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"National Development: From Basic Needs to the Welfare State" by Frank Ackerman

Why does national economic development matter? Offering a precise answer is more difficult than it appears at first glance. If, as argued throughout this volume, human wellbeing cannot be achieved through private consumption alone, then economic development cannot be justified solely in terms of growth in per capita incomes. What else is needed, in addition to (or perhaps, in affluent societies, in place of) economic growth? What development objectives should a government pursue, in addition to (or in place of) promoting increases in national income?

Two separate discourses address these fundamental questions about development. They emerge from opposite ends of the income spectrum, but raise a number of similar issues and concerns. On the one hand, discussions of development economics have frequently observed that a nation's average per capita income is not an adequate measure of the wellbeing of the poor. This has led to an interest in problems of equity and distribution of resources, and to measures of development that encompass more than money income. Several of the articles in this section examine the questions of human needs, equity, and the goals of development from the perspective of low-income, developing nations.

On the other hand, even the most affluent nations continue to experience political conflict over issues of equity and distributional justice, and have resolved these conflicts in very different ways. The resulting role of government varies from the welfare states and social democracies of northern Europe, to the welfare cutbacks and increasingly laissez-faire, "anti-social" democracy of the United States. Critiques of U.S. policies in the area of equity and social welfare address only one end of the spectrum; to explore the limits of what can be accomplished in developed countries, it is necessary to look elsewhere. Several articles in this section deal with the economic theory and political philosophy of the welfare state, involving concepts of equity and needs that are remarkably similar to those found in the development literature. (The important relationship between human welfare and environmental sustainability is largely omitted here; it was central to the first volume in this series, *A Survey of Ecological Economics*, and will again be the focus in a later volume on sustainable development.)

NEEDS, RIGHTS, AND THE GOOD LIFE

In a discussion of the philosophy underlying development economics, Ajit Dasgupta outlines four bases for the use of varying indicators of the standard of living.[1] An emphasis on the satisfaction of preferences, the conventional approach in economic theory, leads to the use of national income (GNP or GDP) per capita or similar measures. The alternative approaches assign top priority to the satisfaction of basic needs; the protection of human rights; and the creation of “excellence” or the good life, often embodied in a set of particularly meritorious goods and services. Each of these alternatives appears in the articles summarized here.

Development economics, when it arose as a separate field of study in the 1950s, initially focused on promoting growth of per capita incomes. Growth, it was assumed, would eventually solve the problem of poverty. In the words of the classic metaphor, a rising tide lifts all boats. Critics of the tidal theory of poverty alleviation appeared almost at once, arguing that an emphasis on growth alone ignored issues of human development, and did not lead directly to the satisfaction of basic needs.

Paul Streeten has been a leading proponent of the “basic needs” perspective, spelling out its implications in numerous publications over the years. For Streeten, there are a set of universal, basic human needs such as food, shelter, clothing, health care, and basic education; satisfaction of these needs is far more urgent than satisfaction of consumer desires in general. Thus equality of resources in general is less important than the guarantee of the necessary minimum to all. Provision of that minimum should be the top priority for development policy:

> The hypothesis of the basic needs approach is that a set of selective policies makes it possible to satisfy the basic human needs of the whole population at levels of income per head substantially below those required by a less discriminating strategy of all-round income growth -- and it is therefore possible to satisfy these needs sooner.[2]

The first article summarized here is a recent review of the evolution of development economics by Streeten, examining contemporary debates and restating his perspective. Since human development is not solely a matter of financial resources, alternative indicators are needed. Streeten and others have created the widely used Human Development Index (HDI), about which more will be said in section 10, which combines per capita income (up to the world average level), literacy, and life expectancy. Development looks different when measured by the HDI rather than by income alone.

