

A Humanist Perspective on Economic Policy

Ecuador's Economic Reforms and Industrial Policy,
2007-2017

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This thesis is submitted for the degree of
Doctor of Philosophy in Development Studies at the University of Cambridge.

This thesis is the result of my own work and includes nothing which is the outcome of work done in collaboration except as declared in the Preface and specified in the text. I further state that no substantial part of my thesis has already been submitted, or, is being concurrently submitted for any such degree, diploma or other qualification at the University of Cambridge or any other University or similar institution except as declared in the Preface and specified in the text. It does not exceed the prescribed word limit for the relevant Degree Committee.

— ABSTRACT —

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This dissertation assesses Ecuador's economic policies during the Correa administration (2007 - 2017) from the perspective of human development. It aims to accomplish two objectives—one conceptual and one empirical.

At the conceptual level, it brings together two intellectual traditions that are often seen as antagonistic: on the one hand, classical development theory with its focus on structural transformation as the central concern of development and, on the other hand, the humanist development tradition, which asserts the centrality of human wellbeing as the ultimate objective of policy interventions. Combining the normative gaze of the human development approach with classical development theory's insights about the centrality of industrial policy as tool for achieving sustained per capita growth, I build a framework for evaluating economic policies in general, and Ecuador's economic policies in particular, in terms of their direct and indirect contributions to human wellbeing.

At the empirical level (Part II), I apply the framework developed in Part I to analyze Ecuador's economic policies during the Correa administration. Though my analysis identifies manifold successes and failures, it concludes that—with some notable exceptions—the administration's economic policies were largely conducive to enhancing economic and human development. Moreover, many of the policies that most effectively contributed to the expansion of human development—particularly public investment, macroeconomic and regulatory policies—were those that most markedly broke with the policy regime of Ecuador's Washington Consensus period (1982-2006).

However, in the realm of industrial policy, the government notably fell short of the speed, scale and precision required to achieve a significant change in its

commodity-dependent pattern of productive specialization. This prevented the country from achieving a level of diversification that could have provided a buffer against the boom and bust cycles of commodities markets and stimulated long-term development of higher-value added productive capabilities. As a result, when the price of oil suddenly fell, the government was unable to sustain the public investments that enabled its upward development trajectory. Thus, the ineffectiveness of the Correa administration's industrial policy truncated a successful process of expansion of human development that could have become sustainable had the imaginations of policy makers been able to escape the ideational constraints of orthodox economic prescriptions and standard human development discourse, which either directly undermine or neglect industrial policy. Ecuador's experience highlights the risks of seeing development policy as little more than a collection of measures for 'getting along with a little assistance' and underscores the need for developing countries to take more proactive structural measures to achieve sustained improvements in economic and human development.

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List of Abbreviations

BCE - Banco Central del Ecuador

CAITISA - Comisión para la Auditoría Integral Ciudadana de los Tratados de Protección Recíproca de Inversiones y del Sistema de Arbitraje Internacional (Citizen's Audit of Bilateral Investment Treaties and the International Investment Arbitration System)

CEAACES - Consejo de Evaluación, Acreditación y Aseguramiento de la Calidad de la Educación Superior (Council for Higher Education Evaluation, Accreditation, and Quality Assurance)

CIES - Center for International Economic Studies of Korea

FAO - Food and Agriculture Organization

FTA - Free Trade Agreement

GI - Geographical indications

HDI - Human Development Index

IDB - Inter-American Development Bank

IMF - International Monetary Fund

INEC- Instituto Nacional de Estadísticas y Censos

IPR - Intellectual property rights

LOES - Ley Orgánica de Educación Superior (Organic Code for Higher Education)

LOSNC- Ley Orgánica del Sistema Nacional de Contratación Pública (Organic Code for the National Public Procurement System)

MCPEC- Ministerio Coordinador de la Producción, Empleo y Competitividad

MICSE - Ministerio Coordinador de Sectores Estratégicos

MPI - Multidimensional Poverty Index

NAFTA - North American Free Trade Agreement

OCPTI - Organic Code of Production, Trade and Investment

OECD - Organization for Economic Cooperation and Development

SENESCYT - Secretaría Nacional de Educación Superior, Ciencia, Tecnología e Innovación (Ministry of Higher Education, Science, Technology and Innovation)

SENPLADES - Secretaría Nacional de Planificación y Desarrollo (Ministry of Planning and Development)

TRIPS - Agreement on Trade-Related Aspects of Intellectual Property Rights

UNASUR - Union of South American Nations

UNDP - United Nations Development Program

WB - World Bank

WHO - World Health Organization

WTO - World Trade Organization

WVS - World Values Survey

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Preface

This dissertation is the product of an effort to draw policy lessons from a multidimensional¹ evaluation of Ecuador's economic reforms during the decade spanning 2007-2017—a period of substantial economic reform.

