



Globalization and the limits of neoliberal development doctrine

Richard Sandbrook

Development as Freedom

Amartya Sen

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Nobel laureate Amartya Sen offers an eloquent exposition and defence of today's dominant development thinking in *Development as Freedom*. Adept in philosophical as well as economic analysis and acclaimed for the clarity of his prose, Sen is well qualified to construct a persuasive conceptual and ethical grounding for what I shall call 'pragmatic neoliberalism'. This market-oriented approach is far removed from the crude reductionism of orthodox neoclassical analysis. Although macroeconomic reforms remain central, this new perspective adopts human well-being rather than mere growth as its goal and broadens the development agenda to include political, social and institutional reforms.

Certainly, development is badly in need of a workable and humane guide to action. Although certain regions and countries of the developing world are achieving high to respectable growth rates, problems abound: growing numbers of poor in South Asia and Africa, deepening inequalities between and within countries, dangerous volatility as capital washes in and out of vulnerable emerging markets, widespread ecological decline, faulty democratic transitions, and state collapse and civil war, especially in Africa. To maintain one's optimism in these parlous circumstances is difficult, but Sen manages this feat. His positive message is clear: people in developing countries would do well to adopt free markets, strictly delimit the role of the state, promote liberal-democratic institutions, ensure the provision of basic education, health care and (if possible) safety-nets, and welcome open discussion of issues. This route will create the preconditions for a harmonious and reasoned progress towards a more prosperous, just society.

Although this is a fine story, Sen's pragmatic brand of neoliberalism purveys a false promise to the poor and socially excluded. Sen portrays a world of 'reasoned social progress' (p 279) in which citizens, through informed and rational discussion in the context of free speech and free markets, may select policies to promote a just and prosperous society. It is a world in which the destructive side-effects of actually existing markets disappear. This world is one

Richard Sandbrook is at the Munk Center for International Studies, University of Toronto, 100 George Street, Toronto, Ontario M5S 1A1, Canada. E-mail: sandbroo@chass.utoronto.ca.

in which many of us would like to live. Unfortunately, though, the vast majority of poor and oppressed people do not, and will not, inhabit this idealized world. To achieve development, defined by Sen as the expansion of freedom, they will usually have to confront, not just dictatorial states bent on dominating markets, but global and national power structures rooted in the market economy. The false promise of Sen's neoliberalism is to offer a harmonious route to the expansion of freedom, merely by expanding personal liberties and humanely adjusting individuals to the exigencies of global market competition.

II

Sen's pragmatic neoliberalism closely parallels today's dominant development thinking, as epitomized by the formulations of the World Bank. But Sen is a far more eloquent advocate of market-based development than the committee-dominated international financial institutions. A critical review of his arguments, therefore, will suggest certain limitations of contemporary neoliberal thought in general.

Sen constructs his theory's normative foundations by equating development with the expansion of freedom, and then defining this freedom to encompass not only political liberties, access to essential services and the reduction of deprivations, but also participation in market exchanges. As well, he posits a mutually reinforcing relationship among his various freedoms. His approach, in a nutshell, is this:

Expansion of freedom is viewed ... both as the primary end and as the principal means of development. Development consists of the removal of various types of unfreedom that leave people with little choice and little opportunity of exercising their reasoned agency ... The intrinsic importance of human freedom, in general, as the preeminent object of development is strongly supplemented by the instrumental effectiveness of freedoms of particular kinds to promote freedoms of other kinds ... For example, there is strong evidence that economic and political freedoms help to reinforce one another, rather than being hostile to one another ... Similarly, social opportunities of education and health care, which may require public action, complement individual opportunities of economic and political participation and also help to foster our own initiatives in overcoming our respective deprivations. (p xii)

Sen thus offers an integrated and holistic model of development, in which the various freedoms that combine to shape the quality of an individual's life are mutually reinforcing. Readers will find this concept of a virtuous circle of development, in which all good things progress together, highly attractive.

