

Economics and Development Paradigms in Transition

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Summary

Because of the perceivable decay of neoliberalism or monetarism as mainstream economics and its prescriptive development policy, the old concept of paradigm is nowadays becoming a fashionable word in academic campuses and political spheres. It is a sound voice that transmits the idea of the erudition of anyone who pronounces it or write about it. Curiously, it is too little what it says about its meaning and good usage, particularly, when heterodox economists insistently allude to the need for a «paradigm shift». With the aim of stripping the concept of its vagueness banner, this article attempts to explain what paradigm and paradigm shift mean looking, by way of illustration, at the transition of three magnificent development paradigms in economic science over the last hundred years. It also gives a brief account of their strengths and weaknesses to face crucial development problems, threats, and challenges in the twenty-first century.

A World in Permanent Change

Development beliefs, convictions, and theories are subject to change from time to time. This simply happens because human societies, institutions, and natural environments are dynamic entities in permanent transformation caused whether by natural and human disasters, revolutions, scientific findings, and/or policy-driven processes.

Since the beginning of the third millennium, the world is witnessing unprecedented changes in several modes and dimensions of human life mostly propelled by globalization, information and technological revolutions, climate change, massive international migrations, and so on. They are somehow unstoppable events that force all societies to rapidly adjust their functioning and performing vis-a-vis the new realities and people's demands for change.

Great development thinkers state that the world is facing today what they like to call a «global paradigm shift». It means, there exists a new world view or 'Weltanschauung' (in words of Hegel and Kant) which is replacing old conventional thinking and development patterns with new ways of individual and societal interaction and communication, global and local political governance, open market structuring and performing, and social life in general.

This essay takes inspiration from the core topic of a prospec-

tive book of the author.¹ It aims to briefly describe the nature and extent of such a global paradigm shift in the field of economics and development policy. Certainly, this is only one dimension of the global paradigm shift but extremely important since it deals with the search for renewed relationships within and among the state powers, the market forces and the civil society's struggles for change so that strong, and sometimes, radical private and public actions are needed to (re) establish a new sound political equilibrium or 'aggiornamento' among such historical forces to avoid irreparable structural damage and social deterioration; therefore, changes are purposely aimed at improving peaceful coexistence, political governance, and well-being standards of market societies and individuals.

This paper is organized into three sections. The first is devoted to concept definitions from etymological and philosophical insights. The second illustrates the rivalry and historical succession of three magnificent economics and development paradigms in the last hundred years. The final section focuses on the birth of the youngest economics and development paradigm along the succession row discussing its main conceptual features and potentials to become the dominant model to follow in the future.

What is a Paradigm and Paradigm Shift?

From its etymological origin «paradigm» means model, pattern or example. It is a Latin voice derived from the Greek concept paradeigma, which refers to a 'model shown or exhibited next to a reality under study or research'. In its turn, the philosophical meaning has been built upon as a result of successive interpretations and usages that derive from classic (Plato and Aristotle), modernist (Kant) and contemporary (Kuhn) philosophers. For this article, we can define a paradigm as an example taken as a model that configures a world vision shared by a specific scientific community, around which a theory is built or created in support to that world vision in terms of laws or scientific properties of which in turn rules, methods and tools are developed and perfected to improve theoretical analysis, measurement techniques, and probabilistic prediction of future events.

Paradigm shift is a concept originally coined by Thomas Kuhn in his book "The Structure of Scientific Revolutions" (1962).

A paradigm shift occurs, writes Kuhn, when scientists identify serious anomalies in the foundations, concepts, and assumptions of the prevailing paradigm (as a vision and as a model) that cannot be explained by the laws or conventions that have governed the paradigm. Therefore, new theories must be discovered or invented to give way to new alternative models. It talks about revolution since it is not a matter of reforms or adjustments to the structure of the old paradigm (that its adherents obviously try to undertake to keep it current) but essentially a radical change since for a new paradigm to reach the status of such has to show that the old theory is invalid and most importantly that the new model is available to take its place.

Although Kuhn's approach to paradigm shift always referred to revolutions in the field of natural sciences, the truth is that the concept has rapidly spread over social sciences such as sociology, psychology, politology, and economics, upon which this paper is written. If we look at the definitions and notions given above about paradigm and paradigm shift, we can easily conclude that they are perfectly applicable in general terms to the broad field of social sciences.² This conclusion opens the door to the next section, which is purposively devoted to paradigms in the field of economics and development policy.