Although Ecuador has become an attractive case study for economic and political research due to the far-reaching and controversial reforms that marked this period—and the equally controversial undoing of those policies after 2017—my choice of case study was also personal in nature. Before coming to Cambridge, I worked in Ecuador for six years, first, as a community organizer, facilitating microenterprise and sustainable agriculture projects in the indigenous community of Paquibug San Gerardo, and then as an economic policy researcher and advisor for the Ministry of Economic Policy, the Ministry of Planning and Development and finally the Ministry of Science and Technology, where I worked on trade and industrial policy. These experiences, which were simultaneously a form of participant observation², gave me privileged insight into policy-making that I could hardly have accessed as a purely academic researcher, but they also raised a host of questions that could only be answered in the comparatively tranquil and contemplative conditions of academia.

The first question was the most present in my mind when I left Ecuador for Cambridge in 2014, because it stood out as the most consequential failure of the period: the inability of the country to build a more diversified productive base that could have provided a buffer against the recession triggered by the collapse in oil prices that same year. Although Ecuador's economy had managed to weather the 2009 crisis and the accompanying oil price collapse surprisingly well, shortly after the second oil price collapse of 2014, the economy began to contract. Investment—which had been fueled by oil revenues—plummeted and employment went with it. Friends and family told me stories about suddenly slashed salaries, mass layoffs and public sector workers who walked two hours to work because they could not afford to take the bus due to delayed salary disbursements. It was not the full-blown crisis that hit neighboring Venezuela, a country even more dependent on oil and less resourceful in its

¹ By this I mean that I analyzed Ecuador's economic policies not only in terms of their 'economic' impact, but also in relationship to other dimensions of relevance to the country's development (improvements in the wellbeing of its people), such as health, employment and education.

² In fact, in addition to my archive of official documents and notes, I kept detailed journals during this period in an effort at 'auto-ethnography'.

macroeconomic management, but it was nonetheless painful and destabilizing for those who were not privileged enough to insulate themselves from the contraction by tapping into savings. To the people who had to walk two hours to work and struggled to feed their families, this was, indeed, a crisis, and when I arrived in Cambridge I wanted to find out if and how it could have been averted: I wanted to know what policies could have been deployed to decrease oil dependence quickly enough to sustain a resilient economy despite the collapse in the oil prices.

This led to a long period of research into theories of development, growth and technological change, and historical and political economy accounts of industrial policy successes and failures. The concrete accounts of development experiences proved more enlightening than the theoretical ones, which generally had too many simplifying assumptions to be of use for real-world analysis. In contrast to the models, concrete accounts made it possible to see what industrialization policies had succeeded and failed under different geographical, cultural and political conditions and at different historical moments. They suggested that, indeed, Ecuador *could* have managed to make significant changes to its productive base quickly enough to avert the worst effects of the crisis if it had implemented more focused and ambitious industrial promotion policies. Part of this dissertation is devoted to describing how such policies work and articulating the theoretical explanation of why they are necessary to induce structural change— all with the ultimate goal of contributing to more effective industrial policy design in Ecuador and countries that share its basic characteristics (*i.e.* small and medium, commodity-dependent countries).

However, my assessment of Ecuador's economic policies is not exclusively concerned with its successes and failures in industrialization. As the title suggests, my evaluative gaze is rooted in the vantage point of 'human development', which I define broadly as a normative perspective from which all policies are assessed in terms of their effects on human wellbeing—particularly the wellbeing of those most deprived of it— rather than in strictly 'economic' terms. As I show in Part I, this normative perspective is currently applied to economic policy assessments in limited ways and the focus on human wellbeing is often perceived to be antagonistic to development economics approaches that center on growth or industrialization. I myself began this dissertation from a place of profound skepticism toward what I call the 'humanist' development literature (the capabilities approach and human development scholarship) because it seemed that the policy recommendations emerging from this

standpoint were too focused on small-scale interventions, like the microenterprise projects I had pursued during my first year in Ecuador, while ignoring the large-scale structural transformation, which I had seen first hand was necessary to tackle the poverty systemically. It seemed to me that, in their effort to gain broad acceptance of the crucial point that 'development' should not be understood in purely economic terms, humanist development scholars had capitulated to mainstream economics' 20th century crusade to erase industrial strategy from development thinking.

Although I had been inspired by my first exposure to the humanist literature (a short piece by Amartya Sen in a wellbeing economics graduate course in Ecuador), when I entered the world of policy making, I watched in frustration as colleagues extolled the virtues of the human development approach, but understood its implementation narrowly as a matter of improving health and education services. This was a particularly frustrating experience in the Ministry of Planning and Development, which produced hundreds of inspiring pages about human flourishing and a massive education reform, but not one single concrete industrial promotion program. In what I now see as a conflation between the core message of the humanist approach and the way its policy implications are often interpreted, these experiences led me to reject the humanist approach to development altogether.

However, in the last two years of the Ph.D., I unexpectedly made my way back to the humanist framework. As I began to submit my preliminary assessment of Ecuador's industrial policies to scrutiny at conferences and workshops, colleagues from different backgrounds pointed to the 'statist' nature of my assessment. One economist focused on class conflict suggested that my focus on policy-making showed excessive trust in the state's ability to play a good-faith role in progressive social change in the productive sector. Another economist suggested that my assessment could have benefitted from contrasting state-led industrial policies with those put forth by social movements and traditionally sidelined stakeholders. While, in both cases, I disagreed with the implicit premise that there *were* non-state social actors pushing alternative proposals for industrial policy, it was clear that my colleagues raised valid points about the role of non-state actors in policy making. This issue had been very present in my mind while I was working in Ecuador and advocating to make policy making more participatory, but it had slowly faded into the background as I immersed myself in the economics literature, which tends to treat that state as the unique and monolithic source of policy design and administration.