Streeten raises the important distinction between absolute and relative measures of poverty.[3] While there is a tendency for socially accepted poverty thresholds to rise along with average incomes -- defining poverty, perhaps, as a fixed percentage of the national average -- the basic needs approach seems to imply that an absolute measure should be used. Poverty thresholds may rise with general affluence, both because socially expected standards of appearance and lifestyle tend to increase, and because the costs of satisfying the same basic needs may become greater. E.g., compared to most people in developing countries, Americans require more expensive clothing to feel respectably dressed, and are more likely to need a car in order to buy food. The latter effect, at least, is an increase in the cost of providing basic needs.

More generally, Streeten suggests that in order to understand the welfare significance of income, one must consider real purchasing power, adjusted for the particular local spending patterns of the poor. Even this does not capture all of wellbeing, however, since it omits the provision of public goods, the role of nonmarketed activities and resources, levels of health and education, and distribution within and between households.

The question of rights and freedoms is mentioned briefly by Streeten; his observation that basic needs could in theory be met in a well-run prison highlights the significance of the issue. The second article summarized in this section, by Partha Dasgupta, addresses the relationship between freedom and the market, in a manner that is relevant to developed as well as developing countries. (See also the related Dasgupta article in the previous section.) Dasgupta starts from Isaiah Berlin's famous distinction between negative freedom (the freedom from coercion or interference) and positive freedom (access to resources and capabilities). The former is more obviously compatible with the market, since the policies needed to maintain negative freedoms are largely public goods -- unlike the overtly redistributive policies needed to provide positive freedoms.

Yet as Dasgupta points out, the questions of rights are more complex than this in several respects. The libertarian approach, emphasizing negative freedom and celebrating the efficiency of the competitive market, overlooks the fact that an efficient outcome can be reached from any initial distribution of resources. Thus, even for advocates of laissez-faire efficiency, a separate theory of the ethically appropriate initial distribution is needed to determine whether redistributive public policy is necessary. On the other hand, an emphasis on positive freedom does not reduce all questions of political rights to patterns of resource distribution. Human wellbeing is not created solely by economic goods and services; it is for this reason that most people would not welcome Streeten's image of basic needs being met in a prison. Dasgupta also offers a provocative discussion of the implications of uncertainty about individual needs, concluding that when there is great inequality of incomes, it is better for positive-rights goods to be distributed in kind rather than via income transfers. Similar issues of uncertainty appear in Barr's analysis of the economic theory of the welfare state, discussed below.

The distinction between theories of basic needs, human rights, and merit goods or "excellence", is in part simply a matter of degree. A sufficiently elaborated list of basic needs, or of positive rights to which everyone should be entitled, would amount to prescribing a menu of merit goods that should be provided to all. For example, the detailed theory of welfare and human needs developed by Ian Gough, discussed in section 1, includes 11 categories of "intermediate needs" and leads to the identification of 18 quantitative indicators of need satisfaction. Gough and Theo Thomas have collected data on these indicators for more than 100 countries, and correlated these indicators with a number of economic, political and demographic variables. They find that the extent of need satisfaction is strongly correlated with income per capita, the degree of democracy, gender equality, and other explanatory factors.[4]

A subtle and distinctive conception of the good life, defined in terms of "functionings" and "capabilities," has been introduced into development theory by Amartya Sen. The lengthy two-part article by David Crocker, summarized here, explains the views of Amartya Sen and philosopher Martha Nussbaum in this area. (Some of the work described by Crocker was coauthored by Sen and Nussbaum, while other parts were written separately, expressing minor differences between the two authors.) While sympathetic to the basic needs approach of Streeten and others, Sen and Nussbaum argue that basic needs theories incorporate the same fallacy as conventional economics, confusing commodities with human experience.

What is important for wellbeing, according to Sen and Nussbaum, is not the possession of a certain level of commodities, but rather the achievement of a certain level or ensemble of essentially human functionings. The quantity of food consumed does not matter as much as the adequacy of nutrition that it provides; the relationship between the two varies widely from one individual to another. Even more important is the set of capabilities, or functionings that an individual could have chosen to achieve: choosing to fast when one has the capability of obtaining adequate nutrition is different from starving for lack of food -- even if the physical experience on a particular day is the same. The identification of a desirable set of capabilities, constituting a fully human existence, has much in common with theories of positive freedoms, particularly in Sen's version of the theory.

