between men and women in terms of functionings, and in the context of developing countries the contrast may be sharp even in basic matters of life and death, health, illness, education and illiteracy. For example, despite the fact when men and women are treated reasonably equally in terms of food and health care (as they tend to be in the richer countries, even though gender biases may remain in other – less elementary – fields), women seem to have a greater ability to survive than men, in the bulk of the developing economies, men outnumber women by large margins. While the ratio of females to males in Europe and North America tends to be about 1.06 or so, that ratio is below 0.95 for the Middle East (including countries in Western Asia and North Africa), South Asia (including India, Pakistan and Bangladesh) and China.³⁴ This crude figure of the ratio of survived females to survived males already tells a story that has much informational value in judging inter-gender inequalities. Sometimes there are sharp contrasts even within a country (e.g., the ratio of females to males varies within India all the way from 1.03 in Kerala to 0.87 or 0.88 in Haryana and Punjab). From the point of view of studying both the actual situations and the causal influences operating in the generation of inter-gender inequalities, these regional contrasts may be particularly important.

Being able to survive is of course only one capability (though undoubtedly a very basic one), and other comparisons can be made with information on health, morbidity etc. The ability to read and write is also another important capability, and here it can be seen that the ratio of female to male literacy rates is often shockingly low in different

parts of the world. The combined effects of low literacy rates in general (a deprivation of a basic capability across genders) and gender inequalities in literacy rates (unequal deprivation of this basic capability for women) tend to be quite disastrous denials for women. It appears that even leaving out many countries for which no reliable data exist, in a great many countries in the world, the female literacy rate is still below 50 per cent. In fact, it is below even 30 per cent for as many as 26 countries, below 20 per cent for 16 and below 10 per cent in at least five.³⁵

In general, the perspective of functionings and capabilities provides a plausible approach to examining inter-gender inequalities. It does not suffer from the type of subjectivism that makes utility-based accounting particularly obtuse in dealing with entrenched inequalities. Nor does it suffer from the overconcentration on means that commodity-based accounting undoubtedly does, and in fact it has better informational sources in studying inequalities within the family than is provided by guesswork on commodity distribution (e.g., who is eating how much?). The case of inter-gender inequalities is, of course, only one illustration of the advantages that the capability approach has. But it happens to be an illustration that is particularly important on its own as well, given the pervasive and stubborn nature of inequalities between women and men in different parts of the world.

CONCLUSION

The assessment of achievement and advantage of members of the society is a central part of development analysis. In this paper, I have tried to discuss how the capability approach may be used to substantiate the evaluative concerns of human development. The focus on human achievement and freedom, and on the need for reflective – rather than mechanical – evaluation, is an adaptation of an old tradition that can be fruitfully used in providing a conceptual basis for analysing the tasks of human development in the contemporary world. The foundational importance of human capabilities provides a firm basis for evaluating living standards and the quality of life, and also points to a

general format in terms of which problems of efficiency and equality can both be discussed.

The concentration on distinct capabilities entails, by its very nature, a pluralist approach. Indeed, it points to the necessity of seeing development as a combination of distinct processes, rather than as the expansion of some apparently homogeneous magnitude such as real income or utility. The things that people value doing or being can be quite diverse, and the valuable capabilities vary from such elementary freedoms as being free from hunger and undernourishment to such complex abilities as achieving self-respect and social participation. The challenge of human development demands attention being paid to a variety of sectoral concerns and a combination of social and economic processes.

In the collection of papers of which this one is a part, there are a number of specific studies dealing with such matters as education, health and nutrition, as well as the process of agricultural expansion and industrial development. The problems of resource mobilization and participatory development are also addressed. Some of the subjects thus covered deal with variables that are direct determinants of human capability (e.g., education and health), while others relate to instrumental influences that operate through economic or social process (e.g., the promotion of agricultural and industrial productivity). The uniting feature is the motivating concern with human development and its constitutive characteristics.

In the distinction between functionings and capabilities, emphasis was placed on the importance of having the freedom to choose one kind of life rather than another. This is an emphasis that distinguishes the capability approach from any accounting of only realized achievements. However, the ability to exercise freedom may, to a considerable extent, be directly dependent on the education we have received, and thus the development of the educational sector may have a foundational connection with the capability-based approach.

In fact, educational expansion has a variety of roles that have to be carefully distinguished. First, more education can help productivity. Second, wide sharing of educational advancement

can contribute to a better distribution of the aggregate national income among different people. Thirdly, being better educated can help in the conversion of incomes and resources into various functioning and ways of living. Last (and by no means the least), education also helps in the intelligent choice between different types of lives that a person can lead. All these distinct influences can have important bearings on the development of valuable capabilities and thus on the process of human development.

There are also other interconnections between the different areas covered in the collection; for example, good health is an achievement in itself and also contributes both to higher productivity and to an enhanced ability to convert incomes and resources into good living. In focusing on human capabilities as the yardstick in terms of which successes and failures of human development are to be judged, attention is particularly invited to addressing these social interconnections. Given clarity regarding the ends (avoiding, in particular, the pitfall of treating human beings as means), the social and economic instrumentalities involved in the ends-means relations can be extensively explored.

One of the most important tasks of an evaluative system is to do justice to our deeply held human values. The challenge of "human development in the 1980s and beyond" cannot be fully grasped without consciously facing this issue and paying deliberate attention to the enhancement of those freedoms and capabilities that matter most in the lives that we can lead. To broaden the limited lives into which the majority of human beings are willy-nilly imprisoned by force of circumstances is the major challenge of human development in the contemporary world. Informed and intelligent evaluation both of the lives we are forced to lead and of the lives we would be able to choose to lead through bringing about social changes is the first step in confronting that challenge. It is a task that we must face.

ENDNOTES

* Editors' note: This chapter has been reproduced from *Journal of Development Planning*, 1989, no.19, pp. 41-58.

1. *Grundlegung* (1785), sect. II: English translation, *Fundamental Principles of the Metaphysics of Morals*, in *Kant's Critique of Practical Reason and Other Works on the Theory of Ethics*, 6th edition, T.K. Abbot, ed (London, Longmans, 1909), p. 47.

2. Amartya Sen, "Equality of what?" in *Tanner Lectures on Human Values*, S. M. McMurrin, ed., vol. I (Cambridge, Cambridge University Press, 1980, reprinted in *Choice, Welfare and Measurement* (Oxford, Blackwell: and Cambridge, Massachusetts, MIT Press, 1982)); *Resources, Values and Development* (Oxford, Blackwell; and Cambridge, Massachusetts, Harvard University Press, 1984); *Commodities and Capabilities* (Amsterdam, North-Holland, 1985); "Well-being, agency and freedom, the Dewey lectures 1984", *Journal of Philosophy*, 82 (April 1985); and "Capability and well-being", WIDER conference paper, 1988.

3. Aristotle, *The Nicomachean Ethics*, book I, sect. 7; in the translation by David Ross, *World's Classics* (Oxford, Oxford University Press, 1980), pp. 12-14. Note that Aristotle's term "eudaimonia", which is often misleadingly translated simply as "happiness", stands for fulfilment of life in a way that goes well beyond the utilitarian perspective. Though pleasure may well result from fulfilment, that is seen as a consequence rather than the cause of valuing that fulfilment. For an examination of the Aristotelian approach and its relation to recent works on functionings and capabilities, see Martha Nussbaum, "Nature, function and capability: Aristotle on political distribution", *Oxford Studies in Ancient Greek Philosophy*, supplementary volume 1998.

4. See Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776), vol. I, book V, sect. II; re-published, R. H. Campbell and A. S. Skinner, eds. (Oxford, Clarendon Press, 1976), pp. 869-872; and Karl Marx, *Economic and Philosophic Manuscripts of 1844* (1844); English translation (Moscow Progressive Publishers, 1977).

5. See G. E. M. de Sainte Croix, *The Class Struggle in the Ancient Greek World* (London, Duckworth, 1981); and Martha Nussbaum, "Nature, function and capability. . .".

6. Karl Marx, *Economic and Philosophic Manuscripts of 1844*. . .

7. Aristotle, *op. cit.*, book I, sect. 5; in the translation by David Ross, p. 7.

8. Karl Marx, *Capital*, vol. I, English translation by S. Moore and E. Aveling (London, Sonnenschein, 1887), chap. 1, sect. 4, pp. 41-55; see also Karl Marx, *Economic and Philosophic Manuscripts of 1844*. . .

9. See Adam Smith, *op. cit.*, vol. II, book V, chap. II (section entitled "Taxes upon Consumable Commodities"); re-published. . . , pp. 469-471.

10. There are several technical problems in the representation of functioning n-tuples and of capability as a set of alternative functioning n-tuples, any one n-tuple of which a person can choose. In this paper, I shall not be particularly concerned with these formal matters, for which see *Commodities and Capabilities*. . . , especially chaps. 2, 4 and 7.

11. Karl Marx and Friedrich Engels, *The German Ideology* (1846). The quoted passage is taken from the translation by

David McLellan, *Karl Marx: Selected Writings* (Oxford, Oxford University Press, 1977), p. 190.