As I began to ask myself how I could articulate a policy assessment framework that took the participation of different social actors in the process of policy design seriously, an answer came in the form of yet another criticism: a capabilities scholar (also an economist), who pointed out that my analysis did not evaluate how policies were constructed or the extent to which grassroots movements were involved in monitoring and evaluation. Reflecting on this criticism, I realized that, while the normative gaze of the development economics literature was somewhat agnostic with regard to the question of participation, the humanist literature saw participation as an important evaluative parameter: a kind of measure of the extent of democratic action and co-responsibility of citizens as agents of their own development.

Moreover, by defining development as a process in which people act (collectively and individually) to expand their freedoms and capabilities, the human development literature gave me room to solve a conflict that had haunted me for some time: on the one hand, the need to orient policy-making toward something more meaningful at the personal level than growth and industrialization, and, on the other hand, the need to acknowledge the importance of growth and industrialization for overcoming poverty. I had seen this conflict play out in Ecuador, where I witnessed a salient disconnect between the vision for a 'solidarity-based', 'human-centric' and 'environmentally sustainable' socio-economic model enshrined in the 2008 Constituent Assembly under the banner of *Buen Vivir*³ and the way people talked about concrete economic reforms. *Buen Vivir* was attached to social policy proposals, like Childhood Development Centers for *Buen Vivir*; or 'rural *Buen Vivir*' policies to support small-scale family farming. After the 2008 Constitution, the National Development Plan was even re-baptised as 'National Plan for *Buen Vivir*' and included a vision for turning Ecuador into a 'bio-centric' economy specialized in ecotourism and biotechnology.⁴ Yet, as rhetoric gave way to concrete programs and reforms, this utopian vision was quickly sidelined from policy discussions and, when it came to economic policy design, it was rare to even pose the

³ *Buen Vivir*, or *Sumak Kawsay* in Quichua, is conventionally translated as "Good Living." It combines the humanist concern for human wellbeing and broadly shares the concerns present in much of the humanist literature and in the concept of 'sustainability' as it is used in the Sustainable Development Goals: harmonious, egalitarian relationships between human beings and between people and the environment. Though the concept of *Buen Vivir* is usually presented as an ancestral indigenous concept, according to the Ecuadorian scholar Armando Muyolema, "*Sumak Kawsay* is not an ancestral concept, but rather a product of "transculturation", that resulted from experiences linked to contemporary indigenous and environmental struggles (Muyolema 2012)" (Forero, 2020, p.170).

⁴ See Chapter 7 and SENPLADES (2009).

question of what an economic policy for *Buen Vivir* should look like. My effort in Part II to define what a 'humanist' economic policy should look like is, in some sense, also an effort to define what a policy for *Buen Vivir* could be. The two paradigms share a common set of core values, although *Buen Vivir* stresses solidarity more than equity as a principle of distribution and places greater emphasis on harmony between human beings and their environment. In fact, under the banner of *Buen Vivir*, Ecuador became the first country to enshrine the 'Rights of Nature' in its 2008 Constitution.

This leads me to an important caveat. Although the human development literature has paid increasing attention to environmental sustainability, the core evaluative parameter in the approach is *human* wellbeing. I have chosen to embrace this vision, which some may rightly deem anthropocentric, because I do not find it viable at this point in history to convince many people that 'nature' has inherent value, independently of its utility to human beings, whether that utility is material (as a natural resource to be sustainably managed) or symbolic (as an aesthetic or spiritual setting to be enjoyed by humans). While I share the hope that one day policy-making may be guided by empathy and respect for non-human beings, at this juncture it is a big enough challenge to convince people that policy should be guided by respect and empathy for other human beings. This does not mean that environmental concerns have no coherent place in the humanist approach: on the contrary, intergenerational justice requires environmentally sustainable policies that will make human life (and human wellbeing) viable for future generations. Moreover, insofar as people in particular contexts consider the enjoyment of nature more important than growth, policies must reflect the tradeoffs between the two parameters accordingly. The assessment I present in this work reflects my best efforts to do this.

One final caveat with regard to methodology is in order. I decided to write this dissertation as an 'evaluation' of Ecuador's policies rather than a historical or political economy account for two reasons. The first reason was practical: as a 'participant observer' in the period I examine, the evaluative point of view helped me to narrow the scope of the dissertation to the essentials and to deliver a product that I know could be useful in future efforts at economic and industrial policy design. The implicit question guiding my analysis is the one that always haunts policy-makers: 'what *should we have done* to reach better development outcomes?' I have also often elected to use dry and technocratic but easily accessible language in an effort to reach beyond academic circles and engage

technically-oriented policy makers and non-state citizens and actors, in hopes of encouraging greater inclusion and participation in policy-making.

