



Economy of Tomorrow

Mind the Transformation Trap

Laying the Political Foundation for Sustainable Development

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- The transformation trap is the inability to resolve the political, social and economic contradictions typical to transformation societies. Amidst social and political conflict, what is necessary to graduate to the next stage of development may not be implementable politically.
- A progressive transformation project should therefore focus on laying the social foundation for sustainable development through an inclusive compromise between established and emerging classes.
- The development narrative needs to shift from communalist patronage and identity politics to innovation and empowerment through the provision of full capabilities for all.
- The Good Society with full capabilities for all can bring together a broad societal coalition to shape this Great Transformation.

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I The Race against Time

When newly industrializing countries reach the middle income level, their economic growth rate often begins to slow down. Squeezed between low-wage competitors which make inroads into mature industries and advanced innovator economies, middle income countries face the seminal challenge to quickly and disruptively adapt their growth strategies to a changing environment¹. Gill and Kharas have described these challenges as the Middle Income Trap². Others have expressed doubts that such a general economic pattern exists³. Whatever the empirical evidence may be, the merit of the Middle Income Trap concept is to have highlighted some of the challenges policy makers face when the first phase of industrialization loses steam. In order to graduate to the next development level, it is argued, economies have to move up the global skills value chain. Disruptively adapting the growth strategies then means to overhaul the entire business model from labour-intensive manufacturing to innovation-driven growth. Arguing from this narrow economic perspective, policy recommendations tend to be technical and market-oriented in nature⁴.

Development, however, is not a technical challenge, but the outcome of societal struggles. Transformation produces conflict between winners and losers. The foundation for sustainable development needs to be laid amid social, political and cultural conflicts rocking transformation societies. A narrow economic perspective is therefore in danger of misunderstanding the complexity of transformations. Consequently,

recommended policies are at risk of provoking political backlash, aggravating social conflict and triggering cultural resistance. Failure to address the political, social and cultural challenges of transformation can make the economic growth engine stutter. The challenges facing middle income countries should therefore be understood as a social and political transformation trap.

This paper will explore how deeply sustainable economic growth is intertwined with social and political development. Escaping this transformation trap requires more than a new business model, but equally the political stability necessary to implement the disruptive policies required to move up the value chain. This stability can only be produced by an inclusive compromise between the established and emerging classes. Laying this social foundation for sustainable development is the essential challenge for a progressive transformation project. The Good Society with full capabilities for all can bring together a broad societal coalition to shape the Great Transformations of today.

The global window for industrialization is closing

Rivalling schools of development economics claim credit for East Asia's spectacular rise. The neoclassical school points to the centrality of opening up the economy for trade and foreign investment. In contrast to the inward-looking import substitution model, Japan, Taiwan, South Korea, Thailand, Malaysia and



today China encouraged export as a catalyst for disciplined resource allocation and technological innovation⁵. The mercantilist school points to the infant industry promotion straight out of the textbooks of Alexander Hamilton and Friedrich List⁶. In contrast to the *laissez faire* policies promoted by many development agencies today, the Asian Tigers used every instrument at their disposal to nurture infant industries into internationally competitive players⁷. Both sides would agree, however, on the central role of manufacturing for export. Forced to compete internationally, the export sector is under pressure to constantly increase productivity, thereby becoming the engine for overall development⁸. In the early stages of the 'Great Transformation', the sharp increase in productivity is driven by the absorption of millions of underemployed farmhands into urban factories⁹. As long as this excess labour keeps flowing, productivity can be increased without losing the competitive cost advantage of cheap labour. When this pool of excess labour dries up, wages start to rise, driving labour intensive industries on to the next location.

With the comparative advantage of cheap labour cost gone, the challenge for middle income countries is then to find new sources of growth. However, some countries continue to rely on labour-intensive manufacturing, or nurture industries without economic foundation. Others either fail to tackle vulnerability to external shocks with domestic demand, or pursue growth strategies with natural limits, such as natural resource or FDI driven growth¹⁰. These countries might well find themselves in the squeeze between low-cost competitors on the one side,

and highly productive innovators on the other. In contrast to concepts of self-reliance or self-sufficiency, the only way for middle income countries is to move up the global skill and value chain to find new markets for new products. To facilitate this shift to a new growth model, conventional literature recommends to invest more in education, upgrade the infrastructure, and diversify exports with high-technology manufacturing and high-yield services¹¹.