As a *pragmatic* neoliberal, Sen, also advocates a delimited but not wholly passive role for the state. Governments, he maintains, should protect economic stability (preventing even 'modest' inflation, p 138) and provide defence, policing and environmental protection. There 'may' also be an argument for the public provision of basic education, health care and safety-nets. Sen hedges his analysis, however; public provision of even these basic services may have to be subject to means-testing, and the state should provide them only if it commands

sufficient resources and if their provision does not entrench undue dependency on government.

The World Bank, by far the most influential purveyor of development theory and strategy, has developed a very similar development model. This organization distanced itself in the 1990s from its earlier austere and pure neoliberalism by embracing a more pragmatic, holistic approach. Under pressure to justify its very existence, the Bank has progressively broadened its development doctrine.¹ A major impetus was the disappointing performance of ‘structural adjustment’—programmes designed to check inflation, balance budgets, deregulate markets, open economies and privatize state corporations—especially in Latin America and Africa. These failures spurred mainstream development agencies and academics to innovate theoretically, largely by absorbing popular concepts and challenges into a reinvented neoliberalism. Of particular significance among the challenges to the Bank’s position was UNICEF’s telling critique in 1987 (*Adjustment with a Human Face*) and its extension by the United Nations Development Programme (UNDP) in its annual *Human Development Report*, which first appeared in 1990. ‘Sustainable human development’, as propounded by the UNDP and an array of non-governmental organizations, rejects an exclusive focus on the growth of gross national product and a top-down, externally driven strategy for developing countries. These organizations argue that ‘the ultimate test of development practice is that it should improve the nature of people’s lives, and advocate that it should be founded on participation and a more equal partnership between donors and developing countries’.² In the 1990s first the World Bank and later the IMF and World Trade Organization supplemented their neoclassical economic doctrine with a declared commitment to poverty reduction, gender equity, enhanced participation, pluralism, human rights and partnership.

This more pragmatic approach, culminating in World Bank President James Wolfensohn’s ‘Comprehensive Development Framework’,³ is now extravagantly touted as a new paradigm for development. Yet the elements of this approach appeared as early as 1989.⁴ This model features a market-based strategy that is *holistic*, *synergistic* and *complex*. First, it encompasses political and social, in addition to conventional macroeconomic or market, goals. Next, these goals are complementary and mutually reinforcing. And third, efficient market systems are deemed to require the supportive action of effective national states. The parallels to Sen’s formulations are striking. The so-called ‘post-Washington consensus’ reflects these assumptions, although vast controversies swirl within the fold over the proper pace, sequencing, and mix of reforms for any particular country, region or period.⁵

Not coincidentally, this pragmatic neoliberalism has much in common with the Third Way, which provides the ideological foundations for certain powerful Western governments. Both doctrines developed as a reaction to the limitations of the free-market fundamentalism of the Thatcher and Reagan era. The ‘Third Way’, as advocated in particular by British Prime Minister Tony Blair and US President Bill Clinton, urges a more forceful role for the state than that envisaged by old-style liberalism (North American neoconservatism). But this enhanced role is limited to supply-side activities, especially honing the capacity of citizens, firms and the national economy as a whole to compete within an

inexorably advancing global market economy. This priority directs governmental attention to improving universal education and technical training, as well as technological research and development. Additionally, the state assumes responsibility for providing minimally adequate safety nets for those individuals who cannot market themselves effectively. The Third Way, however, does not advocate major redistributive reforms or regulative measures to promote equality of opportunity or condition.⁶ That the Third Way parallels the dominant strategy for developing countries is hardly surprising in the light of the combined influence of the US, British and other Third-Wayist governments on the World Bank, and the Bank's influence on development perspectives more generally.

Development as Freedom, therefore, lies at the forefront of contemporary thinking. And Sen's book is, indeed, an intimidating defence of this thinking, with its 300 pages of text which summarize his voluminous earlier writings, and with its 53 pages of copious end notes which list hundreds of experts who support his analysis. But the work nonetheless illustrates the limits of pragmatic neoliberalism as a development doctrine.

Three of Sen's key assumptions and arguments appear, on examination, to be implausible. These include his notion of market exchange as a natural and intrinsically valuable pattern, his analysis of the challenges facing democracies, and his vision of 'reasoned social progress'. If my objections have merit, we must conclude that global capitalism is often not the benign process in poor, unequal and oppressed societies that Sen and other neoliberals believe.