The second reason I chose to write this dissertation as an evaluative account has to do with academic ethics. I hoped to use this opportunity to illustrate that so-called 'applied', problem-solving oriented approaches to research, which are often marginalized in academic circles, can also yield valuable insights to inform the practices of the agents in the social processes they investigate. I owe a debt of gratitude to my supervisor, Ha-Joon Chang, for having encouraged me to question the perceived boundaries between 'academic' and 'applied' work.

Declaration:

This thesis is the result of my own work and includes nothing which is the outcome of work done in collaboration except as declared in the preface and specified in the text.

It is not substantially the same as any work that has already been submitted before for any degree or other qualification except as declared in the preface and specified in the text.

It does not exceed the prescribed word limit (80,000) for the PhD in Development Studies Degree Committee.

Chapter 1.

Introduction

The aim of this dissertation is twofold. At the empirical level, it offers an evaluation of Ecuador's economic reforms during the administration of Rafael Correa (2007-2017) from the normative perspective of human development.⁵ This assessment is intended to inform future efforts at policy design by analyzing and drawing lessons from successes and failures of the reform process. At the conceptual and methodological levels, my aim has been to bring together two intellectual traditions that, while often seen as antagonistic, can be productively complementary: on the one hand, classical development theory, with its focus on structural transformation as the central concern of development and, on the other hand, the humanist development tradition, which asserts the centrality of human wellbeing as the ultimate aim of policy interventions. The evaluative framework I build to assess the Ecuadorian case in Part II is constructed by combining features from these two traditions in the first four chapters (Part I).

The purpose of this introductory chapter is (i) to discuss the relevance of the research problem and questions; (ii) to explain how the methodology was developed and implemented; and (iii) to present an overview of the results of the research and the argument developed in the chapters that follow.

1. 1 The research problem and its relevance

This research project centers on the relationship between economic policy and human and economic development both in theory and in the concrete case of Ecuador — a commodity

⁵ I use the categories of 'human development' and the 'humanist development literature' to refer to the broad array of works whose commonality is a normative perspective that sees 'development' as the process of expanding human freedoms, capabilities or wellbeing. This comprises the literature stemming from the human development and capabilities approaches, but can also include wellbeing literature, as well as literature on sustainability and similarly motivated "development" paradigms. I distinguish these literatures from the development economics literature that understands development primarily as a process of expanding per capita growth and industrialization.

dependent, middle-income country of sixteen million that underwent substantial economic reforms under the administration of Rafael Correa (2007-2017), as part of the so-called "Pink Tide" that swept Latin America in the beginning of the 21st century.

Rather than starting from a theoretical debate and testing different positions through a case study, I instead began from a case-specific evaluative question — 'to what extent did Ecuador's economic policies under the Correa administration (2007-2017) enhance or undermine development?' — and identified the theoretical debates to which I could contribute in the process of answering this question.

At the empirical level, my assessment of Ecuador's economic reforms fills a gap in two key streams of literature: the evaluative literature on the Latin American 'Pink Tide' and the 'developmental' literature on Latin America and Ecuador in particular. I discuss these in turn.

The literature on the 'Latin American Pink Tide' comprises a broad, multidisciplinary set of works aimed at characterizing the rise, at the beginning of the 2st century, of a number of governments that came to power on political platforms centered on reversing the policies of the Washington Consensus that had dominated in Latin America in the final decades of the 20th century.

Many academic works on the Pink Tide have focused on the larger countries of the region (Brazil and Argentina) and on questions about how to best characterize — or, perhaps more accurately, how to label — the reforms that these countries implemented. As Forero (2020) points out, one subset of the literature on the Pink Tide has focused on distinguishing between 'populist' governments, associated with more 'radical' proposals, and more 'rational' governments, associated with more 'moderate' political proposals (Castañeda & Morales, 2008; Weyland, 2009; Moreira, et al., 2008; de la Torre, 2009). Another subset of the Pink Tide literature has sought to draw lines of continuity or discontinuity between the policy platforms that led these governments to power and the policies they subsequently implemented. On the one hand, the literatures on 'neo-extractivism' (Acosta, 2012; Svampa, 2011; Gudynas, 2009) and 'passive revolution' (Webber, 2017; Hesketh & Morton, 2014; Modonesi, 2013) comprise what Forero (2020) has called a 'narrative of betrayal', in which the Pink Tide governments are presented as falling short of, if not directly contravening, promises made to the social movements that led them to power. On the other hand, the literature on 'post-neoliberalism' (Grugel & Riggirozzi, 2012; Ramírez & Stoessel, 2015) has

focused on describing the political tensions underpinning the efforts of Pink Tide governments to break with 'neoliberal' prescriptions.

Although these literatures on the Pink Tide inevitably include some degree of policy assessments, they primarily aim to defend a particular branding of the political processes they examine or to build an understanding of the social dynamics associated with them. This dissertation contributes to the literature on the Pink Tide by shifting attention away from the question of labels and power struggles and toward the content of the policies that were implemented during this period and their effects on human development. This allows for a more granular and practically useful account of the contradictions, successes and failures of the policies implemented during Ecuador's 'Pink Tide' period.