The development ethic based on functionings and capabilities provides an elegant solution to a number of philosophical problems, and offers a satisfying account of human nature, needs, and the role of economic goods in promoting wellbeing. Yet as Crocker concludes, its specific implications remain to be worked out; it is not yet clear whether it will lead to unique results of its own, or merely provide a more rigorous basis for theories of basic needs and positive freedoms.

DEVELOPING VISIONS OF EQUITY

All the theoretical perspectives reviewed here point to the central importance of equity in addition to economic growth. The next two articles offer different, but complementary, visions of equity and its implications for development. For Naila Kabeer, the failure to recognize gender inequality is the blind spot of both standard approaches to development, and many of the alternatives proposed in developing countries. She sees development as a process of social transformation as well as redeployment of resources. Power over resources, ideas, and participation in the development process are mutually reinforcing, and serve the interests of existing hierarchies rather than the poorest and most needy members of society.

Like several of the authors discussed here, Kabeer decries the confusion of means and ends implied by the use of marketed output and income as measures of success in development. The use of market indicators ignores nonmarketed resources such as the natural environment, as well as many women's activities such as domestic labor and informal sector production. Changes in the lives and economic activities of women are thus ignored in the standard paradigm. A focus on the ends rather the means of development would recognize the satisfaction of needs through a variety of institutions, including but not limited to the market; it would give poor women a voice in the process of social transformation, helping not only women but all oppressed groups.

In the 1970s, Irma Adelman presented a widely discussed comparative analysis of equity and development. Based on a review of experience throughout the developing world, she concluded that the early stages of economic development were likely to cause worsening inequality; the relationship between equity and growth was at best a U-shaped curve. Many obvious public policy initiatives seemed to have little if any effect on the degree of inequality. Examining the rapidly growing countries with the most equitable income distributions, Adelman identified a pattern to their success. All started with radical redistribution of assets, usually land, combined with limits on the accumulation and use of financial capital, before the era of rapid growth; they then invested heavily in human capital (education and training), and pursued labor-intensive industrial growth strategies, aided by large amounts of foreign capital.[5]

The next summary, by Nancy Birdsall, David Ross, and Richard Sabot, is a recent analysis continuing along the lines of Adelman's work. Birdsall et al. examine the success of eight rapidly growing East Asian countries, finding positive interactions between the rate of growth, investment in education, and comparatively equal distributions of income. Not surprisingly, the relationship between education and economic growth is strongest when there is an increasing demand for skilled labor; that demand resulted from the promotion of manufactured exports in the countries being studied. Spending on education was no greater as a percentage of GDP than in other developing countries, but the combination of declining population growth rates and rising per capita incomes allowed a sharp increase in educational spending per student.

Contrary to the common notion of a tradeoff between equity and growth, Birdsall et al. identify several mechanisms by which an increase in the incomes and power of the poor may promote growth. Greater income opportunities for the poor may mean more savings, greater productivity, and better incentives for hard work, while broadened political participation can lead to more sensible and stable government policies. The trick is not to rely on income transfers, but rather to eliminate subsidies to the elite, and to expand real opportunities and incentives for both the rural and the urban poor, as several East Asian countries have managed to do.

THE VIEW FROM THE TOP

Turning from the bottom to the top of the world income distribution inverts the perspective on many economic problems. In the affluent countries of North America, Western Europe and the Pacific Rim, there are ample resources to satisfy basic needs for all. Poverty, while not eliminated, is almost always a matter of relative rather than absolute deprivation. Agriculture has become one of the smaller industries, and reservoirs of rural poverty no longer loom over the urban economy.

Yet in other respects, many of the underlying issues about development and wellbeing persist even in the most affluent societies. If the growth of average incomes alone is not an adequate justification or goal for development when countries are poor, how urgent can growth be when societies are richer and the marginal utility of income is presumably lower? Questions arise at every income level about the definition of and provision for basic needs, the balance between positive and negative freedoms, and the ability to prescribe a bundle of merit goods or to describe a good way of life. These issues often surface in the debates over the welfare state, which can be viewed as a form of development economics for the already developed.