Economics and Development Paradigms

The modern economic historiography registers the rivalry and succession of three outstanding economics and development paradigms in the last hundred years. The first is the Keynesian paradigm of public economics and full employment that governed the economic thought and policy practice from the Great Depression of the 1930s until the stagflation of the 1970s. The second is the Friedmanian paradigm, precursor of modern monetary economics and inflation which erupted with remarkable strength as Keynesian counterrevolution in the middle of the last century becoming the dominant economic mainstream in the universities' campuses, finance ministers' offices, and the Bretton Woods Institutions from the late seventies until today. It is also pejoratively known as neoliberalism or monetarism. The third is the Amartya Sen's paradigm of modern welfare economics and human development that was born with huge vitality at the end of the past millennium in response to the inability of the preceding paradigms to confront the greatest problems, threats, and challenges of market societies in the twenty-first century that are certainly neither the Keynesian massive unemployment nor the Friedmanian hyperinflation. As is known, those two economic pandemic diseases and their consequences have already been treated by powerful antidotes as a result of both Keynes' and Friedman's splendid contributions to macroeconomics and economic policy within their respective theoretical domains, of course; thus, unemployment and inflation

seem to be today under control worldwide with some notable exceptions.³ From development policy insights, the historical polarity between defenders of state supremacy (Keynesian legacy) and fanatics of market freedom (Friedmanian obsession) appears nowadays obsolete in light of the contemporary economic history (as learnt from Asian protracted economic boom) that reveals how important are eclectic and pragmatic thoughts and cultural and institutional traditions at the time of making political and economic policy choices. "As much market as possible; as much state as necessary", seems to be the smartest slogan to proclaim.

One major distinctive attribute of this epistemic succession is that all three paradigms somehow co-exist, despite manifest philosophical, theoretical, methodological and policy differences among them. So far, the neoliberal paradigm is recognized as hegemonic economics and development model, but its leadership and credibility are rapidly declining for the simple reason of being unable to tackle the broad complexities of market societies in the post-industrial and digital era, which are mostly related to the distribution of economic growth benefits, the future of work, social justice, climate change and environmental matters among others.⁴ Rather, Sen's paradigm shows itself very capable of dethroning neoliberal hegemony as far as its major theoretical and development policy milestones are concerned with most of the problems, threats, and challenges mentioned above.

Amartya Sen's Paradigm at a Glance

We can learn Sen's paradigm of welfare economics and human development from multiple interconnected perspectives: as pure economic philosophy, as welfare economics, as development economics, as a new metric of human progress, and as contractual political action. Let's briefly describe such dimensions.

Sen's pure economic philosophy is born as a result of a deep conceptual rupture from classic utilitarian and hedonist philosophy (introduced by Bentham and later by Mills in the xviii ad xix centuries), which rests on the axiom of maximizing individual happiness and benefits arising from the aim of human motivation to 'increase pleasure and reduce pain'. Sen neglects such thoughts simply because the sum of individual preferences and choices, he says, does not necessarily qualify to a condition of accomplishing social well-being for the whole society. Sen further questions the 'absolute' and 'universal' validity of the neoclassic postulate or principle of «*homo economicus*» in the sense that individuals always make rational, logical and prudent decisions with complete information in search of maximizing benefits (utility) or satisfaction (happiness) among alternative preferences or choices (reference is made to Pareto Optimality). Reality mostly operates differently. Individuals do not make decisions entirely in a rational way in absence of value judgments and less so with perfect infor-

mation. Sometimes, decisions as human actions, are taken based on subjective reasoning, asymmetric information, and the presence of certain types of irrationalities or illogical conclusions. In sum, both principles of individual utility and economic rationality as engines of human behaviour, motivation, and choice seem to be insufficient to fully understand and explain the real grounds of individual preferences, and a lot less, people's choices.