In this spirit, the second stream of literature to which I seek to contribute is the 'developmental' literature on the Pink Tide and Ecuador specifically — that is, the scholarship more specifically concerned with how development policy was reshaped in the early 21st century. This stream can itself be divided into two categories. The first comprises a diverse literature grounded in the development economics and political economy traditions and includes a mixture of macro- and micro-level studies on structural change and broad policy trends (Calderón, et al., 2016; Bértola, 2015; Blankenburg & Khan, 2009), as well as class and distributional analyses of the economic policies implemented during the Pink Tide period (Forero, 2020; Mendes Loureiro, 2018). Despite the breadth of these literatures, however, to date most empirical works have focused on the larger Latin American economies and no substantial academic work has been devoted to a detailed analysis of Ecuador's economic and industrial policies during the Correa administration as a whole.

Moreover, while some policy-oriented literature by think tanks and international organizations has assessed Ecuador's macroeconomic management (Weisbrot, Johnston & Merling, 2017; Cunha, et al., 2019), only one such substantial work (Calderón, et al., 2016) has addressed Ecuador's industrial policies, doing so in the context of a collaborative policy design project between Ecuador's government and the Economic Commission for Latin America (ECLAC). Furthermore, this report has some gaps that I have sought to fill in the present work. First of all, in examining Ecuador's policies from the analytical lens of the structuralist tradition, the ECLAC report does not delve into some of its most ambitious industrial policies: namely, the reforms to the intellectual property regime, which aimed to expand policy space for technology transfer and local content policies. I also go a step further

to analyze the critical tensions between these efforts at creating industrial policy space and the restrictive rules enshrined in international trade agreements. My analysis shows in granular detail how these kinds of global economic rules have contravened Ecuador's industrial policy efforts.

Secondly, while I concur with the authors that Ecuador's production-sector policies were too general, scattered, and lacking in goals and continuity (Calderón, 2016, p.131), I analyze the specificity of these shortcomings in greater detail and make an effort to explain why they came about. I argue that these limitations were also due to two key factors. First, the presence of restrictive global rules that hampered the swift and ambitious implementation of industrial policy, leading policy makers to devote an incommensurate amount of time and attention to reforming the regulatory environment before taking direct action in the production sector; and second, a widespread inability to imagine the kinds of policies that, judging from historical experience, would have been necessary to produce rapid change in the ten-year period — namely industrial promotion of the sort implemented by Korea and the East Asian economies during their 'miracle years' (Chapter 4). This latter limitation, I propose, is likely due to the weight of broader ideological context in which policies of this nature have been systematically marginalized — an environment dominated by neoclassical economic theory and its policy interpretations, which in the case of Ecuador include a bias toward the expansion of commodity-exports at the expense of industrial development, which is broadly seen as a counter-productive departure from the country's comparative advantage.

By contrast, my analysis of Ecuador's development experience during the period in question identifies commodity dependence as a crucial constraint on Ecuador's ability to sustain an upwards development trajectory. My analysis supports the thesis that production-sector transformation is an indispensable requirement for commodity exporters to sustain growth and provide effective protection from the unpredictable shocks of our increasingly interconnected and volatile global economy. This analysis challenges the neoclassical idea that countries should adhere to their comparative advantage and abstain from policy interventions that change their 'natural' patterns of productive specialization. In the macroeconomic realm, my analysis of Ecuador's experience also challenges the prevailing view that austerity policies are an appropriate response to recession and supports Keynesian approaches that prescribe counter-cyclical interventions to effectively weather economic

downturns. I suggest that these are particularly important for commodity exporters, which are especially sensitive to sudden external shocks.

A second subset of the 'developmental' literature to which I hope to contribute comprises the works on the policies inspired by *Buen Vivir*, conceived as either an alternative to development or a new development paradigm. *Buen Vivir* (or *Sumak Kawsay* in Quichua) is conventionally translated as 'Good Living'. It combines the humanist concern for human wellbeing and broadly shares the concerns present in much of the humanist literature and in the concept of 'sustainability' as it is used in the Sustainable Development Goals: harmonious, egalitarian relationships between human beings and between people and the environment. Though the concept of *Buen Vivir* is usually presented as an ancestral indigenous concept, according to the Ecuadorian scholar Armando Muyolema, "*Sumak Kawsay* is not an ancestral concept, but rather a product of 'transculturation', that resulted from experiences linked to contemporary indigenous and environmental struggles (Muyolema, 2012)" (Forero, 2020, p.170).

Most works on *Buen Vivir* have remained at the level of discourse analysis, political theory or history of ideas (Muyolema, 2012; LeQuang & Vercoutère, 2013; Ramírez, 2010), while other works have examined the question of how the idea of *Buen Vivir* has been interpreted in the design of certain social policies that were explicitly tied to the concept and in the design of organizational reforms of the state (Radcliffe, 2018; Acosta, 2012b). The present work starts from the premise that the values and normative perspective underpinning *Buen Vivir* — namely the centrality of human wellbeing above economic metrics as an organizing principle— are largely echoed in the humanist approach to development pioneered by Amartya Sen (1999). Consequently, in assessing economic policies from the humanist perspective, I am also assessing these policies from the vantage point of *Buen Vivir*. Therefore, just as I aim to contribute to the humanist literature by extending the humanist perspective into the analysis of economic policy, I also aim to show by proxy how the '*Buen Vivir* analysis' could go beyond social policy to examine 'economic' issues.