The article by Nicholas Barr summarized here is an exhaustive review of the economic theory of the welfare state, combined with an empirical comparison of selected social welfare programs in ten developed countries (most of the latter topic is omitted in the summary). Barr rests the justification for state intervention on a category of market failures involving imperfect information and unpredictable, uninsurable risks. This analysis elaborates in greater detail on themes raised by Stiglitz in section 3.

In essence, Barr argues that people want things -- his examples are stability of real income in business cycle downturns and in retirement, and universal health coverage regardless of pre-existing or congenital conditions -- that the market cannot efficiently or profitably provide. Faced with such market failures, government intervention is not only redistributive, but can contribute to efficiency in satisfying consumer desires. However, it is particularly difficult to define the appropriate incentive structure for the efficient provision of health care, since the service that people need is so unlike a conventional, marketed commodity. Emphasizing the limitations of the commodity approach, Barr observes that the developed country that relies most heavily on the market for health care, the U.S.A., has the most expensive and inequitable system, and provides the least complete coverage. Unfortunately, comparative analysis does not lead to identification of a single, unambiguously superior alternative.

American readers who are astonished to find that their team is not a contender for the gold medal in social welfare would do well to consult Robert Kuttner's very readable introduction and survey of the subject, in the chapter summarized here. Kuttner defends the Northern European model of universal entitlements to social welfare, maintaining that it is often superior to the American style of rigorously means-tested benefits. There is little empirical evidence, he asserts, that universal entitlements lead to wasteful public expenditure or undermine work incentives. On the other hand, means-tested programs lead to isolation and stigmatization of recipients, and create a dual society of rich and poor -- undermining political support for the provision of essential services. Government assistance to middle and upper income groups is not absent in the U.S., but takes the form of tax provisions and other benefits that are of little value to the poor, making it possible to cut social welfare spending without harming the more comfortable majority. European-style universal programs, like Social Security in the U.S., are more likely to receive universal support and, in Kuttner's view, combine efficiency in spending and dignity for recipients even in times of austerity.

Like Barr and Kuttner, most theorists analyze and advocate a universal welfare state, as opposed to the minimalist or "residual" model of narrowly means-tested safety net programs. An exception is Robert Goodin, who has developed a detailed political philosophy of the residual welfare state, based in part on a critique of more universal approaches.[6] For Goodin, there are flaws in the claim that the state should provide for basic needs; the distinction between high-priority needs and lower-priority desires becomes ambiguous and ill-defined on close examination. Other justifications for universal programs likewise fail to persuade him; arguments for equality typically do not provide or motivate a clear answer to the question, "Equality of what?" The sole grounds for social welfare programs, according to Goodin, derive from consideration of negative freedoms. Society should protect everyone from harm, including the vulnerability to exploitation that arises when an individual is impoverished and economically dependent on others. That is, the safety net of benefits for the very poor is essential to their autonomy.

INSIDE THE SCANDINAVIAN MODEL

If provision of adequate social welfare were an international athletic competition, it would best be held as part of the Winter Olympics. Europe's northernmost countries, in Scandinavia, routinely top the lists in comparisons of the extent and success of welfare state activities. To cite one example, Barr finds that the fraction of poverty eliminated by the government's efforts ranges from roughly one-fifth in the U.S. to four-fifths in Sweden.[7] It is worth exploring, therefore, the Scandinavian model of the welfare state both in theory and in practice.

Sweden, in particular, is often taken as the leading example of the welfare state. Its Social Democrats have governed the country for most of the twentieth century, and have had an unparalleled opportunity to put their ideas into practice. In the chapter summarized here, Tim Tilton describes the distinctive features of Swedish Social Democratic ideology; though the vocabulary is often unique, there are many similarities to philosophical positions that appear elsewhere in this volume. Tilton outlines five central themes of the Swedish ideology. First is a belief in "integrative democracy," implying full participation of the working classes in political, economic, and social life. Second is the concept of society and state as the "people's home," characterized by solidarity, cooperation, and equality. Third is the complementarity of economic equality and efficiency, reflected, among other places, in innovative labor market policies. The last two themes are the preference for a socially controlled market economy, with active but incremental development of regulation and planning; and the perception that expansion of the public sector can be designed to extend freedom of choice.