III

We must first question the liberal/neoliberal assumption that market exchange is natural to society, for much follows from accepting this starting point. Although free markets foster prosperity, Sen contends, this effect is not their primary justification. Rather, 'they are part of the way human beings in society live and interact with each other (unless stopped by regulation or fiat). The contribution of the market mechanism to economic growth is, of course, important, but this comes only after the direct significance of the freedom to exchange has been acknowledged' (p. 6). To support this view of economic freedom, Sen resorts to antipodal cases. He juxtaposes a 'dictatorial' central plan with 'free' choice in the market. 'Even if in both the scenarios (involving, respectively, free choice and compliance to dictatorial order), a person produces the same commodities in the same way and ends up with the same income and buys the same goods, she may still have very good reason to prefer the scenario of free choice over that of submission to order' (p 27). Or, again, Sen contrasts 'bound' labour (slavery in the USA is mentioned) to a 'free' labour contrast (p 113), in order to argue the superior virtue of market choice.⁷

Is market exchange a natural feature of all human societies? If Sen and the liberals are right, this finding will severely circumscribe the range of desirable development strategies. Although this knotty question obviously cannot be satisfactorily resolved here, the case for the universality of markets in human society is not so clearcut. *Development as Freedom* ignores the most trenchant critique of liberal reasoning—that offered by renowned economic historian Karl

Polanyi especially in his classic *The Great Transformation: The Political and Economic Origins of Our Time* (1957). Polanyi contended that the liberal economists commit a fundamental error in supposing that a particular form of economic system—market exchange—is universal in time and place. Markets in the form of places in which people exchanged goods have existed throughout history, Polanyi noted. However, a market *system*, in which everyone satisfies his/her material needs by treating land, labour and money as commodities, is an invention of the past three centuries. Polanyi engaged in detailed studies of ancient and non-Western societies (Dahomey in particular) to show how the economy was integrated in society in other times and places. ‘Reciprocity’ and ‘redistribution’, he showed, were two alternative forms of economic organization that operated on a logic quite contrary to that of market exchange.

Polanyi’s analysis holds powerful implications for development strategy. If markets are not natural to human societies, we are freed to imagine alternative forms of economic organization that might better accord with social priorities of justice, sustainability and solidarity than market systems. We would seek, in Polanyi’s terms, ways of ‘re-embedding’ the economy in society in order to curb the destructive side-effects inherent in the commodification of all things. In tracing the 19th-century roots of the Great Depression, the rise of fascism and the Second World War, *The Great Transformation* (pp. 3–4) argued that:

The idea of a self-adjusting market implied a stark utopia. Such an institution could not exist for any length of time without annihilating the human and natural substance of society; it would have physically destroyed man and transformed his surroundings into a wilderness. Inevitably, society took measures to protect itself, but whatever measures it took impaired the self-regulation of the market, disorganised industrial life, and thus endangered society in yet another way. It was this dilemma which forced the development of the market system into a definite groove and finally disrupted the social organization based upon it.

Although a brief review cannot establish the validity of this arresting thesis, certain prominent neoliberals, in addition to radical critics, have recently voiced their unease about current global trends. Billionaire financier George Soros, in his 1998 book *The Crisis of Global Capitalism: Open Society Endangered*, warns that unregulated markets threaten to provoke a popular backlash owing to the insecurity and inequality they foster. Noted neoconservative Francis Fukuyama refers to the current era as ‘The Great Disruption’, one characterized by social disintegration, moral decline and social disorder. Why do these trends exist? In part, because ‘the culture of intensive individualism, which in the marketplace and laboratory leads to innovation and growth, spilled over into the realm of social norms, where it corroded virtually all forms of authority and weakened the bonds holding families, neighborhoods, and nations together’.⁸ If disembedded markets disrupt society and nature, this tendency would legitimate protective curbs on market forces. Sen, unfortunately, does not consider the possibility of such harmful tendencies, thereby undercutting his advocacy of a neoliberal development doctrine.