In fact, one of the more general aims of this work is to break down the silos between 'social' and 'economic' policies and to adopt a framework that explicitly recognizes that human wellbeing *is* an economic issue. As discussed in the following section on methodology, in the course of answering the main research question ('to what extent did Ecuador's economic policies under the Correa administration enhance or undermine

development?'), I have built a conceptual framework that combines elements from classical development theory and the humanist approach to development to assess economic policy from a humanist normative perspective. This framework can be interpreted as a conceptual and methodological contribution to the development literature, insofar as it facilitates analyses of economic policy from a humanist approach.

1.2 Design and implementation of the methodology

This section explains the design and implementation of the methodology for this research project. In other words, it explains how the research question was constructed and the methods through which it was operationalized. Section 1.2.1 explains how the general and specific concerns that motivated this project were articulated into a research question and its constituent sub-questions. Sections 1.2.2 and 1.2.3 explain how I defined and executed the conceptual and empirical work required by each of the two sub-questions.

1.2.1 Constructing the research question

Articulating the problem into a research question

The overarching aim of this project was to contribute to our understanding of how economic policies can be designed to improve people's wellbeing in developing countries,⁶ in general, and in Ecuador in particular.

Though many factors can contribute or detract from 'human wellbeing', I chose to focus on 'policy' because the role of government in promoting or detracting from 'wellbeing' is at the core of debates about how the collective actions of individuals can translate into large-scale societal changes. I chose *economic* policy specifically because, as I explain in Chapters 2 and 3, policy discussions about human wellbeing have tended to focus narrowly on policy areas like health and education, leaving the role of what are typically considered to be 'economic' policies (those most directly concerned with the allocation of resources,

⁶ I use the term 'developing country' in a deliberately broad way to refer to countries with clear and widespread deficits of 'wellbeing'.

production, exchange, and distribution of the resulting value) under-theorized and under-studied.

I chose Ecuador as my case for two reasons. First, because the country has undergone significant policy shifts in the 21st century, making it a sort of natural laboratory for the study of how different kinds of economic policies shape 'wellbeing'; and second, because years of work experience and participant observation in the policy sphere provided me with privileged access to the relevant 'data', broadly conceived (statistics, policy and legal documents, public and private archives, media content, personal accounts, etc.).

In accordance with these motivations, this research project sought, first and foremost, to evaluate the extent to which Ecuador's economic policies under the Correa administration enhanced wellbeing and, as a secondary objective, to examine the extent to which the observed relationship between economic policies and wellbeing corroborated or challenged divergent theoretical standpoints on which policies are useful for enhancing wellbeing. This exercise, I hoped, would allow me to accomplish a third objective of deriving policy recommendations for Ecuador and other countries facing similar challenges. These three research aims were synthesized into a single working research question: 'to what extent did the way in which Ecuador's policies (2007-2017) enhanced or undermined wellbeing corroborate or challenge contending theories about the kinds of economic policies required to enhance wellbeing?'

At this point, I faced a practical challenge: finding a theoretical framework in which I could situate my inquiry. Such a framework would have to combine a normative perspective that asserted human wellbeing as the ultimate objective of any policy intervention and a theory of how wellbeing could be enhanced through policy interventions. To this end, the most relevant streams of literature I identified included theories of 'economic development' and 'human development' and largely prescriptive works on 'sustainable development' and 'wellbeing'. Since my case study was of a 'developing' country, I decided to situate my research problem within the scholarship that has devoted the most attention to the problems faced by countries of this sort: the development scholarship (Chapter 4). This led me to rephrase the question as follows: 'to what extent did the way in which Ecuador's economic policies enhanced or undermined development (2007-2017) corroborate or challenge contending theories about the kinds of economic policies required to enhance development.' At this point, I want to clarify that my decision to replace 'wellbeing' with 'development' in

my research question deliberately made use of the ambiguity of the term in the development scholarship, as I explain below. Furthermore, notwithstanding my choice to situate this project within the development scholarship, I continued to bear in mind all approaches to the study of wellbeing as potential resources for answering the research question.

The next step in the development of the methodology was to operationalize the question by decomposing it into its constitutive elements. The question was decomposed into two sub-questions which would need to be answered through two, logically consecutive, processes:

(i) The first question - 'to what extent did Ecuador's policies (2007-2017) enhance or undermine development?' - would need to be answered first in order to answer the second question:

(ii) 'To what extent did the outcomes of Ecuador's policies (2007-2017) corroborate or challenge contending theories about the kinds of economic policies required to enhance development.'

1.2.2 Methods for operationalizing the first research sub-question: 'to what extent did Ecuador's policies (2007-2017) enhance or undermine development?'