Sen's welfare economics is one of his most acknowledgeable contributions to the theory of distributive equality. It is an epistemic derivation from Rawlsian 'theory of justice as fairness' that this author offers as an alternative approach to utilitarianism by making compatible the combination of two fundamental principles of justice (considered by classical utilitarian thinkers as extremely conflictive), i.e.: freedom of choice and distributive equality.⁵ Sen acknowledges completely Rawlsian compatibilization theory between both principles of freedom and equality but goes beyond it. In his famous essay "Equality of what?", Sen discusses certain fetishism inherent in Rawlsian equalitarian ideal by indistinctly taking human necessities as a mere list of material goods rather than things that are needed to transform human beings. Thus, Sen claims for the necessity to seek a different perspective, which he encapsulates within the concept of "Basic Capability Equality". According to this: "Well-being depends upon certain basic things people can do well. Human well-being is maximized when people are able to read, eat and vote. Literacy is important not because of the utility it yields, but because of the sort of person that one becomes when one can read. Eating is valued not because people love food, but because food is necessary for life and health. And people vote not to increase their utility, but because they value a certain political system (democracy) and certain types of political activity".⁶ For Sen, human development is the result of reaching a balance between people's capabilities and well-being opportunities that society offers them. In this context, capabilities are associated with the concept of demand, and well-being opportunities with the concept of supply. The demand for capabilities also understood as needs, is to have a greater life expectancy, literacy, and a decent living income. The supply of well-being understood as opportunities, is to empower and drive the economy and people's capabilities to fully meet those needs within a framework of political and economic freedoms, self-reliance and a healthy and sustainable environment.

Sen's developments economics is an obvious derivation from the previous dimensions. Sen states that there exists a strong relationship between ethics and economics, i.e. between normative economics (duty to be of things) and positive economics (things as they are or exist). There is not a merely formal relationship of neutrality since ethics fix the goals and economics identifies the means to achieve them. This is a different approach to orthodox

utilitarian economists who proudly claim that they are undertaking their scientific work ignoring ethics or value judgments.

In its turn, Sen's approach leading to the expansion of human capabilities considers understanding human beings as an end itself rather than means to achieve an end. This Kantian principle, says Sen, has been reversed by utilitarian economists who focus the essence of progress on the production of goods by treating human beings as mere means to achieve the highest level of production and consumption. From this reasoning, Amartya Sen derives a clear distinction between economic growth and economic development. Growth means producing and consuming more goods, while development is expanding human capabilities and enhancing people's choices. Economic growth and economic development often go hand in hand (most desired objective) but as the experience of many countries illustrates, not necessarily more and greater economic growth means more and greater human development. It is possible to grow, but maintaining low literacy rates, reduced life expectancy and low-income levels. In contrast, there are some cases in which the development of human capabilities (health, education, and income) is relatively high despite modest economic growth rates. In sum, economic development implies making substantive progress on both sides of the equation (capabilities \approx opportunities), obviously, this may occur on the hypothesis of revoking the notion of the utilitarian value of the 'good' that is defined in terms of some mental conditions associated with a pleasure, happiness or fulfilment of the desires of a supposedly rational person.

Sen's new metric of human progress is his most remarkable contribution to applied economics. It is about the introduction of a new alternative and complementary method to measure economic development, more comprehensive and sophisticated than the utilitarian method centred in the monetarist calculus of the gross domestic product per capita that only captures human necessities in terms of production and income. Sen's new metric of human progress overturns the construction of the well-known Human Development Index (HDI), that integrates in one synthetic measure three key indicators: longevity (as measured by life expectancy at birth), educational attainment (as measured by combination of adult literacy and primary, secondary, and tertiary enrolment ratios), and standard of living (as measured by real gross domestic product per capita). The HDI is adjusted with a series of further indexes related to inequalities among persons, gender inequalities and multi-dimensional poverty.⁷

Sen's contractual political action can be understood in light of the Declaration of the Millennium Development Goals in 2000 and the Declaration of the Sustainable Development Goals in 2015, which are in essence two universal political pacts to eliminate poverty and increase human development both in rich and

poor countries. Sen's contractual political action is not a fortuitous circumstance. Rather, it is the result of a type of emancipation and firm answering position of Amartya Sen against orthodox liberal thinking (pure utilitarianism) that has always been averse to the adoption of contractual approaches in search of pleasure (happiness) and utility (benefit) because it would interfere with people's freedom of choice. Amartya Sen throughout the whole extension of his thought regains possession of the classical philosophical contractual tradition, which has in Hobbes, Locke, Rousseau, and Kant its greatest progenitors, and more recently, John Rawls, by putting the question of the social contract in the epicentre of his theory of welfare economics and human development.