What worked so spectacularly well in East Asia over the last decades, however, may no longer work under rapidly shifting global conditions¹². Higher labour productivity means that less labour can produce the same output, meaning manufacturing creates less jobs than in the past¹³. Dani Rodrik observed that in a globalized market, manufacturing moves on as soon as wages start to rise, leading to premature deindustrialization in newly industrializing economies¹⁴. Even if emerging manufacturers manage to build up a competitive sector, global overcapacities created by the secular stagnation in the West¹⁵, make it questionable if the markets are deep enough to absorb all of their goods¹⁶. Moreover, energy and resource driven industrialization is bound to bounce against planetary boundaries¹⁷. Simply put, if giants like China and India continue to expand at current rates, rising costs for fossil energy and raw materials may price them out of the market¹⁸. To make things worse, manufacturing costs in many emerging economies have almost reached parity with the United States¹⁹. This trend is further accelerated by a drop in manufacturing costs through digital automation²⁰. When cost advantages level out, factors such as lack in quality, legal insecurity



and local corruption become more important. At the same time, retailers revolve their merchandise in ever faster cycles, turning long supply chains into a competitive disadvantage²¹. Consequently, multinational manufacturers have started to re-shore production back to the old industrial centres²². All of this means the window of opportunity for export-led manufacturing growth is closing, and an alternative route to development has not yet been discovered. Shifting global opportunity structures turn the struggle for development into a gigantic race against time.

Who can win the race against time?

China's recent economic turmoil indicates that its export and investment driven growth model is running out of steam. Cheap labour intensive industries have started to move on to lower cost neighbours²³. Beijing seems determined to offset export dependency with domestic demand, and deliberately allows wages to increase. Following early East Asian industrializers, Beijing's goal is to take technological destiny into its own hands by aggressively moving up the global skills and value chain. Like Japan, South Korea and Taiwan, China has built international brands strong enough to push toward the technological frontier. The growth slowdown, however, will make it harder to satisfy the hopes and needs of the growing middle classes and urban workers. To generate political stability for development, China needs to compensate waning output legitimacy with higher input legitimacy.

Southeast Asia, by contrast, followed a less effective version of the export-driven

industrialization model. For domestic political reasons²⁴, Southeast Asian industrializers chose a foreign investment driven development path, leaving them at the mercy of multinational corporations. The assembly of foreign goods did not lead to technological learning²⁵. In Thailand, rising production cost, shortages of skilled labour and political instability are driving foreign investors out, leaving behind unproductive services²⁶. Given its chronic inability to modernize its social and political order, Thailand looks increasingly likely to stagnate and fall behind. Malaysia, mired in ethno-religious strife and patronage sleaze, hopes to revive FDI driven growth by joining the Trans Pacific Partnership Agreement (TPP). Even if these hopes should materialize, it would not address the main weakness of extractive political economies - the lack of innovation. For Southeast Asia, the main challenge is to build a powerful societal coalition for inclusive and innovation-driven development.

India's fate will depend on its ability to create one million new jobs per month over the next 40 years²⁷. By aggressively pushing the 'Make in India' agenda, the Indian government hopes that with the maturation of China, India could emerge as the world's workbench. Whether India, given its lack of efficient governance, modern infrastructure and skilled labour can really attract enough investment to cash in on its 'demographic dividend' is an open question. Some critics, pointing to the flow of foreign investment into Southeast Asian TPP signatories, fear that India may have already 'missed the bus' of manufacturing-driven growth²⁸. Given the bleak outlook of the world economy, central banker Raghuram Rajan has suggested to move



onto a domestic market driven development path²⁹. Others advocate for leapfrogging into a trade-oriented service economy³⁰. Given these restraints on manufacturing, optimists argue that services are the new job generation machine³¹. India's ICT boom, however, suggests that these high-skilled tradable services do not create the desired spill-over effects into the larger economy, because they cannot absorb the vast majority of low-skilled workers³². Given the complexity and plurality of India, the challenge is how to guide the countless subsystems onto an inclusive and sustainable development trajectory.

II The Social and Political Challenges of Transformation

From an economic perspective, transformation countries need to graduate from labour intensive to knowledge driven growth. To escape the squeeze between low wage competitors and advanced innovator economies, middle income countries need to move up the global skills and value chain. On the policy level, this requires heavy investment in infrastructure and developing the skills of the workforce.

What is desirable from an economic point of view may not be implementable politically. To unleash the full potential of creative destruction, inclusive institutions are needed³³. In the extractive political economies of most transformation societies, however, innovation is not in the interest of the few who benefit from the status quo.