To evaluate the extent to which Ecuador's economic policies enhanced or undermined development required, first of all, its own theoretical exercise. To describe a 'development' experience, a researcher must define a clear concept of 'development'. In some sense, it was already clear in the research project that 'development' was a stand-in for 'wellbeing', but barring the possibility of creating my own unique ontology of 'wellbeing', which would fall far outside the scope of this project, I would need to appeal to existing theories to adopt or adapt a definition of 'development'.

To define a working concept of development, I began by clarifying the concept of development implicit in prominent development approaches and identifying their implicit and explicit claims about each of the following constitutive elements:

1. Goal of 'development': what is the ultimate aim of 'development'?

2. Subject of development: to whom does development happen?
3. Mechanism of change: how is 'development' achieved?
4. Agents of change: who makes 'development' happen?
5. Performance parameter: how is 'development' measured?

This exercise made it possible to characterize each concept of development in a four-positional term⁷:

'Development of [*subject of development*] toward [*goal*], measured in terms of [*performance parameter*], by means of [*mechanism of change*] through the actions of [*agents of change*].'

For example, Amartya Sen's conception of development —the idea that "assessment of progress has to be done primarily in terms of whether the freedoms that people have are enhanced" (Sen, 1999, p. 4) and that "freedoms are not only the primary ends of development, [but are also] among its principal means" (Sen, 1999, p.10)— was decomposed as follows:

Decomposed concept:

'Development of [*societies and individual human beings*] toward [*expanded human freedoms/capabilities*], measured in terms of [*proxies of expanded freedoms/capabilities*], by means of [*expanding freedoms/capabilities (principally, but not exclusively)*] through the actions of [*individual human beings, acting individually or collectively*].'

One outcome of this analytical exercise, whose results are presented in Chapter 2 as part of the critical review of contending concepts of development, was the insight that, when scholars talk about the goals of 'development' or 'wellbeing', they are implicitly talking about the fulfillment of human needs and wants and making claims about which human aspirations are relatively universal. Sen, for example, defines the goal of development as 'freedom'

⁷ The articulation of concepts into positional terms is a method used in philosophy to approximate an implicit ontology (theory of the nature of the object in question).

because he believes this to be a universal human want. Development economics scholars talk about raising 'living standards' as the ultimate goal because they believe this is what people desire. 'Development' theories, consequently, can be understood in one sense as theories about human needs or aspirations and how these can be fulfilled. This accounts for the similarity in the kinds of questions and methods used in 'development' scholarship and those used in the increasingly dynamic literature about 'wellbeing' and 'happiness' which is mostly focused on 'developed' countries (Gurría, 2019; Alexandrova, 2017; Fox, 2012; Stevenson & Wolfers, 2008). Though each of these approaches may have slightly different ideas about 'what humans want', the differences in the use of terminology owes more to the kinds of countries they study ('developing' vs. 'developed') than to the nature of their central concerns. In other words, scholarship concerned with improving the human condition in richer countries more frequently centers on 'wellbeing', whereas scholarship concerned with improving the human condition in poorer countries is more likely to center on 'development'.

With a clearer understanding of what 'development' theories are —theories of the process of fulfilling human needs and wants in countries where these are less well fulfilled— it became easier to examine their respective definitions of development by evaluating their implicit empirical claims about human wants and needs.

As I explain in Chapter 2, I chose Sen's concept of 'development as the expansion of freedom and capabilities' for the purposes of my inquiry because this is the only concept that is both sufficiently theorized and sufficiently broad to accommodate the diversity of wants that, according to empirical (psychological and sociological) evidence, human beings appear to aspire to. Moreover, the huge traction Sen's concept has gained in diverse strands of 'development' scholarship (and beyond) is a sign of broad intuitive appeal and the wide acceptance, which corroborates its relevance as an analytical tool.

From a working concept of development to an evaluative framework

Choosing a working definition of 'development', however, was only the first step in building the framework for evaluating Ecuador's development experience.

To build the framework, I also needed a method for evaluating whether or not Ecuador's economic policies enhanced 'the expansion of freedoms or capabilities'. This required both performance parameters and a method for tracing and examining the links

between 'economic policies' and 'the expansion of freedoms'. Unfortunately, the theoretical framework in the human development scholarship inspired by Sen's work did not provide all the tools necessary for this exercise.

As I discuss in Chapters 2-4, though the humanist scholarship provided certain performance parameters, such as the Human Development Index, it had little to say about how one might examine the channels —the *means*— by which the parameters could be enhanced. This was further complicated by the fact that, though Sen's work does not dismiss the importance of policy, the emphasis his framework places on individuals as the primary agents of development (Sen, 1999, p.11) has not exactly encouraged research on the role of the state as a space for collective action. Consequently, as I argue in Chapters 2 and 3, discussions about policy in the humanist development scholarship have been limited and constrained mostly to what are usually considered 'social policies' like health and education investments —those policies that are most obviously and directly associated with personal human freedoms. The human development literature has been less interested in more structural, economic policies and their systemic effects on personal freedoms, and even less so on the connections between 'social' policies like education and their systemic effects on economic processes that, in turn, enhance personal freedoms.