12. See Amartya Sen, "Well-being, agency and freedom . . ."; and *Commodities and Capabilities*. . .

13. It is sometimes presumed that to depart from a person's own actual desires or pleasures as the measuring rod of assessment would be to introduce paternalism into the evaluative exercise. This view overlooks the important fact that having pleasure and desiring are not themselves valuational activities, even though the latter (desire) can often result from valuing something, and the former (pleasure) can often result from getting what one values. A person's utility must not be confused with his or her own valuations, and thus tying the evaluative exercise to the person's own utility is quite different from judging a person's success in terms of the person's own valuation. The important distinction to note in this context is that a person may not have the courage to desire a big social change, weighted down by the circumstances in which he or she lives, and yet given the opportunity to evaluate the situation, which is essentially an analytical exercise in this context, the person may well value a change. One advantage of valuing as opposed to feeling is that proper evaluation has to be a reflective exercise - open to critical examination - in a way that feelings need not be (the requirement of critical examination does not apply in the same way to feelings as it does to reflective evaluations). These and related issues are discussed in "Well-being, agency and freedom . . .".

14. In many contexts, the formal representations will take the form of partial orderings, or of overdetermined rankings, or of "fuzzy" relations. This is, of course, not a special problem with the capability approach, and applies generally to conceptual frameworks in social theory; see Amartya Sen, *Collective Choice and Social Welfare* (San Francisco, Holden-Day, 1970; re-published, Amsterdam, North-Holland, 1979); and *On Ethics and Economics* (Oxford, Blackwell, 1987); see also "Social choice theory", in *Handbook of Mathematical Economics*, K. J. Arrow and M. Intriligator, eds. (Amsterdam, North-Holland, 1985). The formal problems can be dealt with at different levels of precision (i.e. with varying extent of precise representation of ambiguities). The important general point to note here is that it may be, for substantive social theories, both terribly limiting and altogether unnecessary to shun ambiguities.

15. See Amartya Sen, *Choice, Welfare and Measurement*. . . , essays 17-20.

16. Bernard Williams raises this issue in his comments on the Tanner Lectures on the standard of living; see *The Standard of Living*, Tanner Lectures of Amartya Sen, with discussions by John Muelbauer, Ravi Kanbur, Keith Hart and Bernard Williams, edited by Geoffrey Hawthorn (Cambridge, Cambridge University Press, 1987), pp. 98-101 and 108-109.

17. I have tried to discuss some of the general methodological issues involved in description in "Description as choice", *Oxford Economic Press*, 32 (1980); reprinted in *Choice, Welfare and Measurement*. . . .

18. See Amartya Sen, *Resources, Values and Development*. . . , chaps. 15, 19 and 20; and "The concept of development", in *Handbook of Development Economics*, H. Chenery and T. N. Srinivasan, eds. (Amsterdam, North-Holland.

19. The range of functionings and capabilities that may be of interest for the assessment of a person's well-being or agency can be very wide indeed; see Amartya Sen, "Well-being, agency and freedom . . .".

20. See, among other contributions, Michael Lipton, *Assessing Economic Performance* (London, Staples Press, 1968); Paul Streeten, *The Frontiers of Development Studies* (London, Macmillan, 1972); Irma Adelman and Cynthia Tuft Morris, *Economic Growth and Social Equity in Developing Countries* (Stanford, Stanford University Press, 1973); Amartya Sen, "On the development of basic income indicators to supplement GNP measures", *Economic Bulletin for Asia and the Far East* (United Nations publication, Sales No. E.74.II.F.4); H. Chenery and others, *Redistribution with Growth* (London, Oxford University Press, 1974); Irma Adelman, "Development economics: a reassessment of goals", *American Economic Review*, Papers and Proceedings, 66 (1976); James P. Grant, *Disparity Reduction Rates in Social Indicators* (Washington, D.C., Overseas Development Council, 1978); Keith Griffin and Azizur Rahman Khan, "Poverty in the third world: ugly facts and fancy models", *World Development*, 6 (1978); Paul Streeten and S. J. Burki, "Basic needs: some issues", *World Development*, 6 (1978); Morris D. Morris, *Measuring the Conditions of the World's Poor: The Physical Quality of Life Index* (Oxford, Pergamon, 1979); Paul Streeten, *Development Perspectives* (London, Macmillan, 1981); Paul Streeten and others, *First Things First: Meeting Basic Needs in Developing Countries* (New York, Oxford University Press, 1981); S. R. Osmani, *Economic Inequality and Group Welfare* (Oxford, Clarendon Press, 1982); and Frances Stewart, *Planning to Meet Basic Needs* (London, Macmillan, 1985).

21. This general question of foundations and informational bases is discussed in Amartya Sen, "Informational analysis of moral principles", in *Rational Action*, Ross Harrison, ed. (Cambridge, Cambridge University Press, 1979); and "Well-being, agency and freedom . . .". In the latter analysis, some distinctions are drawn (especially between agency and well-being and between achievement and freedom) that may be worth pursuing in a more elaborate treatment of this matter, but I shall resist the temptation to go into these issues here.

22. On this general question and on the relation between commodities, characteristics and functionings, see Amartya Sen, *Commodities and Capabilities . . .*, chap. 2.

23. On this question, see Amartya Sen, *Resources, Values and Development . . .*, essays 19 and 20; and Paul Streeten, "Basic needs: some unsettled questions", *World Development*, 12 (1984).

24. John Rawls, *A Theory of Justice* (Oxford, Clarendon Press; and Cambridge, Massachusetts, Harvard University Press, 1971), pp. 60-65.

25. See Amartya Sen, "Equality of what?" . . ., and *Resources, Values and Development . . .*.

26. See Amartya Sen, "Freedom of choice: concept and content", Alfred Marshall lecture at the European Economic Association, *European Economic Review*, 1988.

27. See Amartya Sen, *Commodities and Capabilities . . .*, pp. 60-67.

28. See Amartya Sen, "Well-being, agency and freedom . . ." and "Freedom of choice: concept and content . . .".

29. On the question of the relation between achieved states and the extent of freedom and liberty, see Amartya Sen, "Liberty and social choice", *Journal of Philosophy*, 80 (1983).

30. Indeed, not to take note of the person's own evaluations of states of affairs in providing a measure of freedom can yield a very peculiar view of freedom, which would be seriously at odds with the tradition of seeing freedom as important. On this, see Amartya Sen, "Liberty as control: an appraisal", *Midwest Studies in Philosophy*, 7 (1982); and "Liberty and social choice . . .".

31. See, for example, A. B. Atkinson, *Unequal Shares: Wealth in Britain* (London, Penguin, 1972); and *The Economics of Inequality* (Oxford, Clarendon Press, 1975).

32. I have discussed this question in *Commodities and Capabilities . . .*, appendix B, and also in *Resources, Values and Development . . .*, essays 15 and 16. The importance of perception biases in the continuation of inter-gender inequalities is discussed in "Gender and cooperative conflicts", WIDER working paper, in *Persistent Inequalities*, Irene Tinker, ed.

33. For an attempt to make such functioning-based comparisons between men and women, see Jocelyn Kynch and Amartya Sen, "Indian women: well-being and survival", *Cambridge Journal of Economics*, 7 (1983).

34. See Jocelyn Kynch, "How many women are enough: sex ratios and the right to life", *Third World Affairs 1985* (London, Third World Foundation for Social and Economic Studies, 1985). The ratios of life expectancy seem to have turned in favour of women *vis-à-vis* men, according to reported statistics in most countries (see United Nations Children's Fund, *The State of the World's Children 1988* (New York, Oxford University Press, 1988), table 7), but the undoing of past biases against women in the sex composition of the population tends to be a slow process over the years.

35. United Nations Children's Fund, *The State of the World's Children 1988 . . .*, table 4.

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1.2

THE HUMAN DEVELOPMENT PARADIGM*

Mahbub ul Haq

"That's very important," the King said, turning to the jury. They were just beginning to write this down on their slates, when the White Rabbit interrupted: "Unimportant, your Majesty means, of course," he said in a very respectful tone, but frowning and making faces at him as he spoke.

"Unimportant, of course, I meant," the King hastily said, and went on to himself in an undertone, "important - unimportant - unimportant - important -" as if he were trying which word sounded best.

- Alice in Wonderland

The rediscovery of human development is not a new invention. It is a tribute to the early leaders of political and economic thought. The idea that social arrangements must be judged by the extent to which they promote "human good" dates at least to Aristotle (384-322 B.C.). He argued that "wealth is evidently not the good we are seeking, for it is merely useful and for the sake of something else". He distinguished a good political arrangement from a bad one by its successes and failures in enabling people to lead "flourishing lives".

Immanuel Kant (1724-1804) continued the tradition of treating human beings as the real end of all activities when he observed: "So act as to treat humanity, whether in their own person or in that of any other, in every case as an end withal, never as means only." And when Adam Smith (1723-1790), that apostle of free enterprise and private initiative, showed his concern that economic development should enable a person to mix freely with others without being "ashamed to appear in publick", he was expressing a concept of poverty that went beyond counting calories - a

concept that integrated the poor into the mainstream of the community. A similar strain was reflected in the writings of the other founders of modern economic thought, including Robert Malthus, Karl Marx and John Stuart Mill.

After the belated rediscovery of human development, it is necessary to give this paradigm some firmer conceptual, quantitative and policy moorings - here and in the next six chapters.