Transformation conflicts around the world

Who are those resisting change, and why? The status quo alliance consists not only of the old elites who try to protect their status and privilege, but all those who fear that a rapid transformation would turn their world upside down. Within less than a generation, fundamental concepts such as family, work, or the role of men and women have undergone radical change. Some people happily embrace new opportunities, while others feel that the loss of the world they were born into threatens their identities³⁴. The fear of social decline gives these social struggles a paranoid, aggressive undertone. It is not a coincidence that in times of rapid change, fascist groups frame scapegoats for the alleged moral decline, and resort to violent tactics to restore an imagined golden past³⁵. As Antonio Gramsci gloomily remarked from his prison cell, 'The crisis consists precisely in the fact that the old is dying and the new cannot be born; in this interregnum a great variety of morbid symptoms appear.'³⁶

Structurally, transformation crises reflect the gap between political and social orders, and the new social and economic realities. It is not a coincidence that these interdependencies make themselves felt more pronouncedly once a country has reached the middle income level. After several decades of industrialization, not only have economies become more complex, but societies have started to fragment and pluralize³⁷. The differentiation of lifestyles, interests and identities erodes symbolic orders especially in those cultures which are rooted in conformity, unity and discipline³⁸. Vertical political systems informed by patrimonial cultures find



it increasingly challenging to govern complex, dynamic and conflict-ridden transformation societies³⁹. Unable to deliver to the growing hopes, demands and needs of rapidly changing societies, the legitimacy of the old order is eroding. Conflicts between winners and losers of transformation paralyse the political process and undermine the ability to implement reforms⁴⁰.

In this transformation conflict, the middle classes play a decisive role. As long as the established middle class sticks with the old elites, the status quo may be upheld. If the established middle classes make common cause with emerging classes, change will be the likely outcome. What motivates the middle classes?

Why are the middle classes revolting?

Over the past 15 years, middle classes have been revolting in many transformation societies around the world⁴¹. Starting from the Philippines in 2000/01, there have been mass protests in Venezuela (2001-2003), Taiwan (2004 and 2006), Ukraine (2004 and 2013), Kyrgyzstan (2005), Thailand (2006, 2008, 2013/14), Bangladesh (2006/07), Kenya (2007/08), Bolivia (2008), Georgia (2003 and 2007), Lebanon (2011), Tunisia (2010/11), Russia (2012), Egypt (2011 and 2012/13), Turkey (2013), Brazil (2013 and 2014), Hong Kong (2014), Malaysia (2015) and Ecuador (2015). While the occasions and outcomes of these protests may vary, they are instructive to understand the nature of transformation conflicts.

In these conflicts over the political and social order, the logics of patronage and modern governance overlap. In most transformation

societies, electoral politics play an ever larger, if not always decisive role. Clever politicians have understood that catering to the hopes and needs of the neglected majority population is the recipe for electoral victories. Once in power, however, these popular leaders follow the ancient logic of the patronage system by rewarding supporters, protecting clients, favouring their kin and distributing the spoils. This is why many popular leaders turn into 'elected autocrats', threatening the opposition, silencing media, and undermining democratic institutions⁴². This is why many in the established middle class feel threatened, and take to the streets to protest against corruption and the abuse of power.

The rage of these well-off protesters shows that the established middle class is not satisfied with the 'deal' it has been offered. To secure their voter base, elected governments redistribute wealth and opportunities. For social and political reasons, it is difficult to raise the necessary revenue to finance these programs from either the rich or the poor, with the tax burden falling on the backs of the middle class. As long as the middle class feels unsafe and abused it will resist calls for solidarity with other segments of society⁴³. On the other side, as long as demands for equal opportunities are not met, the majority population will challenge the old social order. This protracted social conflict again scares the middle class, which in turn starts to protest against the demands of the 'undeserving masses'. This conflict over the question of 'solidarity with whom?' gives a working definition of who is considered a full member of the polity, and who is regarded as a subaltern subject without the same rights. In many societies, solidarity is only expected between members of the same



group, class, caste or community. It is precisely this question of the inclusion of the former rural labourers into the polity which is at the core of a transformation conflict. Simply put, a transformation crisis occurs when the old social contract has been terminated, and a new one has not yet been concluded⁴⁴.