Furthermore, Sen identifies tendentious dichotomies to support his case that participation in markets represents economic freedom. Certainly, we would

choose market exchange (even if not quite ‘free’) over a dictatorial central plan, and we would take our chances in the labour market if the alternative were slavery. But is all planing ‘dictatorial’? Suppose, as in Denmark or Norway, people freely elect governments that engage in a fair degree of planning. For sure, the Danes and Norwegians are no less free than Americans; indeed, with their far wider range of excellent public facilities (free public health care and higher education, for example), most Danes and Norwegians have experienced a far greater expansion of their freedom than their counterparts in the USA. Similarly, ‘free’ labour markets are sometimes not all that free or attractive. In colonial Africa, for example, the ‘natives’ had to be dragooned into the labour market—first as forced labour, and later through the imposition of hut and poll taxes and the levying of fees for essential services such as education. Thus, Africans were, in a sense, forced to be free. In many contemporary societies, we should also recall, free choice in the market is a sad joke for people so poor that they have nothing left to sell but their labour, their last plot of land, or their daughter.

IV

If Sen’s notion of the natural primacy and benevolence of markets is problematic, so is his conception of democracy in a market society. He argues that democracy is an element of the good life, that it promotes responsive government, that it does not hamper economic development but rather may foster good policy; and that it allows people, through free discussion, to define their needs and priorities. Much of what he claims is uncontroversial. What is missing, however, is a recognition of the severe *limits* placed on democracy by concentrated economic power within an increasingly integrated global market economy.

Sen sees market forces as a principal impetus to expanding the realm of freedom, but he does not accept that they can also be a major hindrance. States, for him, constitute the main threat to freedom. Hence, the informed and open discussion that Sen cherishes requires a ‘free’ press, one free from government control and censorship. The absence of official censorship is, of course, an important condition of a free society. But *Development as Freedom* skirts the likelihood that highly concentrated private ownership of the mass media will also shrink serious debate within narrow boundaries. Such concentrated media ownership is today a reality in virtually all liberal-capitalist societies, developed and developing.

In addition, the book ignores the vast literature suggesting that the increasingly credible threat of transborder capital mobility dramatically shifts national power balances in favour of the owners of financial, equity, and human capital. This growing global mobility and its corollary—mergers which produce ever-larger transnational cartels—spell trouble for both democracy and equality, especially when these trends combine with the worldwide decline in the countervailing power of organized labour. Governments that do not adhere to conservative monetary, fiscal, labour and even social policies succumb to capital flight and the orthodox strictures of the IMF. That governments are more responsive to financial markets than to the needs of their poorer citizens should

concern one who equates development with freedom. This concern should lead him to acknowledge and indeed stress that development, therefore, requires restrictions on global market forces. Sen, however, neither identifies that shift in power balances nor contemplates any regulatory moves to restore democracy by rectifying this imbalance. In his idealized world the persistence of poverty and inequality in democracies simply demands ‘deeper analysis and more effective use of communication and political participation’ (p 154).

This blind spot leads Sen to ignore the dilemma that democrats face in seeking power within developing countries today. Sen believes that market freedom and political freedom are mutually supportive. Free and rational debate, however, will not always persuade citizens that austere macroeconomic policies are best. In practice, voters in Latin America and Africa have frequently opted for populist leaders and parties who promise relief from material misery through redistribution and regulations that contradict market ‘freedom’—in Argentina, Peru and Zimbabwe, for instance. Governments elected on such platforms must then decide whether to honour their campaign promises or adhere to the orthodox market policies pressed by their external creditors and international financial institutions. They have usually opted for the latter, which has created a so-called ‘democratic deficit’ and a delegitimization of democratic processes. *Development as Freedom*, dedicated as it is to fostering both economic and political freedom, should have addressed this difficult dilemma.

V

Sen’s elliptical treatment of democracy provokes scepticism over his related advocacy of ‘reasoned social progress’. A combination of a free-market economy with social pluralism and liberal-democratic institutions forges, according to Sen, the preconditions for the progressive attainment of a just society (see ch 11). If citizens are at liberty to engage in reasoned debates over policy, they have the tools to build a more acceptable social order (p 261). This vision is Sen’s ultimate justification for development as freedom. It is, however, an overly sanguine view, as it rests on implausible assumptions and it is abstracted from power relations.