The basic purpose of development is to enlarge people's choices. In principle, these choices can be infinite and can change over time. People often value achievements that do not show up at all, or not immediately, in income or growth figures: greater access to knowledge, better nutrition and health services, more secure livelihoods, security against crime and physical violence, satisfying leisure hours, political and cultural freedoms and a sense of participation in community activities. The objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives.

INCOME AND HUMAN CHOICES

The defining difference between the economic growth and the human development schools is that the first focuses exclusively on the expansion of only one choice - income - while the second embraces the enlargement of all human choices - whether economic, social, cultural or political. It might well be argued that the expansion of income can enlarge all other choices as well. But that is not necessarily so, for a variety of reasons.

To begin with, income may be unevenly distributed within a society. People who have no access to income, or enjoy only limited access, will see their choices fairly constrained. It has often

been observed that in many societies, economic growth does not trickle down.

But there is an even more fundamental reason why income expansion may fail to enlarge human options. It has to do with the national priorities chosen by the society or its rulers – guns or butter, an elitist model of development or an egalitarian one, political authoritarianism or political democracy, a command economy or participatory development.

No one will deny that such choices make a critical difference. Yet we often forget that the use of income by a society is just as important as the generation of income itself, or that income expansion leads to much less human satisfaction in a virtual political prison or cultural void than in a more liberal political and economic environment. There is no automatic link between income and human lives – a theme explored at length in the subsequent chapters. Yet there has long been an apparent presumption in economic thought that such an automatic link exists.

It should also be recognized that accumulating wealth may not be necessary for the fulfilment of several kinds of human choices. In fact, individuals and societies make many choices that require no wealth at all. A society does not have to be rich to afford democracy. A family does not have to be wealthy to respect the rights of each member. A nation does not have to be affluent to treat women and men equally. Valuable social and cultural traditions can be – and are – maintained at all levels of income.

Many human choices extend far beyond economic well-being. Knowledge, health, a clean physical environment, political freedom and simple pleasures of life are not exclusively, or largely, dependent on income. National wealth can expand people's choices in these areas. But it might not. The use that people make of their wealth, not the wealth itself, is decisive. And unless societies recognize that their real wealth is their people, an excessive obsession with creating material wealth can obscure the goal of enriching human lives.

The human development paradigm performs an important service in questioning the presumed automatic link between expanding income and ex-

panding human choices. Such a link depends on the quality and distribution of economic growth, not only on the quantity of such growth. A link between growth and human lives has to be created consciously through deliberate public policy – such as public spending on social services and fiscal policy to redistribute income and assets. This link may not exist in the automatic workings of the marketplace, which can further marginalize the poor.

But we must be careful. Rejecting an automatic link between income expansion and flourishing human lives is not rejecting growth itself. Economic growth is essential in poor societies for reducing or eliminating poverty. But the quality of this growth is just as important as its quantity. Conscious public policy is needed to translate economic growth into people's lives.

How can that be done? It may require a major restructuring of economic and political power, and the human development paradigm is quite revolutionary in that respect. It questions the existing structure of power. Greater links between economic growth and human choices may require far-reaching land reform, progressive tax systems, new credit systems to bank on the poor people, a major expansion of basic social services to reach all of the deprived population, the removal of barriers to the entry of people in economic and political spheres and the equalization of their access to opportunities, and the establishment of temporary social safety nets for those who may be bypassed by the markets or public policy actions. Such policy packages are fairly fundamental and will vary from one country to another. But some features are common to all of them.

First, people are moved to centre stage. Development is analysed and understood in terms of people. Each activity is analysed to see how much people participate in it or benefit from it. The touchstone of the success of development policies becomes the betterment of people's lives, not just the expansion of production processes.

Second, human development is assumed to have two sides. One is the formation of human capabilities – such as improved health, knowledge and skills. The other is the use people make of their acquired capabilities – for employment, pro-

ductive activities, political affairs or leisure. A society needs to build up human capabilities as well as ensure equitable access to human opportunities. Considerable human frustration results if the scales of human development do not finely balance the two sides.

Third, a careful distinction is maintained between ends and means. People are regarded as the ends. But means are not forgotten. The expansion of GNP becomes an essential means for expanding many human options. But the character and distribution of economic growth are measured against the yardstick of enriching the lives of people. Production processes are not treated in an abstract vacuum. They acquire a human context.

Fourth, the human development paradigm embraces all of society – not just the economy. The political, cultural and social factors are given as much attention as the economic factors. In fact, study of the link between the economic and the non-economic environment is one of the most fascinating and rewarding aspects of this new analysis.

Fifth, it is recognized that people are both the means and the ends of development. But people are not regarded as mere instruments for producing commodities – through an augmentation of "human capital". It is always remembered that human beings are the ultimate end of development – not convenient fodder for the materialistic machine.

A HOLISTIC CONCEPT

Nor should human welfare concepts or social safety nets or investment in education and health be equated with the human development paradigm, which includes these aspects, but only as parts of the whole. The human development paradigm covers all aspects of development – whether economic growth or international trade, budget deficits or fiscal policy, saving or investment or technology, basic social services or safety nets for the poor. No aspect of the development model falls outside its scope, but the vantage point is the widening of people's choices and the enrichment of their lives. All aspects of life – economic, political or cultural – are viewed from that perspective.

Economic growth, as such, becomes only a subset of the human development paradigm.

On some aspects of the human development paradigm, there is fairly broad agreement:

- Development must put people at the centre of its concerns.
- The purpose of development is to enlarge all human choices, not just income.
- The human development paradigm is concerned both with building up human capabilities (through investment in people) and with using those human capabilities fully (through an enabling framework for growth and employment).
- Human development has four essential pillars: equality, sustainability, productivity and empowerment. It regards economic growth as essential but emphasizes the need to pay attention to its quality and distribution, analyses at length its link with human lives and questions its long-term sustainability.
- The human development paradigm defines the ends of development and analyses sensible options for achieving them.

Despite the broad agreement on many of these features, there are several controversies about the human development concept – often stemming from some misunderstanding about the concept itself. Fairly widespread is the mistaken view that human development is anti-growth and that it encompasses only social development.

The human development paradigm consistently takes the view that growth is not the end of economic development – but that the absence of growth often is. Economic growth is essential for human development, but to fully exploit the opportunities for improved well-being that growth offers, it needs to be properly managed. Some countries have been extremely successful in managing their economic growth to improve the human condition, others less so. So, there is no automatic link between economic growth and human progress. And one of the most pertinent policy issues concerns the exact process through which growth translates, or fails to translate, into

human development under different development conditions.

There are four ways to create the desirable links between economic growth and human development.

First, emphasis on investment in the education, health and skills of the people can enable them to participate in the growth process as well as to share its benefits, principally through remunerative employment. This is the growth model adopted by China, Hong Kong, Japan, Malaysia, the Republic of Korea, Singapore, Thailand and many other newly industrializing countries.

Second, more equitable distribution of income and assets is critical for creating a close link between economic growth and human development. Wherever the distribution of income and assets is very uneven (as in Brazil, Nigeria and Pakistan), high GNP growth rates have failed to translate into people's lives. The link between distribution of assets and the nature of growth can be:

- Growth-led, with favourable initial conditions in asset distribution and mass education, including the participation of people in economic activities (China, the Republic of Korea)
- Unfavourable initial conditions but high growth with corrective public policy action, including people's participation (Chile, Malaysia).
- Low growth with public policy action to provide basic social services, but normally unsustainable over the long term (Jamaica, Sri Lanka).

Third, some countries have managed to make significant improvements in human development even in the absence of good growth or good distribution. They have achieved this result through well-structured social expenditures by the government. Cuba, Jamaica, Sri Lanka and Zimbabwe, among others, achieved fairly impressive results through the generous state provision of social services. So did many countries in Eastern Europe and the Commonwealth of Independent States (CIS). But such experiments generally are not sustainable

unless the economic base expands enough to support the social base.

Fourth, the empowerment of people – particularly women – is a sure way to link growth and human development. In fact, empowerment should accompany all aspects of life. If people can exercise their choices in the political, social and economic spheres, there is a good prospect that growth will be strong, democratic, participatory and durable.

Another misconception – closely related to the alleged anti-growth bias of human development models – is that human development strategies have only social content, no hard economic analysis. The impression has grown that human development strategies are concerned mainly with social development expenditures (particularly in education and health). Some analysts have gone further and confused human development with development only of human resources – that is, social development expenditure aimed at strengthening human capabilities. Others have insisted that human development strategies are concerned only with human welfare aspects – or, even more narrowly, only with basic human needs – and that they have little to say about economic growth, production and consumption, saving and investment, trade and technology, or any other aspect of a macroeconomic framework.

These analysts do scant justice to the basic concept of human development as a holistic development paradigm embracing both ends and means, both productivity and equity, both economic and social development, both material goods and human welfare. At best, their critiques are based on a misunderstanding of the human development paradigm. At worst, they are the products of feeble minds.

The real point of departure of human development strategies is to approach every issue in the traditional growth models from the vantage point of people. Do they participate in economic growth as well as benefit from it? Do they have full access to the opportunities of expanded trade? Are their choices enlarged or narrowed by new technologies? Is economic expansion leading to job-led growth or jobless growth? Are budgets being bal-

anced without unbalancing the lives of future generations? Are "free" markets open to all people? Are we increasing the options only of the present generation or also of the future generations?