Second, the centrality of corruption, nepotism and populism in middle class protests points to frustration over the patronage system. Patronage practices seem to proliferate in times of transformation⁴⁵. In most transformation societies, modern institutions in the Weberian sense are weak⁴⁶. As long as these modern institutions are absent or do not function properly, a phone call to the 'big man' might still be the only way to solve everyday problems. While the elites benefit from the patronage system, the poor rely on it for physical survival. The middle class considers patronage a necessity, wrong if practised by others, but right if useful for oneself⁴⁷. So why is the middle class protesting against these ancient governance mechanisms when it also benefits from them? This change in attitude may be triggered by the deeper shift towards capitalist contractual culture. When economic matters are governed by contractual relationships between equals, many ask, why then do the same people have little or no say in public matters? Hence, demands for accountability, transparency, participation, and responsiveness are in fact calls for the modernization of the polity. Accordingly, patronage practices are reframed. The rewarding of supporters is now demonized as 'populism', favouring of kin is scourged as nepotism, protecting of clients denounced as cronyism and

the distribution of spoils outlawed as corruption. Corruption, in particular, is the new code for the abuse of power by unaccountable elites. In short, the middle class fears to be 'robbed by corrupt politicians who steal their money to buy the votes of the undeserving poor with populist projects'⁴⁸. Hence, in its essence, the protests of the middle classes are aimed at the patronage system as the main obstacle to modernization.

This explains why good governance discourses are gaining currency among the middle class. Classical modernization theory would equally expect the middle class to be the primary drivers of democratization⁴⁹. But why is it then that the protesters from Hong Kong to Kuala Lumpur are demanding a more inclusive and participatory order, while their peers in Bangkok and Cairo march for the disenfranchisement of the 'uneducated' masses, and the abolition of electoral democracy?

Again, middle class rage does not flow from some objective class interest, but is fuelled by the way the transformation conflict is framed in the discourse. While it is true that extractive political economies systematically exclude the majority population, transformation conflicts are not simply 'class struggles' between the rich and the poor. Both the status quo as well as the change alliance cut across all social strata and sectors. The balance of power between those who seek to uphold the status quo and those who want to modernize the political and social order depends on the ability of each side to co-opt social groups into their struggle. This suggests that the outcome of the transformation conflict will not simply be a mirror function of structural



changes, but will also be determined by the way the conflict is constructed in the discourse. Transformation conflicts are rarely framed in socio-economic terms, but often constructed as identity conflicts between different races, religions, gender or ethnicities. By framing the community as threatened by another, those who seek internal socio-economic reform can be reined in to close ranks against the external threat⁵⁰. This means culturalist communalism and identity politics are the ideal instruments for all those who seek to uphold the social and economic status quo. Contrary to historical determinist expectations, traditional elites can uphold the status quo against the onslaught of capitalist globalization and social emancipation if they can co-opt the middle classes into their alliance by framing the conflict in cultural essentialist terms.

As a result of these political and social challenges, transformation societies find it difficult to adapt the political order to the needs of an emerging economy and pluralist society.

III Escaping the Transformation Trap

What is the Transformation Trap?

In the race against time, emerging economies need to outpace global headwinds by shifting from labour-intensive to innovation-led growth. What makes this so extremely difficult is the interconnectedness of economic, social, cultural and political challenges. Amidst social and political conflicts, policies designed to move

the economy up the global skills and value chain can prove to be difficult to implement politically.

To unleash innovation-led growth, a highly skilled workforce is needed. To finance this investment into human resources, the tax revenue needs to be significantly increased. However, as long as the middle class feels unsafe and abused, it refuses to pick up the bill. In the absence of a social contract which entitles all members of society to solidarity, policies aimed at improving the skills and physical fitness of the workforce may be resisted. Redistributive pro poor policies are even more likely to antagonize the middle classes. The failure to upgrade human capital, however, makes the economy highly vulnerable to competitors who are either cheaper or more productive. Rising inequality, a stuttering economic engine, and spreading unrest may in the long run lead to economic stagnation and decline.

In a differentiated and mobilized society, top down imposition of policies is more likely to be resisted by those affected, making it more difficult to stir development by institutional and social engineering. Innovation cannot be imposed, but can only flourish in a more open and free environment. When slowing growth rates make it more difficult to lift all boats, building consensus for development becomes even more difficult.

The transformation trap, in short, is not some economic law which causes a systematic slowdown when a country reaches middle income level. It is the inability to resolve the political, social and economic contradictions typical for transformation societies.



Sustainable development needs a social foundation

Escaping the transformation trap is more than an economic task, it is a seminal political challenge. In the vertigo of change, cultural and social fears can be exploited to stifle disruptive innovations. Building a skilled workforce for innovation-led growth is difficult in the absence of a social contract which constitutes solidarity with millions of former farmhands. Politically speaking, moving up the value chain means to build social consensus for creative destruction as well as redistribution. Or, in other words, to build a stable social and political foundation for sustainable high growth.