The extent of the resulting welfare state comes as a surprise to those from the U.S. or other countries with more minimal public sectors. The "Scandinavian model" includes free or heavily subsidized medical care, child care, higher education, family allowances (cash benefits paid to all parents with minor children, regardless of income), public pensions, publicly built or subsidized housing, guaranteed sick pay and vacations for all workers, extensive worker rights on the job, active government retraining and employment referral services, and more.[8] Not only is poverty drastically alleviated by such measures; the demographics of the income distribution are changed. The elderly, and families with children, are almost never in the lowest income brackets. Rather, the poorest members of society are often childless young adults -- suggesting that being on the bottom is a transitory stage of a normal life cycle, rather than a lifetime condition.[9]

It may seem difficult to believe that such a sweeping commitment to equality is compatible with economic efficiency, as suggested in Tilton's account of Social Democratic ideology. Yet there are at least two specific ways in which the welfare state may lead to increases in efficiency, in addition to the general benefits of investment in education, health, worker retraining and job referrals, etc. One economic advantage of the welfare state involves attitudes toward risks. Extensive income guarantees may encourage a risk-averse population to take more chances, since they know that they will be provided for even if they fail; this, in the view of many economists, is important in stimulating innovation and economic growth.[10]

The second factor involves the so-called "solidary wage policy" or "egalitarian wage compression", which was a feature of the Scandinavian economic model until the 1980s.

Nationwide wage bargaining by labor and employer federations allowed the labor movement to push successfully toward equalization of wages between industries. While fulfilling a political commitment to equality, this also acted as an indirect subsidy to expanding, high-productivity industries, and a corresponding tax on stagnant or low-productivity industries.[11] For example, paying similar wages to metalworkers and restaurant waiters is a bargain for metalworking industries, and a disaster for restaurants (assuming the wage is based on average productivity). And in fact, Sweden has long excelled in various metal-based industries, but has relatively few, and quite expensive, restaurants. Nationwide wage bargaining broke down in the 1980s, when more profitable industries began to pay more in order to attract more labor.

Scandinavia, like the rest of Europe, has been in a prolonged state of economic crisis in the 1990s, forcing retrenchment and cutbacks in numerous areas. The description of the "Scandinavian model" offered here, and in much of the literature, is not as completely applicable after about 1990 as before. Critics have suggested that some of the problems are self-inflicted, and that stagnation represents in part the emergence of inherent contradictions in the welfare state. The Swedish economist Assar Lindbeck maintains that the welfare state, with its provision of such a lengthy menu of positive freedoms and merit goods, decreases consumer welfare by limiting the freedom of choice, and dampens work incentives by providing excessively generous income guarantees.[12] However, the crisis of the 1990s has led to economic stagnation throughout Europe, with no obvious difference in the impact on countries with more and less extensive welfare states. Even if global economic pressures force a permanent retreat from the classic Scandinavian welfare state of the 1970s and 1980s, the model has, unlike many philosophical proposals, been tested in practice, and shown to be successful when economic conditions permit.

The last word on the subject, for this section, belongs to Gøsta Esping-Andersen, who has written widely on the economics of the welfare state. In the final summary, Esping-Andersen examines several interpretations of the rise of the welfare state. The logic of industrialism cannot be said to make the welfare state necessary as a replacement for traditional communities; for welfare programs arose long after the destruction of older communities. Nor is the provision of social welfare a simple result of progressive, redistributive majority politics in modern democracies; some of the earliest welfare states emerged in quite undemocratic contexts such as Germany under Bismarck. Esping-Andersen argues that the welfare state must be seen as the result of a particular configuration of class alliances in the history of political development, which worked out differently in Scandinavia than elsewhere.