None of the economic issues is ignored, but they all are related to the ultimate objective of development: people. And people are analysed not merely as the beneficiaries of economic growth but as the real agents of every change in society whether economic, political, social or cultural. To establish the supremacy of people in the process of development – as the classical writers always did – is not to denigrate economic growth but to rediscover its real purpose.

It is fair to say that the human development paradigm is the most holistic development model that exists today. It embraces every development issue, including economic growth, social investment, people's empowerment, provision of basic needs and social safety nets, political and cultural freedoms and all other aspects of people's lives. It is neither narrowly technocratic nor overly philosophical. It is a practical reflection of life itself.

Most of the recent elaboration of the human development paradigm has been carried out by the annual *Human Development Report*, which since 1990 has been commissioned by the United Nations Development Programme and prepared by an independent team of eminent economists and distinguished social scientists.

THE ADVENT OF THE HUMAN DEVELOPMENT REPORT

In economic science, nothing is ever new, and nothing permanent. Ideas emerge, flourish, wither and die, to be born again a few decades later. Such is the case for ideas about human development. The founders of economic thought never forgot that the real objective of development was to benefit people – creating wealth was only a means. That is why, in classical economic literature, the preoccupation is with all of society, not just with the economy. Fascination with industrial chimneys and technology did not replace early economists' concern with real people.

After the Second World War, however, an obsession grew with economic growth models and national income accounts. What was important was what could be measured and priced. People as the agents of change and beneficiaries of development were often forgotten. Learned treatises appeared on how to increase production, but little was written on how to enhance human lives. The delinking of ends and means began, with economic science often obsessed with means.

The late 1980s were ripe for a counter-offensive. It was becoming obvious in several countries that human lives were shrivelling even as economic production was expanding. Some societies were achieving fairly satisfactory levels of human welfare even at fairly modest incomes. But no one could miss the signs of considerable human distress in the richest societies – rising crime rates, growing pollution, spreading HIV/AIDS, a weakening social fabric. A high income, by itself, was no defence against human deprivation. Nor did high rates of economic growth automatically translate into improved lives. New questions were being raised about the character, distribution and quality of economic growth.

Other events hastened such questioning. The human costs of structural adjustment programmes in the 1980s, undertaken in many developing countries under the aegis of the International Monetary Fund and the World Bank, had been extremely harsh. That prompted questions about the human face of adjustment and about whether alternative policy options were available to balance financial budgets while protecting the interests of the weakest and most vulnerable sections of society. Fast-spreading pollution started reminding policy-makers about the external diseconomies of conventional economic growth models. At the same time, the strong forces of democracy started sweeping across many lands – from the communist countries to the developing world – raising new aspirations for people-centred development models.

In this favourable climate, I presented the idea of preparing an annual human development report to the Administrator of the United Nations Development Programme, William Draper III, in the spring of 1989. He readily accepted the basic

idea as well as its essential corollary – that such a report should be independent of any formal clearance through the United Nations. We both recognized that only a candid, uninhibited development policy dialogue would serve the interests of the global community.

The first *Human Development Report*, published by Oxford University Press, emerged in May of 1990. Since then, reports have been produced annually. While each report has monitored the progress of humanity – particularly through the country rankings in a new human development index – each also takes up a new policy issue and explores it in depth. This article recapitulates the main messages of the first five reports, and then analyses their policy impact and the healthy controversies they have generated in many fields.

1990: CONCEPT AND MEASUREMENT

Concern with human development seems to be moving to centre stage in the 1990s. For too long, the recurrent question was, how much is a nation producing? Increasingly, the question now being asked is, how are its people faring? The main reason for this shift is the growing recognition that the real objective of development is to enlarge people's options. Income is only one of those options – and an extremely important one – but it is not the sum-total of human life. Health, education, physical environment and freedom – to name a few other human choices – may be just as important as income.

Human Development Report 1990, launched in London on 24 May 1990, addressed some of these concerns and explored the relationship between economic growth and human development. It challenged some of the conventional wisdom, exploded some of the old myths and reached some important policy conclusions that would have significant implications for development strategies for the next decade.

First, it is wrong to suggest that the development process has failed in most developing countries in the past three decades. Judged by real indicators of human development, it has succeeded spectacularly. Average life expectancy has in-

creased by 16 years, adult literacy by 40% and per capita nutritional levels by more than 20%, and child mortality rates have been halved. In fact, developing countries have achieved in the past 30 years the kind of real human progress that industrial countries took nearly a century to accomplish. While the income gap between North and South is still very large – with the average income of the South 6% of that in the North – the human gaps have been closing fast. Average life expectancy in the South is 80% of the northern average, adult literacy 66% and nutrition 85%.

True, the record of the developing world is uneven, with disparities between regions and countries and even within countries. And true, there is still a large unfinished agenda of human development – with one-fourth of the people in developing countries still deprived of basic human necessities, minimum incomes and decent social services. But the overall policy conclusion is that the development process does work, that international development cooperation has made a difference, that the remaining agenda of human development is manageable in the 1990s if development priorities are properly chosen. This certainly is a message of hope, though not of complacency.

Second, it is wrong to suggest that economic growth is unnecessary for human development. No sustained improvement in human well-being is possible without growth. But it is also wrong to suggest that high economic growth rates will automatically translate into higher levels of human development. They may or they may not. It all depends on the policy choices that countries make. And the real world offers too many uncomfortable examples of a wide divergence between income and human development levels. Adult literacy in Saudi Arabia is lower than that in Sri Lanka despite a per capita income that is 16 times higher. Infant mortality in Jamaica is one-fourth that in Brazil, despite Jamaica's per capita income being half that of Brazil. Life expectancy is 76 years in Costa Rica, with a per capita income of \$1,870, but only 69 years in Oman, with a per capita income of \$6,140.

Why such wide divergences between income and human development? The explanation lies in

how equitably – or inequitably – income, physical assets, financial credit, social services and job opportunities are distributed. If income and human development are to be linked more closely, countries must adopt policies that distribute these economic assets and opportunities more equitably.

Third, it is conceptually and practically wrong to regard poverty alleviation as a goal distinct from human development. Most poverty can be explained by inadequate access to income, assets, credit, social services and job opportunities. The only long-term remedy is to invest in poor people, particularly in their education and training, and to bring them back into the mainstream of development. Poverty should not be regarded as a residual of economic growth, treated separately without modifying the growth strategies. Such an approach is inconsistent with human development strategies – which are focused on investment in all the people and on their full participation in human well-being.

Fourth, it is wrong to suggest that developing countries lack enough resources to address their human development goals. In reality, considerable potential exists for restructuring present priorities in their national budgets and in foreign assistance allocations. Many poor countries spend two to three times more on their military than on the education and health of their people. Overall, Third World military spending increased by \$10 billion to \$15 billion a year during the 1980s, showing the scope for diversion of resources if new concepts of security evolve in the 1990s. There also is considerable scope for saving by reducing inefficient spending on parastatals, subsidies to the richer sections of society and inappropriate priorities in the development budgets.

In bilateral foreign assistance, the share for education and health has declined from 17% to 10% over the past decade, suggesting room for improving aid allocation. Considerable scope also exists for restructuring internal and external debt. So, the potential for restructuring existing priorities is enormous. The scope for reallocating budgetary expenditure opens to serious question the human and social costs of structural adjustment programmes. Most budgets can be balanced with-

out unbalancing the lives of future generations. And that is why aid donors must re-examine policy conditionality: they must insist that human investment will be the last item to be touched in a budget, and only when all other options have been explored and exhausted.

Fifth, it is wrong to pretend that markets alone can deliver balanced patterns of economic growth and human development. Instead, there must be a judicious mix of market efficiency and social compassion. The present situation in many developing countries is topsy-turvy. Governments are intervening inefficiently in productive processes in agriculture and industry, where they hardly belong, but spending inadequately (3–4% of GNP) on social services, which should be their primary responsibility. This situation needs to be reversed. Also necessary is to ensure that social safety nets are not seriously eroded in periods of rapid growth or social transformation. Otherwise, serious political upheavals may disrupt the development process.

The challenge now is to ensure that human development is at the forefront of growth strategies in the decade ahead. The suggested agenda for the 1990s:

- Persuading the developing countries to prepare their own human development goals for the 1990s and to integrate these goals in their overall growth models and investment budgets.
- Assisting developing countries in collecting better data on human development indicators and in undertaking more professional analysis of the link between their economic growth and human development.
- Analysing the impact of specific projects and programmes on people, not only on production.
- Incorporating human development concerns in aid allocations and policy conditionality.

The 1990s offer an exciting challenge to move from new ideas to concrete action and to treat human beings, once again, as both the means and the end of development.

1991: FINANCING HUMAN DEVELOPMENT

Human Development Report 1991, launched in Washington, D.C., on 23 May 1991, reached the conclusion that restructuring existing budgets can provide enough resources to finance basic social services for all the people. It is the lack of political courage to make tough decisions, rather than the paucity of financial resources, that is responsible for the current state of human neglect. There are far too many examples of wasted resources and wasted opportunities: rising military expenditures, inefficient public enterprises, numerous prestige projects, growing capital flight and extensive corruption. If priorities are recast, most budgets can accommodate more spending for human development. As much as \$50 billion a year can be found in developing countries for urgent human concerns, just by changing government spending patterns.