What is needed is a social compromise between all classes to generate the social and political stability needed for the modernization of the economy and the state. Only an inclusive social compromise can square this circle of reassuring the established classes while integrating millions into the polity as citizens with equal rights and opportunities.

Historically, such a social democratic ‘New Deal’ was concluded to overcome the Great Depression⁵¹. In essence, social democracy promises prosperity for all by lifting all boats. In return for equal opportunities to fully participate in political, social and cultural life, the majority population accepted checks and balances to majority rule. In return for social peace, protection by the rule of law, good governance and quality public goods, the middle classes pay-rolled redistributive policies. Finally, in return for social peace and political stability, the elites addressed the crisis of social justice by creating opportunities for all. It was this social democratic compromise which helped to restore social peace

after a century of conflicts, thereby laying the social foundation for post-war prosperity.

Of course, the historical New Deal cannot be the blueprint for social compromises under different political, social and cultural conditions. However, it showed that a social compromise needs to be more than the lowest common denominator between opposing interests.

What is needed is a development model which can produce the social peace and political stability necessary for the rollercoaster ride of transformation. To provide opportunities for all, high GDP growth is necessary, but not sufficient. A sustainable development model needs to combine growth with equity, inclusiveness with innovation and preservation with disruptive change. The Economy of Tomorrow project, bringing together more than 200 thinkers from emerging Asian economies, has proposed such a model for socially just, resilient and green dynamic development. Building upon Amartya Sen’s capabilities approach⁽¹⁾, the Economy of Tomorrow model seeks to generate innovation-led growth by unleashing the full creative, entrepreneurial, and cognitive potential of all citizens⁵².

How to build a transformative project

In the vertigo of transformation, especially in highly pluralistic and decentralized polities, social groups tend to engage in distributional

1 Amartya Sen and Martha Nussbaum name at least ten capability clusters which empower individuals to live a Good Life: Bodily Health; Bodily Integrity; Senses, Imagination and Thought; Emotions; Practical Reason; Affiliation; Other Species; Play; Control over One’s Environment.



conflicts. In such a fragmented political field, the technocratic implementation of developmental policies becomes difficult. Instead of imposing policies onto society, it may be more promising to change the calculus of these interests groups by shifting the paradigm. Driven by their perceived interests in the new paradigm, the myriads of subsystems voluntarily start to move into a new, common direction.

Given the rising aspirations, impatience and anxiety in the race against time, the 'high growth first' paradigm tends to dominate the political discourse. In this paradigm, political agendas can easily be marginalised by framing them as 'impediments to growth'. Labour and land rights, environmental protection, social equality and climate change agendas are reframed as 'luxuries we can now ill afford'. In the 'high growth first' paradigm, progressive policies are difficult to communicate, let alone implement⁵³.

Given the political and social challenges of transformation societies, a 'high growth first' strategy is likely to end up in the transformation trap. What is needed is a balance between the economic, political and social dimensions of development. A successful transformation project therefore lays the social foundation for sustainable development with an inclusive social compromise.

In the current paradigm, however, not everybody will be willing to conclude this social compromise for development. Some are resisting change to defend their status and privileges; others because they feel their identities are threatened⁵⁴. Hence, the shift of the development paradigm will be

the outcome of a struggle between those who seek to uphold the status quo, and those who want change⁵⁵. In the political economy of change, this means change agents need to join forces in a broad societal change coalition.

A broad societal change coalition brings together actors from across all sectors and social strata, including reform-minded elites. Broad societal change coalitions successfully managed the democratization processes in the Philippines (People Power, 1986), South Korea (June Democracy Movement, 1987), South Africa (Anti-Apartheid, 1994), Indonesia (Reformasi, 1998). In pluralistic and federalist democracies like India, broad societal coalition building is essential to any significant reform process, let alone major shifts of the development path.

Broad societal coalitions, however, are hard to build on the basis of class, identity or interest. In the here and now, social groups have different interests and priorities. The lowest common denominator between these interests is too narrow to serve as a platform for a broad societal change coalition. This is why it is difficult to scale up isolated progressive struggles into a broad societal struggle for change.