Sen engages several objections to his rationalistic perspective, but I will address only the most potentially damaging. He is vulnerable to the charge that people in a market system are inherently selfish, and will therefore advance only their own self-interest through public debate and governmental action. The privileged and powerful will wield their influence to entrench their privilege, not to achieve justice on the part of the poor and socially excluded. Sen mounts three lines of attack on this objection, though none is convincing.

First, he contends that neoclassical rational-choice theory does not imply that individuals in a market economy pursue only their material gain. Rather, it is legitimate, he claims, to define self-interest or well-being more broadly, to include even ideological commitments. Thus, individuals may rationally choose to advance social justice, even at a personal cost. But here Sen tries to save the ethical basis of his rationalistic perspective at the expense of rendering his neoclassical theory tautological. This theory’s key behavioural assumption is that

individuals act rationally, in the sense that they make choices designed to maximize personal gain in an environment of material scarcity. Instead, Sen's revision leaves us with the vacuous notion that individuals act rationally to advance their self-interest, and that self-interest is whatever the individuals decide to pursue. This formulation blunts irretrievably the explanatory power of mainstream economics.

Second, Sen unconvincingly contends that developed market economies foster what he calls the 'capitalist virtues', and therefore 'capitalism works effectively through a system of ethics that provides the vision and the trust needed for successful use of the market mechanism and related institutions' (p 263). Conversely, underdevelopment, he claims, is associated with underdeveloped ethical systems, as demonstrated in particular by the pervasive corruption of developing countries. This developmental view offers a benign image of a maturing capitalism creating its own moral foundations. But how plausible is this view? It does not, in the first place, accord with observable facts. On the one hand, it takes two to enter into a corrupt bargain. Transnational corporations based in advanced capitalist countries have been only too willing to offer (tax-deductible) inducements to key government officials in underdeveloped countries. On the other hand, massive corruption persists in developed market economies, though its locus has shifted from the public to the private sphere. If one employs Sen's definition of corruption as 'the violation of established rules for personal gain and profit' (p 275), one finds many instances of corrupt behaviour reported in the business press. These include: insider trading and other stock manipulations; collusion among giant firms to keep prices high at the expense of consumers (eg collusion between pharmaceutical giants and 'generic' drug manufacturers); tax avoidance and evasion by corporations and wealthy individuals, especially by using offshore tax-havens; firms colluding with bloody warlords to extract diamonds, gold, oil and timber from war-torn societies; undue corporate influence on lawmakers exerted through lavish insider-lobbying and campaign contributions; and—last but not least—lay-offs of loyal and diligent employees by executives of highly profitable corporations, who then receive rewards in the form of augmented salaries, bonuses and stock options. Even certain leading neoliberals dispute Sen's sanguine view of the firm ethical foundation of contemporary capitalism—see, for example, the recent books by George Soros and Francis Fukuyama mentioned above.

In the second place, Sen ignores a well developed line of argument that runs directly counter to his benign view that capitalism develops its own ethical basis. This opposing view holds that Western capitalism has benefited from a special condition: it inherited its moral foundations from pre-capitalist societies. Probity, trust, concern for others, duty towards the poor were internalized norms and values that mediated the harsh self-interest underlying the development of markets. In British economist Fred Hirsch's words, 'religious obligation ... performed a secular function that, with the development of modern society, became more rather than less important ... It ... provided the necessary social binding for an individualistic, *non*altruistic market economy.'⁹ However, in time the individualistic and instrumental impulses of market competition weakened the sway of religion, as well as the customary norms of small, close-knit

communities. Essentially, then, this contrary view contends that capitalism, far from developing an ethical basis, actually undermines its own pre-capitalist moral foundations. Hirsch's analysis seems even more potent today than at its publication in 1977.