More funds for human development can be found by taking four actions:

- *Halting capital flight* – Capital flight from the Philippines was equal to 80% of its outstanding debt between 1962 and 1986.
- *Combating corruption* – In Pakistan, public officials' illegitimate private gain from their positions is unofficially estimated at 4% of GNP.
- *Reforming public enterprises* – The losses public enterprises suffer in Cameroon, for example, exceed the country's total oil revenue.
- *Restructuring debt payments* – Debt repayments take a large share of government budgets. Jordan devotes 39% of its budget to external debt service and 18% to social services. Internal debt now exceeds external debt for many countries – including India, Malaysia, Pakistan, the Philippines and Singapore.

Four ratios could serve as the principal guide to public spending policy: the public expenditure ratio (the percentage of national income that goes into public expenditure earmarked for social ser-

vices); the social allocation ratio (the percentage of public expenditure earmarked for social services); the social priority ratio (the percentage of social expenditure devoted to human priority concerns); and the human expenditure ratio (the percentage of national income devoted to human priority concerns, obtained by multiplying the first three ratios).

These ratios tell volumes about a country's priorities. Argentina spent 41% of its GNP through its government budget in 1988, yet its human expenditure ratio was only 2.3%. So Argentina realized that it could reduce public spending, release more resources for private investment and economic growth, and yet substantially increase spending on human priority concerns – a course it is currently embarked on.

The report came to these conclusions:

- The human expenditure ratio may need to be at least 5% of GNP if a country wishes to do well on human development.
- An efficient way to achieve this result is to keep the public expenditure ratio moderate (around 25%), to allocate much of this expenditure to the social sectors (more than 40%) and to focus on the social priority areas (giving them more than 50%).
- Government spending need not be high if GNP growth is high and rather equitable – or if private and non-governmental organizations (NGOs) are extremely active in the social sectors.
- High government spending with low social priorities is the worst case. If more than 25–35% of national income is channelled through the government budget, and yet less than 2% of GNP goes to human priority concerns (as in Brazil, Sierra Leone and Thailand in 1988), this is the worst of all possible worlds. The public sector is huge, yet the majority of the people do not gain.
- Most countries could use existing resources more efficiently by adopting more decentralized, participatory approaches to development, by making prudent economies and reducing unit costs, by charging many users

for the benefits they receive, and by encouraging private initiative in the financing and delivery of social services.

Many developing countries spend more than 25% of their GNP through their government budgets. But their expenditure on human priority goals – basic education, primary health care, rural water supply, family planning, food subsidies, social security – is generally less than one-tenth of their total public spending. And only a twelfth of total aid is earmarked for human priority goals, showing the potential for releasing more resources for human development by restructuring priorities in aid budgets. If only one-third of today's aid were committed to human priority areas, the aid allocation to these areas would increase fourfold.

The plea for greater efficiency should not be confused with indifference to economic growth or to the mobilization of additional resources. In fact, additional resources are needed, because all the essential human goals for the 1990s cannot be financed without more money. But the best argument for mobilizing more resources is to spend existing resources well. Because today's distribution of resources usually suits those in power and their influential supporters, a workable political strategy is needed to restructure resource allocation priorities. The elements of such a strategy: empowering weaker groups, channelling credit to the poor, building coalitions based on common interests, compensating powerful groups and coordinating external pressures.

1992: INTERNATIONAL DIMENSIONS OF HUMAN DEVELOPMENT

The central thesis of *Human Development Report 1992*, launched in Stockholm on 23 April 1992, is that the search for equitable access to market opportunities must extend beyond national borders to the global system. Otherwise, economic disparities between the richest and the poorest people, having doubled over the past three decades, are likely to explode. The income of the richest billion people is 150 times that of the poorest billion, a dangerously large gap. To put this in

perspective, the income disparity between the richest 20% and the poorest 20% of people within nations is far smaller – the income of the richest fifth is five times higher in Sweden, six times higher in Germany, nine times higher in the United States and 32 times higher (the highest) in Brazil. What would be considered politically and socially unacceptable within nations is being quietly tolerated at the global level.

No end appears to be in sight for these widening gaps – since the gaps are not only in current levels of income but also in future market opportunities and in human development. The bottom 20% of the world's population receives only 1.4% of global GNP – and has a share of only 1% in global trade, 0.2% in global commercial lending and 1.3% in global investment. Because of the barriers to the movement of goods and people and because poor nations pay four times higher real interest rates than do the rich, global markets deny as much as \$500 billion of market opportunities to poor nations and poor people every year – which is ten times the foreign assistance that poor nations receive. Precision in these numbers is not important. What is important is that the cost of denied market opportunities far exceeds foreign assistance. It is certainly better for the poor to earn their living than to receive indefinite and uncertain international charity. But unless their access to market opportunities is increased, there is little chance for poor people or poor nations to break out of their poverty trap.

The situation looks even more difficult after adding the widening disparities in higher education, technology and information systems to the picture. The tertiary enrolment rate in the South is only a fifth that in the North, research and development expenditure only 4% and scientific and technical personnel only a ninth. These widening human gaps have a telling impact in a world where technological progress accounts for one-third to one-half of the increases in national output. The combination of technological disparities and limited market opportunities can be devastating.

What can be done? The primary responsibility lies with the developing countries, for global reforms can never substitute for national reforms.

The developing countries must improve their economic management, liberate their private initiative and invest in the education of their people and in the technological progress of their societies. The basis for such a further advance has already been laid by the rapid strides in basic education and primary health care in most developing countries. Japan, the Republic of Korea, Singapore and, more recently, China, Malaysia and Thailand have followed this human investment path to development. They made spectacular increases in their share of global markets. East and South-East Asia doubled their share of world trade between 1970 and 1990, as did China. But Sub-Saharan Africa, with minimal investments in human development, had its share in world trade plummet to a fourth of the 1970 level.

A fatal contradiction afflicts the global economic system. As national markets open up - from New Delhi to Rio, from Moscow to Warsaw - can global markets close down further? That is precisely what is happening. The OECD nations have become more protectionist in the past decade, just when additional export surpluses are likely to emerge from the liberalizing markets of developing countries and the former socialist bloc. For example, if India follows the path of the Republic of Korea, it will have at least \$60 billion of additional exports to offer the world markets each year.

It does not take a genius to figure out that the ongoing, rapid structural adjustment in the South and in the former socialist bloc has a logical corollary - a structural change in the North. Yet this simple truth is being largely ignored - sometimes even bitterly contested. Buffeted by recession and unemployment, many northern economies are unprepared to invest in changing their production and job structures, not recognizing that their lack of adjustment will greatly frustrate the liberal market experiments they are so actively encouraging all over the world.

Many of the poorest nations, particularly in Africa, cannot even begin to fully make use of market opportunities without additional financial help. Market efficiency must be balanced by social equity. Even in the market economies of the United States and the United Kingdom, about 15% of

GNP is recycled in medicare, food stamps, unemployment benefits and social security payments. In the Nordic countries, the social safety nets consume roughly a third of GNP. But what about the developing world, where 1.2 billion people barely survive below an absolute poverty line of about \$400? The rich nations can spare only 0.3% of GNP for official development assistance, the closest approximation to an international social safety net. This, with about 100 million people below the official poverty line of around \$5,000 in income a year.

Even more relevant than the inadequacy and unpredictability of such a social safety net is whether it catches the most deserving people. Twice as much aid per capita goes to high military spenders in the developing world than to more moderate military spenders. Only a quarter of official development assistance is earmarked for the ten countries containing three-fourths of the world's absolute poor. India, Pakistan and Bangladesh have nearly one-half of the world's poor but get only one-tenth of total aid. Less than 7% of global aid is spent on human priority concerns of basic education, primary health care, family planning, safe drinking water and nutritional programmes. Even mighty international institutions like the World Bank and the IMF now take more money from the developing world than they put in, adding to the reverse transfer of around \$50 billion a year to the commercial banks.

Much of today's pattern of development cooperation was shaped by the anxieties of the cold war, and the link with global poverty or human development is far from clear. A new framework of development cooperation is needed, one focused more directly on people.

Who can persuade the rich nations that it is in their interest to open their markets, to design a people-centred framework for development cooperation and to prepare their economic systems for a structural change? International institutions of global governance - supposedly with an international reach - are often confined to influence only in poor nations. The IMF's structural adjustment programmes are enforced only in the developing world - which accounts for less than 10% of global liquidity. And as little as 7% of global trade con-

forms to the GATT rules - since textiles, agriculture, tropical products, services, intellectual property and trade-related investment flows are all outside the GATT's purview and awaiting the ratification of the Uruguay Round of Multilateral Trade Negotiations. The global institutions, so charitably described as the international economic system, are hardly global. To make these institutions truly global in their reach, in their policy frameworks and in their management structures, an Economic Security Council within the United Nations is proposed as a manageable forum for global economic policy coordination.

For the global institutions to become truly global will take time. What about now? What pressures are there for both North and South to move toward equitable access to global markets, to people-centred development cooperation and to structural changes in their economies? For the North, pressure could derive from a combination of hope and fear - a mixture of self-interest and leadership. The high cost of protectionism must be explained to the people. Consumers in the United States pay \$70 billion a year more in higher prices for protected goods. There is one hopeful sign: global military spending has been declining since 1987. Still missing, however, is a clear link between reduced military spending and greater attention to the neglected national and global human agendas. A part of the peace dividend could be invested in worker training and in technological development to prepare the northern societies for the future.