If coalitions based on common interests are hard to bring together, the better way to build a broad societal change coalition could be to start with a discourse alliance. Instead of brokering a transactional compromise between different interests in the here and now, it may be more fruitful to point to an alternative paradigm where these interests converge. To expand the imagination of what is possible, a practical utopia

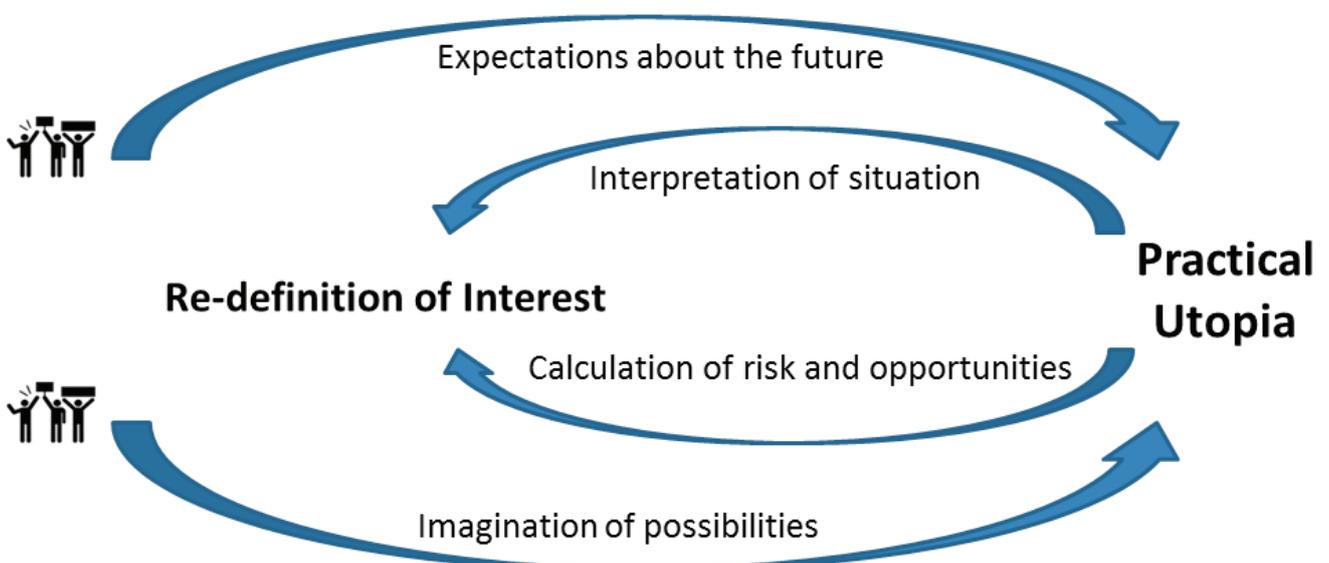


needs to be envisioned⁵⁶. Reimagining the future will in turn change interpretations of the situation today. Shifting expectations on how things will unfold could impel actors to recalculate risk and opportunities of their options, and redefine their interests. In short, pointing to the convergence of interests in an imagined future can change the calculus of risk and opportunity in the here and now. In other words, differences of interest can be transcended by shifting the paradigm.

After the 'End of History', progressives seem to have forgotten to use this utopian method⁵⁷. In order to give hope to those who struggle for change today, it is imperative to fill the void of TINA ('There is No Alternative') with a vision for a better tomorrow. This is why a transformative project needs to be more than a set of policies, but a practical utopia which expands the imagination beyond the constraints of day-to-day politics.

In order to fulfil the functions of widening the imaginary horizon ('the Audacity of Hope'), energizing supporters ('Yes, we can') and setting the vantage point for a broad societal alliance (the 'Rainbow Coalition'), the practical utopia must not be arbitrary, but a strategically designed transformative project. To mobilize potential supporters to join forces, its central promise needs to be credible enough to be the 'change you can believe in', but transformative enough to allow actors to look beyond their current differences. To function as the platform for a broad discourse alliance, the utopian vision ('Our Dream') needs to be placed right into the centre of the discourse field. Framed in shared values and collective experiences, a transformative political project needs to unite good politics, good economics, and the morally right thing to do.