The Future of Sen's Paradigm

The universal recognition and adoption of Sen's paradigm as expressed in the political pacts 2000 and 2015 towards Sustainable Development Goals (SDGs) is a spectacular achievement to celebrate everywhere. To whatever extent, this triumph is not enough to become a dominant model to take the place of the neoliberal paradigm, whose hegemony is still vigorous and vivid inside the utilitarian mindset and performance of most market societies and individuals. So, to my view, Sen's paradigm seems to be nowadays in between a sort of existential crossroads. One easy road to follow is to combine its thinking with the neoliberal world view and institutional settings, taking the realistic risk of letting itself being absorbed by the survival stratagems from the adepts at the old paradigm that try by all means to take ownership of the SDGs' framework. The other opposite – not easy- road is to reinvent itself, firstly, by rejecting neoliberal pretensions of domesticating - for its benefit - Sen's philosophical insurgency, and secondly, by uplifting much fairer and more equitable market societies as well as ethical states. My choice is to take this second road, which is the only way to accomplish the Sustainable Development Goals and erect itself as the dominant paradigm in the years to come. To conquer this stage, Sen's structural transformative proposal must still climb a large epistemic path. The reinvention process consists of a succession of deep crucial steps embedding ontological, teleological, theoretical, strategical, developmental, and methodological dimensions. The description and discussion of all these main topics would be the essence of an essay that I wish to put into consideration for my readers in the next issues of the *Africagrowth Agenda*.

Concluding Remarks

A few conclusions can be drawn from the core narrative of this article. First, Kuhn's approach to paradigm shift offers an excellent framework to understand and analyze the reasons behind the secular changes in economic theories and beliefs over time; second, the transition from an old economic paradigm to another much

younger and more vigorous is largely motivated i.e. by the rise of great structural societal problems as well as the presence of deep existential crisis that the old paradigm could not solve or overcome but the younger most probably will do; and third, since its birth in the sunset of the twenty century, Sen's paradigm is challenging the hegemony of neoliberalism both as ideology and economics, but it hasn't happened yet, because Sen's economics and subsequent development policy have still to make some accurate refinements to their conceptual and practical policy settings covering several knowledge domains in line with the broad complexities and welfare imperatives of today's post-industrial and digital market societies.

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Footnotes

1. It is a book in Spanish in an advanced state of preparation titled «¿Cambio de Paradigma de Desarrollo? ».

2. It must be noted however that the Kuhnian orthodoxy was not sympathetic with the idea of extrapolating the use of the concept 'paradigm shift' beyond the domain of natural sciences. This a very interesting discussion that we postpone to another opportunity since it goes beyond the primary objective of this paper and its limited space as well.

3. See, The Economist's Special Report "The World economy's strange new rules: the end of inflation?" October 12th, 2019.

4. See my article "Rising wealth and income inequality: what do we know?" in *Africa Growth Agenda*. November 2019.

5. Rawlsian principle associated with freedom states that: "Each person is to have an equal right to the most extensive total system of equal liberties compatible with a similar system of liberty for all." On the other hand, Rawlsian principle associated with equality says that: "social and economic inequalities are to be arranged so that they are both: (a) to the greatest benefit of the least advantaged; and (b) attached to offices and positions open to all under conditions of fair equality of opportunity." The compatibilization between both principles can happen, by way of illustration, when a society starts from an 'original position' acknowledged by all its members as fair. The main question to solve is to know what type of goods correspond to each principle that enables human cooperation. In this respect, Rawls introduces the concept of "primary goods", which are: rights, liberties, equality of opportunities, income and wealth, and self-respect. See, Rawls, J. *A Theory of Justice*. Oxford University Press (1999).

6 See Amartya Sen, in Pressman, S. *Fifty Great Economists*. Routledge, London (1999).

7. The annual UN Human Development Reports, which inspire in Sen's thoughts and statistical measurements, contain detailed descriptions of the HDI classifications by countries and regions that covers 187 countries all over the world. Robust statistical data and methodological settings are also included in those reports.