Fear may prove to be an even greater motivating force than hope. Fear of international migration of people - as people begin to travel towards opportunities when opportunities fail to travel towards them. Or fear of the migration of poverty - since poverty respects no international frontiers. Or fear of global pollution and the growing threats to common survival. It may not be possible to make the world environmentally safe for anyone unless it is made safe for everyone. The global environment is closely linked to global poverty.

For the South, the sterile dialogue of the 1970s must give way to a more enlightened dia-

logue on new patterns of development cooperation in a changing world - mutual interests, not unilateral concessions; two-sided responsibility, not one-sided accusations; more equitable access to global opportunities, not massive transfers of financial resources; more open markets, not more managed markets. Yes, there should be pressure for developing countries to reduce their military expenditures. But there should be a similar pressure at the global level to replace military assistance by economic assistance, phase out military bases, restrain arms shipments and eliminate export subsidies for defence industries. And yes, more attention should go to reducing corruption in developing countries. But there should be as much accountability for the multinational corporations that bribe officials and for the banks that park the illegal gains of corruption - accountability tracked by a new NGO, perhaps an Honesty International.

1993: PEOPLE'S PARTICIPATION

Across the globe, people are uniting in a common struggle: to participate freely in the events and processes that shape their lives. From Russia to Poland, from the Republic of Korea to Brazil, from the turbulent slums of Los Angeles to the restless ghettos of Johannesburg, the forces of people's participation are gathering momentum. These forces, constrained neither by time nor by tradition, respect no geographical boundaries or ideological frontiers. They are the messengers of a new age - an age of people's participation - and the central theme of *Human Development Report 1993*, launched in New Delhi on 25 May 1993.

Despite the impatient urge for people's participation, too many barriers still block the way. Our world is still a world of difference.

- It is a world where more than a billion people still languish in absolute poverty - surviving at the bare margins of existence, below any common concept of human dignity.
- It is a world that calmly tolerates a huge global income disparity, with the top one billion

people receiving 150 times more income than the bottom one billion, even as disparities only a tenth as large within nations are leading to convulsions in many countries.

- It is a world where women still earn only half as much as men and despite casting about half the votes, secure less than 10% of the representation in parliaments.
- It is a world where many ethnic minorities still live like a separate nation within their countries, creating tremendous potential for ethnic explosions. Despite commendable efforts at national integration in the United States, the country's whites rank number 1 in the world in the human development index – ahead of all nations – while its blacks rank only number 31, behind Trinidad and Tobago.

Few people have the opportunity to participate fully in the economic and political lives of their nations. And the dangerous potential for human strife that often emerges from the irresistible urge for people's participation clashing with inflexible systems must be recognized.

Needed today is a fundamental change in the management of economic and political systems – from markets to governance to institutions of civil society.

Today's markets are marvels of technology, and open markets are often the best guarantee for unleashing human creativity. But not enough people benefit from the opportunities that markets normally create. Insufficient human investment may mean that many people enter the market at a considerable disadvantage. With literacy rates below 50% in South Asia and Sub-Saharan Africa, about a billion people lack even the basic education and skills to take advantage of market opportunities. The very poverty of many people makes them uncreditworthy – and the same goes for nations. Paradoxically, where the need for credit is the greatest, the market creditworthiness may be the lowest. In Kenya, less than 5% of institutional credit goes to the informal sector. And the bottom 20% of the world's population receives only 0.2% of global commercial credit. People enter the markets with unequal endowments and naturally leave

the markets with unequal rewards. It should come as no surprise that the playing fields of life are uneven.

Policy actions must be taken to ensure that people participate fully in the operations of markets and share equitably in their benefits. Markets must be made people-friendly. This is where the state comes in – not to replace markets but to enable more people to share market opportunities. The state has a major role in levelling the playing field by improving the access of all people to human resource investments, productive assets, credit facilities, information flows and physical infrastructure. The state also has to serve as a referee – correcting the price signals and the incentive system, disallowing the exploitation of future generations for present gains (as in the case of the environment) and protecting the legitimate interests of producers, consumers, workers and vulnerable groups in society. In addition, the state must extend a social safety net to the victims of the market-place for temporary periods – to enable them to get back into the market to take advantage of its full opportunities.

The presumption of a conflict between the state and the market is thus false – and dangerous. People must be empowered to guide both the state and the market – to serve the interests of the people.

That is all the more necessary in a period in which markets fail to create enough jobs and not all people are participating in productive market opportunities, even in industrial nations. Witness the new and disturbing phenomenon: jobless growth. Output is increasing, but jobs are lagging way behind. In Germany, the output index increased from 100 in 1960 to 268 in 1987, but the employment index fell from 100 to 91. In developing countries, the increase in employment has been proceeding at about half the rate of increase in output in the past three decades. The great strides in human productivity – thanks to automation and new technological innovations – are to be cheered. But not enough people are participating in this productivity growth. Rising unemployment not only denies income opportunities – it strips away human dignity. And merely expanding un-

employment benefits is not the solution to this disturbing phenomenon of jobless growth.

Developing countries are experiencing double-digit unemployment rates. They need to create one billion new jobs in the 1990s to stay abreast of increases in the labour force and to absorb the reservoir of unemployed workers. They need to learn from the experience of Japan and the industrializing tigers of East Asia, and to experiment with new employment strategies. These strategies should stress massive investment in education, skills and training. They should also stress the restructuring of the credit system to make it accessible to the majority of the people and the establishment of more open, people-friendly markets. And they should stress government support to small-scale enterprises and the informal sector, greater fiscal incentives for labour-intensive technologies, and employment safety nets in areas and periods of severe unemployment. It would be folly for the state to displace markets in the name of fancy employment generation schemes. But it would also be a folly to fail to take the policy actions necessary to open market opportunities to increasing numbers of people – particularly investing vigorously in education, skills and infrastructure and opening the credit system to more people.

The industrial nations face even more fundamental dilemmas. Reduced working hours, innovative proposals for work-sharing and redefined concepts of work are all on the policy agenda. These nations may have to consider whether it is better for most people to work five days a week – to support some people on unemployment benefits – or for all people to work, say, four days a week. People's participation in these decisions may create new norms of work and employment.

At the same time, new patterns of national and global governance are needed to accommodate the rising aspirations of the people. The nation-state is already under pressure. It is too small for the big things, and too big for the small. Only meaningful decentralization can take decision-making closer to the people. But new patterns of global governance must be designed for an increasingly interdependent world.

Most developing countries are overcentralized. On average, less than 10% of their budgetary spending is delegated to local levels, compared with more than 25% in industrial nations. Even foreign aid has a centralizing influence. Most decision-making is kept in the hands of a small, central elite. These patterns of governance are inappropriate in societies that have considerable ethnic and cultural diversity and where people increasingly resist dictates from above. What may save these societies from internal explosions is a sweeping decentralization of decision-making powers and faster movement towards economic and political democracy. Unless this is done before people begin to agitate for their rights, the change may come too late and prove too disruptive.

Democracy is rarely so obliging as to stop at national borders. The gathering forces of participation are likely to affect all institutions of global governance. They may lead to more democratic decision-making in the World Bank and the IMF and to a strengthened socioeconomic role for the UN system. The new demands are for the security of people, not just for the security of nation-states. And the new conflicts are increasingly between people, rather than between nations – as in Somalia, Bosnia, Cambodia, Angola and Sri Lanka. Soldiers in uniform – even when in blue berets – are only a poor short-term response to these emerging crises. Needed instead are new participatory socioeconomic processes. To play a greater role in this area, the UN system needs a new socioeconomic mandate, vastly increased financial resources, and a manageable decision-making forum – maybe an Economic Security Council – to meet the new demands of preventive diplomacy and human security.

Although the forces of people's participation demand new structures for markets and the state, they can find their ultimate fulfilment only in the institutions of a civil society that enable people to take control of their own lives. Rule of law, freedom of expression, non-governmental organizations and other community associations are an integral part of such a civil society. NGOs in particular have become very important in recent years, especially in their advocacy of such emerg-

ing policy concerns as the environment, women's development, ethnic protection and human rights. Often, people are ahead of their governments – and by organizing themselves, they can bend their governments to the popular will, particularly in a democratic framework in which politicians are sensitive to every shift in public opinion.

There has been an explosion in the number of NGOs in the past decade, with more than 50,000 major NGOs reaching more than 250 million people and channelling more than \$5 billion of aid funds a year to the developing countries. But the role of NGOs must be put in its proper perspective. Although they create the necessary pressure for new policy directions and often supplement government action, they can never replace it. The scale and impact of even the most successful of NGOs are surprisingly limited. For instance, the Grameen Bank in Bangladesh – one of the internationally renowned NGOs providing credit to the poor – accounts for only 0.1% of total national credit. The major achievements of NGOs lie in generating new policy pressure for change, in organizing the weak and the vulnerable, and in designing innovative ways of reaching the people in a cost-effective manner.

In sum: people's participation is a powerful and overarching concept. It must inspire a search for a people-centred world order built on five new pillars:

- New concepts of human security that stress the security of people, not only of nations.
- New strategies of sustainable human development that weave development around people, not people around development.
- New partnerships between the state and the market, to combine market efficiency with social compassion.
- New patterns of national and global governance, to accommodate the rising tide of democracy and the steady decline of the nation-state.
- New forms of international cooperation, to focus assistance directly on the needs of the people rather than only on the preferences of governments.