In short, in order to prepare the ground for a broad societal change coalition between key



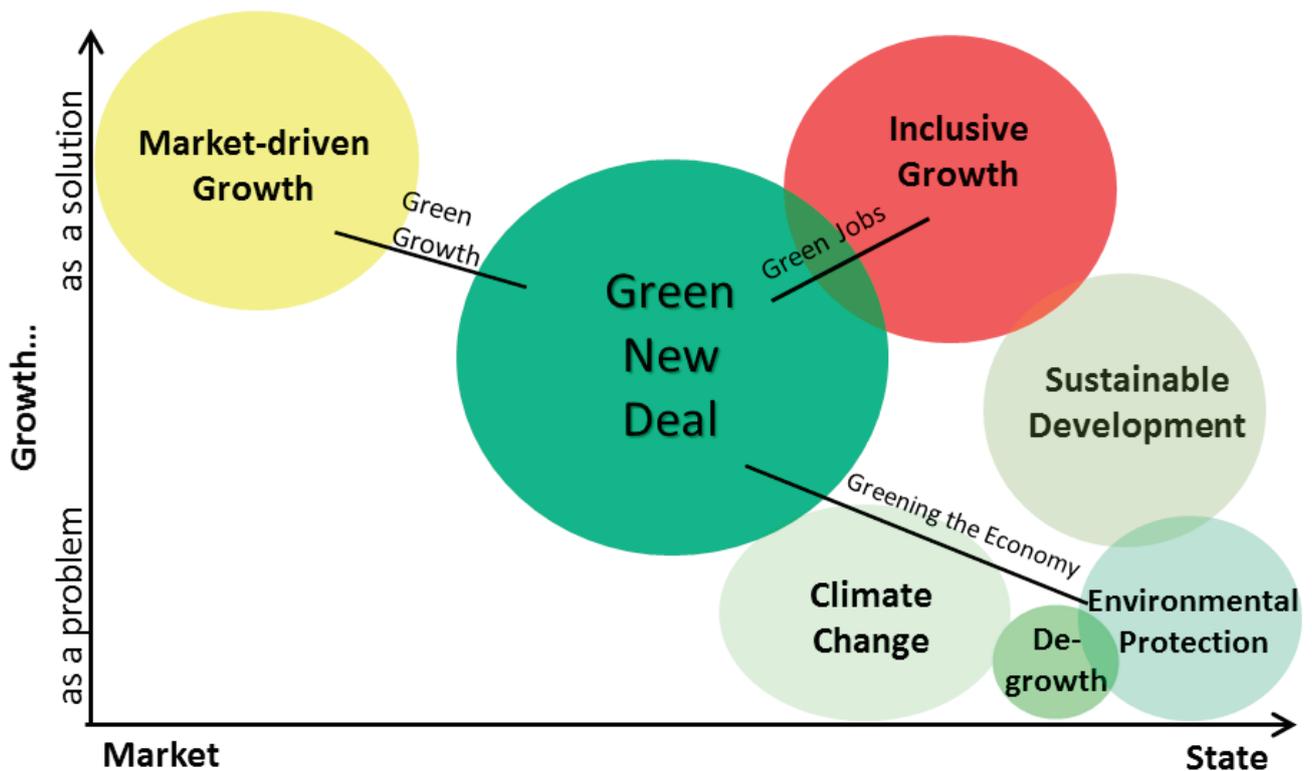


constituencies, a discourse alliance needs to shift the development paradigm. The first step in building a discourse alliance is to analyse existing discourse communities for commonalities between their expectations and promises. Second, a utopian vantage point needs to be imagined where the promises of key, if not all, communities will converge. This vantage point is the new development paradigm. Third, game-changing structural drivers need to be identified which have the widely accepted potential to transform the current situation. Fourth, around these game changers, a narrative needs to be constructed which credibly explains how society can reach this practical utopia. To build bridges, this change narrative needs to be framed in a language which resonates with different discourse communities. Fifth, a transformative political platform needs to be constructed which reflects the enlightened interests of key constituencies. To be clear, this platform should not seek the lowest common denominator between the interests in the here and now, but describe the convergence of redefined interests in the new development paradigm. Sixth, transformative practical projects need to be devised which allows key constituencies to pursue their newly defined interests individually. Yet, the convergence of redefined interests in the new development paradigm will channel these individual actions onto a common trajectory. In the new paradigm, changing calculations of risk and opportunity will induce actors to change their behaviour, and by doing so shift the opportunity structures for other actors. Redefined interests allow for cooperation between actors who used to be antagonists. Based on the new interest calculus,

and encouraged by successful cooperation on joint projects, a broad societal change coalition can emerge out of the discourse alliance.

A good example for a geopolitical transformative project is the Chinese 'One Belt, One Road' initiative. The 'Chinese Dream' to revive the ancient Silk Road broadens the imagination of what is possible for Eurasia. It is this promise to transform the economic and political maps of Eurasia which shifts expectations well beyond the roads, railways, ports and bridges actually built. At the same time, concrete commitments like the funds provided by the Asian Infrastructure Investment Bank (AIIB) add credibility to these promises. A transformative project, in short, needs to combine hardware and software to change the calculus of actors.