There are, for Esping-Andersen, three clusters of different types of welfare states. The minimalist, "liberal" (in the nineteenth-century sense) approach taken in the U.S. provides primarily means-tested, stigmatized benefits, perpetuating economic and social dualism. Many continental European welfare states provide more extensive social rights, but remain tied to the institutions of the market and the traditional family, failing to challenge existing values in these areas. Finally, the Scandinavian social democratic model, best developed in Norway and Sweden, is committed to the principles of universalism and decommodification. The goal of this model is to provide an increasing number of benefits as human rights or entitlements independent of market transactions, thereby "decommodifying" a growing area of human life and potential. This generates social solidarity and support for public policy, far more than in the other modes of welfare provision.

Many of the same issues arise in development economics and in the discussion of the welfare state. Questions of rights are important at every income level, both as ends in themselves and as means to democratic decision-making. Most governments intervene to address a range of market failures, embodying a vision of welfare and the good life that extends far beyond satisfaction of consumer preferences in the marketplace. Equity, in many senses of the term, is on most lists of social goals; analyses discussed here suggest that, both in developing countries and in affluent welfare states, judicious pursuit of equity may promote rather than impede efficiency. Finally, there is a similarity between Streeten's provision for basic needs and Esping-Andersen's decommodification: both seek to reduce the dominion of the market, to provide as much as possible of the material basis of human life on the basis of needs rather than wealth.

Notes

1. Ajit K. Dasgupta, *Growth, Development, and Welfare* (New York: Basil Blackwell, 1988), chapter 3. The discussion of the fourth category here deviates substantially from Dasgupta's summary treatment of that issue.
2. Paul Streeten, *First Things First: Meeting Basic Human Needs in the Developing Countries* (New York: Oxford University Press, 1981), 37-38.
3. See also Amartya Sen, "Poor, Relatively Speaking", [[REFERENCE NEEDED]]
4. Ian Gough and Theo Thomas, "Why Do Levels of Human Welfare Vary Among Nations?", *International Journal of Health Services* 24 (1994), 715-748.
5. Irma Adelman, "Development Economics -- A Reassessment of Goals", *American Economic Review* 65 no. 2 (May 1975), 302-309; "Economic Development and Political Change in Developing Countries", *Social Research* 47 no.2 (Summer 1980), 213-234.
6. Robert E. Goodin, *Reasons for Welfare: The Political Theory of the Welfare State* (Princeton: Princeton University Press, 1988). For a related argument, see Brian Barry, "The Welfare State versus the Relief of Poverty", *Ethics* 100 (April 1990), 503-529.
7. Using 50% of median income as the poverty line, Barr considers the population that would have been below the line in the absence of government taxes and transfer payments, and calculates the fraction of that population that was moved above the poverty line by taxes and transfers.
8. See Robert Erikson, Erik Jørgen Hansen, Stein Ringen and Hannu Uusitalo, editors, *The Scandinavian Model: Welfare States and Welfare Research* (Armonk, NY: M. E. Sharpe, 1987).
9. Björn Gustafsson, "Poverty in Sweden, 1975-85", *International Journal of Sociology* 23 (Summer-Fall 1993), 53-71; Gustafsson and Hannu Uusitalo, "The Welfare State and Poverty in Finland and Sweden from the Mid-1960s to the Mid-1980s", *Review of Income and Wealth* 36 (September 1990), 249-266.
10. Hans-Werner Sinn, "A Theory of the Welfare State", *Scandinavian Journal of Economics* 97 (1995), 495-526.
11. Jonas Agell and Kjell Erik Lommerud, "Egalitarianism and Growth", *Scandinavian Journal of Economics* 95 (1993), 559-579.
12. See, among many other articles, Assar Lindbeck, "Individual Freedom and Welfare State Policy", *European Economic Review* 32 (1988), 295-318. On the rise of individualism and anti-social attitudes, see Pekka Kosonen, "From Collectivity to Individualism in the Welfare State?", *Acta Sociologica* 30 (1987), 281-293.