The rising tide of people's participation must be channelled into the foundation for a new human society – where people finally take charge of their own destiny.

1994: HUMAN SECURITY

Human Development Report 1994, launched in Copenhagen on 1 June 1994, underscored the new imperatives of human security in the post-cold war era. Security is now increasingly interpreted as the security of people in their daily lives – in their homes, in their jobs, in their streets, in their communities and in their environment.

Many perceptions have to change. Human security must be regarded as universal, global and indivisible. Just imagine for a moment that every drug that quietly kills, every disease that silently travels, every form of pollution that roams the globe and every act of senseless terrorism all carried a national label of origin, much as traded goods do. That would bring sudden realization that human security concerns today are more global than even global trade.

A second perception must change: it must be recognized that poverty cannot be stopped at national borders. Poor people may be stopped. But not the tragic consequences of their poverty: drugs, AIDS, pollution and terrorism. When people travel, they bring much dynamism and creativity with them. But when only their poverty travels, it brings nothing but human misery.

One more perception must change: it must be seen that it is easier, more humane, and less costly to deal with the new issues of human security upstream rather than downstream. Did it make sense in the past decade to incur the staggering cost of \$240 billion for HIV/AIDS treatment when investing even a small fraction of that amount in primary health care and family planning education might have prevented such a fast spread of this deadly disease? Is it a great tribute to international diplomacy to spend \$2 billion in a single year on soldiers in Somalia to deliver humanitarian assistance when investing the same amount much earlier in increased domestic food production and social development might have averted the final

human tragedy – not just for one year, but for a long time to come? Is it a reflection of human ingenuity to spend hundreds of billions of dollars on administrative control of drug trafficking and on the rehabilitation of drug addicts but not even a small part of that amount for drug education of consumers or alternative livelihoods for producers?

It is time to fashion a new concept of human security that is reflected not in better weapons for countries but in better lives for people. Countries that have ignored the security of their people could not protect even the security of their nations. In 1980, Iraq, Somalia and Nicaragua had the highest ratios of military to social spending. By the 1990s, these countries were beginning to disintegrate. By contrast, Costa Rica invested one-third of its national income in the education, health and nutrition of its people and nothing in the army that it had abolished in 1948. Any wonder that Costa Rica survived as the only prospering democracy in the inflamed Central America of the past few decades?

The emerging concept of human security will lead to many fundamental changes in thinking.

First, new models of human development will treat GNP growth as a means, not as an end; enhance human life, not marginalize it; replenish natural resources, not run them down; and encourage grass-roots participation of people in the events and processes that shape their lives. The real issue is not just the level of economic growth, but its character and distribution. Those who postulate a fundamental conflict between economic growth and human development do no service to the poor nations. To address poverty, economic growth is not an option, it is an imperative. But what type of growth? Who participates in it? And who derives the benefits? These are the real issues.

For a long time, it was quietly assumed that high levels of economic growth would automatically translate into high levels of human development. But that does not necessarily happen, so there is no automatic link between economic growth and human lives. The practical experience of many nations demonstrates this reality. Sri Lanka and Guinea show exactly the same GNP per capita: \$500. But they display stark contrasts

in the quality of life in their societies. Life expectancy is 71 years in Sri Lanka, only 44 years in Guinea. Adult literacy is 89% in Sri Lanka, only 27% in Guinea. Infant mortality is 24 per thousand in Sri Lanka and 135 in Guinea. It is not just the level of income that matters. It is how society spends that income. Also important are the many choices that human beings make – particularly in social, cultural and political areas – that may be largely independent of their income. The quality of growth is more important than quantity.

The emerging concept of sustainable human development is based on equal access to development opportunities, for present and for future generations. The heart of this concept is equity – in access to opportunities, not necessarily in results. What people do with their opportunities is their concern. But they should not be denied an equal opportunity to develop and to use their human capabilities. We must acknowledge the universalism of life claims for every individual.

The concept of sustainable human development focuses attention not only on the future generations but also on the present ones. It would be immoral to sustain the present levels of poverty. Development patterns that perpetuate today's inequities are neither sustainable nor worth sustaining. Indeed, an unjust world is inherently unsustainable. A major restructuring of the world's income and consumption patterns – especially a fundamental change in the current life styles of the rich nations – may be a necessary precondition for any viable strategy of sustainable human development.

Second, a new framework of development cooperation must be based on global compacts among nations, not on charity. Foreign assistance must emerge from the shadows of the cold war. Even today, foreign aid is more often linked to strategic alliances from the past than to any specific human development, from slowing population growth to improving the physical environment. Only one-third of official development assistance is earmarked for the ten countries containing two-thirds of the world's absolute poor. Twice as much ODA per capita goes to the richest 40% in the developing world as to the poorest

40%. Less than 7% of bilateral ODA goes to the human priority concerns of primary health care, basic education, safe drinking water, nutrition programmes and family planning services. So, enormous scope still exists to get much more policy mileage and much better allocations from existing aid funds.

At the same time, the concept of development cooperation must be broadened to include all development flows – including trade, investment, technology and labour. It is simply unacceptable that while aid transfers so few resources to the developing world, several times more is taken away through trade protection, immigration barriers and an increasing debt burden. In such a situation, it is critical for poor nations to bargain for more equitable access to global market opportunities.

The 1994 report outlined a new design for development cooperation in the coming decades:

- Aid is regarded as an essential investment by the rich nations in their own human security.
- Developing countries are compensated for trade and immigration barriers imposed by the rich nations.
- Polluting nations are made to pay for their overuse of the global commons.
- The potential peace dividend of nearly \$500 billion between 1995 and 2000 is earmarked primarily for the priority human development agenda.
- Global compacts are negotiated in specific areas – population, environment, drug control – between rich and poor nations based on two-way cooperation, not on one-way conditionality or coercion.

Third, the new imperatives of global human security demand an entirely new system of global governance – particularly a greatly strengthened role of the United Nations in development. The nature of conflicts has changed dramatically. Of the 82 conflicts in the early 1990s causing more than a thousand deaths, 79 were within – not between – nations. Many developing countries are already heading towards social disintegration, and

behind every failed state, there lies a long trail of failed development or unacceptably high socio-economic disparities. These countries require preventive development, not more weapons of war. The United Nations should be enabled to play a more significant role in social and human development of these poor nations. Only by designing an early warning system and by undertaking upstream preventive development can the United Nations help these nations avert a national collapse. It can no longer fight the battles of tomorrow with the weapons of yesterday.

In this context, the 1994 report offered at least six concrete proposals for consideration by the global community:

- A world social charter, to arrive at a new social contract among all nations and all people.
- A 3% annual reduction in global military spending, with 20% of the savings by rich nations and 10% of those by poor nations earmarked for global human security.
- A 20:20 compact for human development – to provide basic education, primary health care, safe drinking water and essential family planning services to all people over the next decade, by earmarking 20% of existing developing country budgets and 20% of existing aid allocations to these basic human priority concerns.
- A global human security fund – financed from such global taxes as the “Tobin tax” on speculative movements of international funds, an international tax on the consumption of non-renewable energy, global environmental permits and a tax on arms trade.
- A new framework of development cooperation, in which developing and industrial countries would graduate from their present aid relationship to a more mature development partnership – by including trade, technology, investment and labour flows in a broader design to be negotiated among nations.
- An Economic Security Council in the United Nations, as the highest decision-making forum to consider basic issues of human security

such as global poverty, unemployment, food security, drug trafficking, global pollution, international migration and a new framework of sustainable human development.

These proposals demand much from the international community – but they are feasible. What is more, they are urgently needed if we are to design a new architecture of peace through development in the 21st century.

A final observation. The world has seen more hopeful changes in the past decade than ever before – from the collapse of communism to the fall of the Berlin Wall, from the end of apartheid in South Africa to a dim outline of peace in occupied Palestine. This is the time to build a new edifice of human security throughout the world.

Since its birth in San Francisco 50 years ago, the United Nations has committed itself to the first pillar of global security – to freedom from fear, to territorial security, to peace between nations. Can a “second birth” of the United Nations be engineered at the time of its 50th anniversary, giving rise to a United Nations committed to the second pillar of human security – to freedom from want, to socioeconomic development, to peace within nations? That is the supreme challenge. And the 1994 report is a modest attempt to respond to that challenge.

IMPACT OF THE HUMAN DEVELOPMENT REPORT

The impact of the *Human Development Report* on the global policy dialogue has exceeded expectations. More than 100,000 copies of the report now circulate in 13 languages. The report has been prescribed as a text in most leading universities – a tribute to its professional quality. In its first five years, it became one of the most influential reports – not only for governments, donors and international institutions but even more so for the grass-roots movements, media and institutions of civil society. Many commentators describe it as one of the most eagerly awaited reports of the year.

This response is rather unusual for a report from the UN system. What has made the *Human Development Report* an invaluable addition to the global policy dialogue is its intellectual independence and its professional integrity – its courage more than its analysis. It has not hesitated to present unpleasant facts in a fairly blunt fashion. It has chosen to identify specific country experiences – both successes and failures – rather than to bury them in vague generalizations. It has quantified social progress – and even attempted for a brief period to rank countries by political freedom. It has ventured into many areas where international dialogue had remained somewhat muted – from the high human costs of military spending to the new imperatives of human security, from lack of a clear link between ODA allocations and global policy objectives to the corruption and waste in many societies.