Another example for a transformative project is the 'Green New Deal'. For decades, the constructed dichotomy between growth and environment doomed any attempts to shift to a green development path. The 'Green New Deal' transcended this conflict of interest, and laid the foundation for a discourse alliance. Promising to decouple growth from the use of resources, the 'Green Growth' narrative built a bridge between the environmentalist 'climate change-' and the business friendly- 'market driven growth' discourse communities. The promise of 'green jobs' brought together the 'green' with the 'inclusive growth' discourse community. The post-carbon discourse alliance brings together religious leaders like the Pope with billionaires like Bill Gates, or environmental activists with geopolitical strategists worried about energy



security⁵⁸. By shifting the expectations towards the forthcoming end of the fossil age, this discourse alliance set the 'exit from the carbon economy' as the new development paradigm. Based on the new calculation of risk and opportunity, political and market actors have started to change their behaviour in accordance with their redefined interests. European governments started to legislate the exit from the carbon economy, calling into question trillions of annual subsidies for the fossil fuel industry. Emission targets call into question the assumption that all fossil fuel reserves will be consumed, triggering the Bank of England and the German government to warn institutional investors (who are required to invest in secure assets only) to reevaluate fossil stocks in view of this 'carbon bubble'⁵⁹. New calculus of interest has triggered German and Italian utilities providers to sell off their entire conventional

power plant fleet⁶⁰. In the emerging non-carbon paradigm, former antagonists find that their interests are converging, opening the way for a global change coalition.

The Good Society with full capabilities for all

What could be this vision for a better tomorrow which a transformative project needs to promote with the aim of transcending social and political conflict? In order to create the basis for solidarity between all classes, the narrative needs to shift the focus from communalist patronage and identity politics towards social empowerment and economic development⁶¹.

The 'Good Society with full capabilities for all' offers such a powerful normative vision⁶². At



the same time, the capabilities' narrative can be the platform of a broad development discourse alliance. The capabilities narrative promises to escape the transformation trap and graduate to the next level of development. The promise to unleash innovation-led growth is attractive to the 'high growth first' discourse community. The focus on empowerment can be connected to the 'equity', 'inclusiveness' and 'justice' discourse communities. 'Development as freedom' even connects the 'emancipation' and 'liberty' discourse communities. Bringing together the 'growth', 'justice', 'emancipation', and 'stability' discourse communities, a modernization discourse alliance can emerge.

This transformative discourse alliance needs to shift the development paradigm from 'high GDP growth' to 'high sustainable growth'. In this frame, progressives can make a powerful case that the best way to achieve sustainable and high growth is to lay a stable social foundation with a social democratic compromise. Hence, the progressive development frame needs to point out that the best way to move up the skills and value chain is to provide full capabilities for all. Accordingly, sector-specific narratives need to transcend false dichotomies between economic growth and social development by framing social development as a precondition for sustainable high growth. For instance, in order to attract the creative innovators for the emerging knowledge economy, smart cities need to provide not only the physical infrastructure, but also social peace and cultural openness. Equally, in a post-carbon world, sustainable high growth will depend on the ability to decouple productivity growth from the use of resources.

By constructing the social compromise around the capabilities platform, a broad societal change coalition can be built out of the development discourse alliance. Within the new 'high sustainable growth' paradigm, all constituencies with an enlightened self-interest in modernization need to come together. Important constituencies for such a modernization partnership could be elected policymakers, private investors and entrepreneurs, the progressive middle class as well as aspirational classes. By combining the struggles of those who seek distributional justice with those who want justice of recognition, the capabilities platform can bring together the progressive tribes. By providing opportunities for all to unleash their full potential, the capabilities approach combines the private sector goal of economic innovation with the state sector concern for political stability. The capabilities platform reaches out to the hopes and needs of emerging classes while at the same time offering the middle classes quality public services in return for their tax bills. By combining the middle class ideal of meritocracy with the yearning of the majority population for equal opportunities, the capabilities approach opens the door for a social compromise between the elites, the middle classes and the majority population. Based on this social compromise over capabilities, a broad societal coalition for modernization and development can be built.

The 'Good Society with full capabilities for all' makes for a powerful ideological frame for the progressive project of shaping the Great Transformation of today. Now it is time to define the concrete, sector-specific transformative projects which can make 'full capabilities for all' a reality.



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