Finally, Sen returns again to his principal faith: that justice can be attained in capitalist democracies because public debate can influence the participants' values (p 281). Once more he emphasizes the importance of free speech and a free press (one not subject to state censorship). It is true that some wealthy individuals will, through open discussion, come to see the importance of social justice, even at the expense of their personal interests. But it is much more likely that economic interests will prevail. Indeed, the resurgence of neoliberalism (neoconservatism) in the USA since the late 1970s has witnessed the resurgence of inequality, the reversal of affirmative action in some states, the reduction of social welfare, the abolition of 'busing' to racially integrate schools, the growth of exclusive suburbs disentangled from inner-city woes, the explosion of prison populations, and the decline of foreign aid. There is precious little evidence here of a reasoned and harmonious advance toward an expansion of freedom for all.

VI

Sen's liberal faith in free markets, free speech and reasoned social progress warrants a sceptical response. We all embrace democracy, open discussion of issues, and the hope that reason will prevail. But to abstract these attractive features from power relations by focusing on individual actors, as Sen does, offers a false promise to the poor and excluded. Custom, a tyrannical state and lagging economic growth are not the only obstacles to political freedom and reducing poverty. Concentrated economic power, centred on both global and national markets, must also be challenged. How free is 'free' trade, for example, when more than a third of world trade takes place between branches of globally integrated transnational corporations? Or when international trade rules permit ostensibly free-trading industrial countries to impose tariffs on the agricultural and manufactured exports of developing countries that compete with local production? Will growth through market exchange alone vanquish mass poverty, or will its elimination require a concerted attack upon power structures protecting the privileged?¹⁰ Sen's sanguine advocacy of reasoned progress fails to address such questions. But these are issues that activists fighting poverty and exclusion in underdeveloped countries cannot ignore. Development as the expansion of freedom is far more tumultuous and conflictual a story than *Development as Freedom* proposes.

Notes

¹ For a statement of a pure neoliberal approach, see World Bank, *Accelerated Development in Sub-Saharan Africa: An Agenda for Action*, Washington, DC: World Bank, 1981. For a general survey of the evolution of this strategy in the 1990s, see Charles Gore, 'The rise and fall of the Washington Consensus as a paradigm for developing countries', *World Development*, 28(5), 2000, pp 789-804.

² Gore, 'The rise and fall of the Washington Consensus', p 795.

³ Wolfensohn, 'A proposal for a comprehensive development framework', address to the board, management and staff of the World Bank Group, Washington, DC: World Bank, 21 January 1999.

⁴ See, for example, World Bank, *Sub-Saharan Africa: From Crisis to Sustainable Development*, Washington, DC: World Bank, 1989.

⁵ For an exhaustive survey of these controversies, see Moises Naim, 'Fads and fashions in economic reforms', *Third World Quarterly*, 21(3), 2000, pp 505-528.

⁶ See John Westergaard, 'Where does the Third Way lead?', *New Political Economy*, 4(3), pp 429-436.

⁷ Sen even cites Marx to support his view that the spread of labour markets represents 'momentous progress'. But Marx's point was not that markets represented an expansion of freedom, but that they were of instrumental importance in expanding the productive forces. Marx adopted a tragic view of history: proletarianization leads to vast exploitation, but this tragedy paradoxically lays the groundwork for socialism and the eventual abolition of labour markets. This is not quite Sen's point.

⁸ Francis Fukuyama, *The Great Disruption: Human Nature and the Reconstitution of Social Order*, New York: Free Press, 1999, p 3. However, Fukuyama also holds the comforting view that, because human beings are by nature social beings, they will re-establish social order in the near future.

⁹ Hirsch, *Social Limits to Growth*, London: Routledge & Kegan Paul, 1977. Emphasis in original.

¹⁰ Pragmatic neoliberals and social democrats divide on this issue, as dramatically illustrated by the June 2000 resignation of Dr Ravi Kanbur as team leader of the *World Development Report's* 2000 issue on poverty. Kanbur advocated an 'empowerment' approach to poverty reduction; this entailed redistributive measures and a critique of globalization. The World Bank, however, insisted on rewriting the draft report to reassert the centrality of growth and an open and globalized economy to poverty reduction. When Kanbur resigned in protest, this fundamental division in development doctrine was starkly revealed.