Controversies have accompanied the report from its inception. This was inevitable. Most governments and their representatives abroad do not like to be criticized in international reports. What irks them even more is when NGOs and the media take up the issues in the report and generate pressure for change on their own governments. The tendency for many governments has been to go after the messengers rather than to listen to the message. It is a tribute to the *Human Development Report* that it has withstood such onslaughts year after year.

What is the real impact of the *Human Development Report*? First, the report has greatly influenced the global search for new development paradigms. It is now broadly accepted that economic growth does not automatically translate into a better quality of life. For that to happen, policies must be initiated to ensure a more equitable distribution of growth as well as to change the very pattern of growth in response to people's aspirations. It is also recognized that development opportunities must be created not only for the present generations but for the future generations, by making growth models responsive to the need to regenerate natural capital. No debate is complete today without reference to people-centred, environmentally sound development strategies –

irrespective of the precise label given to such strategies. What is more, one can detect some accommodating gestures coming out of the citadels of economic growth – the World Bank and the IMF – though how far this conversion to human development is real rather than rhetorical has yet to be seen.

Second, the *Human Development Report* has helped launch many new policy proposals. For instance, the report has focused on the human costs of military spending, especially in poor nations, and made concrete proposals for reaping a peace dividend by investing in people rather than in arms. The report has also documented the great potential for restructuring existing budgets, the basis of the 20:20 global compact. The report has suggested several innovations in global governance – including the setting up of an Economic Security Council within the United Nations to deal with global socioeconomic issues and an international NGO, Honesty International, to monitor corruption. *Human Development Report 1994* was the first attempt to identify a concrete agenda for the World Summit on Social Development.

Third, the real impact of the report can be seen in the human development strategies that many developing countries have begun to formulate. Several countries have taken major steps on

the road to formulating and implementing their own long-term human development plans: for example, Bangladesh, Bhutan, Bolivia, Botswana, Cameroon, Colombia, Egypt, Ghana, Malawi, Nepal, Pakistan, the Philippines, Tunisia and Turkey. Many others are beginning to take concrete action to move towards human development programmes. UNDP technical assistance has supported these exercises, but real leadership has emerged within the developing countries – and the new strategies are fully owned by the implementing nations themselves.

Fourth, one of the most influential devices – though also one of the most controversial – has been the human development index and the ranking of countries by this index. The index – particularly in its disaggregated form – holds a mirror up to all societies so that policy-makers can see how the people in their societies live and breathe, and where the key tension points are for urgent attention.

ENDNOTE

* Editors' note: This chapter has been reproduced from extracts from Mahbub ul Haq, 1995, *Reflections on Human Development*, chapters 2 and 3, Oxford University Press.

1.3 HUMAN CAPITAL AND HUMAN CAPABILITY*

Amartya Sen¹

I would like to comment on the connection as well as contrast between two distinct but related areas of investigation in understanding the processes of economic and social development: the accumulation of "human capital" and the expansion of "human capability". The former concentrates on the agency of human beings – through skill and knowledge as well as effort – in augmenting production possibilities. The latter focuses on the ability of human beings to lead lives they have reason to value and to enhance the substantive choices they have. The two perspectives cannot but be related since both are concerned with the role of human beings, and in particular with the actual abilities that they achieve and acquire.

Given her personal characteristics, social background, economic circumstances, etc., a person has the ability to do (or be) certain things that she has reason to value. The reason for valuation can be *direct* (the functioning involved may directly enrich her life, such as being well nourished or being healthy), or *indirect* (the functioning involved may contribute to further production, or command a price in the market). The human capital perspective can – in principle – be defined very broadly to cover both types of valuation, but it is typically defined – by convention – primarily in terms of indirect value: human qualities that can be employed as "capital" in production in the way physical capital is. In this sense, the narrower view of the human capital approach fits into the more inclusive perspective of human capability, which can cover both direct and indirect consequences of human abilities.

Consider an example. If education makes a person more efficient in commodity production, then this is clearly an enhancement of human capital. This can add to the value of production in the

economy and also to the income of the person who has been educated. But even with the same level of income, a person may benefit from education, in reading, communicating, arguing, in being able to choose in a more informed way, in being taken more seriously by others, and so on. The benefits of education thus exceed its role as human capital in commodity production. The broader human-capability perspective would record – and value – these additional roles. The two perspectives are, thus, closely related but distinct.

The significant transformation that has occurred in recent years in giving greater recognition to the role of "human capital" is helpful for understanding the relevance of the capability perspective. If a person can become more productive in making commodities through better education, better health, and so on, it is not unnatural to expect that she can also directly achieve more – and have the freedom to achieve more – in leading her life. Both perspectives put humanity at the center of attention.

Altogether, this involves, to a great extent, a return to an integrated approach to economic and social development championed particularly by Adam Smith (both in *The Wealth of Nations* and in *The Theory of Moral Sentiments*). In analysing the determination of production possibilities, Smith emphasized the role of education as well as division of labour, learning by doing, and skill formation. The development of human capability in leading a worthwhile life as well as in being more productive is quite central to Smith's analysis of "the wealth of nations".

Indeed, Adam Smith's belief in the power of education and learning was peculiarly strong. Regarding the debate that continues today on the respective roles of "nature" and "nurture", Smith

was an uncompromising "nurturist", and this fitted in with his massive confidence in the improvability of human capabilities:

The difference of natural talents in different men is, in reality, much less than we are aware of; and the very different genius which appears to distinguish men of different professions, when grown up to maturity, is not upon many occasions so much the cause, as the effect of division of labour. The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature, as from habit, custom, and education. When they come into the world, and for the first six or eight years of their existence, they were, perhaps, very much alike, and neither their parents nor play-fellows could perceive any remarkable difference.²

It is not my purpose here to examine whether Smith's emphatically "nurturist" views are right, but it is useful to see how closely he links the productive abilities to the ability to lead different types of lives. That connection is quite central in seeing human capital in the broader context of the human-capability perspective.

There is, however, also a crucial difference between the two approaches – a difference that relates to some extent to the distinction between means and ends. The acknowledgement of the role of human qualities in promoting and sustaining economic growth – momentous as it is – tells us nothing about *why* economic growth is sought in the first place. If, instead, the focus is, ultimately, on the expansion of human freedom to live the kind of lives that people have reason to value, then the role of economic growth in expanding these opportunities has to be integrated into that more foundational understanding of the process of development as the expansion of human capability to lead freer and more worthwhile lives.³

The distinction has a significant practical bearing on public policy. While economic prosperity helps people to lead freer and more fulfill-

ing lives, so do more education, health care, medical attention, and other factors that causally influence the effective freedoms that people actually enjoy. These "social developments" must directly count as "developmental", since they help us to lead longer, freer, and more fruitful lives, *in addition* to the role they have in promoting productivity or economic growth or individual incomes. (To a considerable extent the *Human Development Reports* of the United Nations Development Programme have been motivated by the need to take a broader view of this kind.) The use of the concept of "human capital", which concentrates only on one part of the picture (an important part, related to broadening the account of "resources"), is certainly an enriching move, but it needs supplementation. This is because human beings are not merely means of production (even though they excel in that capacity), but also the end of the exercise.

Indeed, in arguing with David Hume, Adam Smith had the occasion to emphasize that to see human beings in terms of their usefulness only is to slight the nature of humanity:

... it seems impossible that the approbation of virtue should be of the same kind with that by which we approve of a convenient or a well-contrived building, or that we should have no other reason for praising a man than that for which we commend a chest of drawers.⁴

Despite the usefulness of the concept of human capital as a productive resource, it is important to see human beings in a broader perspective than that of human capital (breaking the analogy with "a chest of drawers"). We must go *beyond* the notion of human capital, after acknowledging its relevance and reach. The broadening that is needed is additional and cumulative, rather than being an alternative to the "human capital" perspective.

Finally, it is important to take note also of the instrumental role of capability expansion in bringing about *social* change (going well beyond *economic* change). Capability serves as the means not only to economic production (to which the

perspective of "human capital" usually points), but also to social development. For example, as various empirical studies have brought out, expansion of female education may reduce gender inequality in intrafamily distribution and also help to cut down fertility rates. Expansion of basic education may also improve the quality of public debates. These instrumental achievements may be ultimately quite important even though the instrumental role involved is not that of a factor of production in the making of conventionally defined commodities.

In looking for a fuller understanding of the role of human capabilities, we have to take note of:

- their direct relevance to the well-being and freedom of people;
- their indirect role through influencing economic production; and
- their indirect role through influencing social change.

The relevance of the capability perspective incorporates each of these contributions, and the different contributions relate closely to each other.

ENDNOTES

* Editors' note: This chapter is reproduced from an article in *World Development*, 1997, 25 (12), pp. 1959–61.

1. The analysis presented here has been more fully explored in my lectures as Presidential Fellow at the World Bank on "Social Justice and Public Policy" in the fall of 1996.
2. Smith 1776 (Smith 1976, pp. 28–29).
3. I have tried to discuss this issue in Sen 1983 and Sen 1985.
4. Smith 1790 (Smith 1975, p. 188).

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