The limits of the human development scholarship as a tool for evaluating the relationship between economic policy and the expansion of freedoms meant that I had to look to other development approaches to create an evaluative framework. Chapter 4 presents the results of this exercise, which involved combining the humanist normative perspective with theoretical inputs from development economics —primarily classical development theory— and inductive reasoning based on concrete historical development experiences, in order to identify the relationship between performance parameters of development (expansion of health, educational opportunities, income growth, etc.) and different types of economic policies. The introduction to Part II of the dissertation explains in detail how this evaluative framework (which I call a 'systemic humanist' framework as shorthand) was then specified for, and applied to, the Ecuadorian case. In short, this involved (i) systematically identifying the freedoms and capabilities of relevance for analyzing Ecuadorian development during the period in question, (ii) identifying the policy channels through which these freedoms and capabilities could be enhanced or undermined, and (iii) evaluating the extent to which the policies of relevance contributed to enhancing (or undermining) development.

My evaluation relied on a broad range of empirical data, including (i) datasets provided by the Central Bank of Ecuador, the National Information System of Ecuador and the World Bank (among others); (ii) interviews (with policy makers, officials, civil society actors and private citizens); (iii) media analysis; (iv) dozens of laws, regulations, policy plans and other documents available publicly and through the personal archives of local contacts.

The interviews listed on p.253 and referenced individually throughout this work were largely conducted during my fieldwork in Ecuador, from 2016 to 2017, and also include remote preparatory interviews and follow-ups conducted before and after my fieldwork, from 2015 to 2019.

My analysis also draws on four years of work in various institutions of the Ecuadorian government prior to this research project. From 2010 to 2014, I worked as an analyst, advisor, or consultant at the Ministry of Economic Policy, the Ministry of Planning and Development, and the Ministry of Higher Education, Science Technology, and Innovation.

From an academic standpoint, these experiences were, of course, both an asset and a liability.

On the one hand, they allowed for an unusual level of access and insight into the intricacies, contradictions, and virtues and flaws in the policy-making process. Furthermore, since I also understood my time in the government in part as an exercise in participant observation, I was able to draw upon my political anthropology training to keep detailed journals of my experiences, which helped guide my research in subsequent years and facilitated interviews with key functionaries.

On the other hand, identifying closely with (parts of) the political process under scrutiny made it unusually difficult to acquire critical distance. Every effort has been made to overcome this challenge, including submitting drafts of this work to a range of external observers, in and out of academia and policy circles, within Ecuador and beyond. Their comments have been critical in molding the central arguments of the thesis. While I do not subscribe to 'objectivity' as an epistemological possibility, the chapters that follow represent my best effort to present an even-handed assessment of the Ecuadorian experience—one that serves the purpose of providing useful lessons and insights to inform policy design.

1.3. The progression of the argument

The chapters that follow make the case that, when assessed from the vantage point of human development, Ecuador's economic policies under the Correa administration yielded mixed results, but, on balance, contributed significantly to the reduction of crucial capability deprivations, including the capabilities to live a healthy life, to pursue educational opportunities and decent work, and to afford basic necessities.

The policies that helped bring about these capability expansions, however, were partially truncated by the crash in commodity prices in 2014, which shrank the capacity for public investment in the oil-dependent economy. The government's inability to finance sustained capability-expanding policies, I argue, underscores the importance of decreasing commodity-dependence and developing an industrial base, both as a means of increasing resilience in the face of external shocks (to which commodity-exporters are especially vulnerable) and as a means of increasing the income-generating capacity of the domestic economy. From a development standpoint, commodity dependence can be best understood as a structural constraint on the sustained expansion of human capabilities and its reduction should therefore be seen as a policy priority for human development.

Our argument is developed in two parts, one conceptual and the second empirical. Part I, which comprises three chapters, builds the conceptual framework for the empirical analysis of Ecuador's economic policies in Part II.

Part I. A humanist perspective on economic policy

Chapter 2 begins to build the conceptual framework by defending my selection of the humanist conception of development as a useful normative vantage point from which to analyze Ecuador's economic policies. To this end, I make the more general case that there are good reasons for evaluating economic policy (and policy in general) in terms of its contributions to human flourishing — the expansion of human freedoms and capabilities — rather than only in terms of income-centered 'instrumental' objectives like growth. I argue that, while the development economics tradition is also ultimately concerned with human wellbeing (conceived as the increase of the 'standard of living'), the literature stemming from this approach has too often reduced the objective of development to 'the increase of per capita

income'. It is this tendency to reduce human aspirations to a narrow concern for income that sparked the 'humanist' turn in the development scholarship in an attempt to more holistically capture the broad and varied nature of human aspirations, which form the basis for conceptions of the 'ends' of development. The comparatively broader and fuller conception of development as 'freedom', 'human flourishing' or 'the expansion of capabilities' provided by the conceptually and empirically rich humanist scholarship thus makes for a more complete normative vantage point from which to evaluate development policy.

However, I also point out in the chapter that the application of the humanist approach to the evaluation of economic policy is complicated by two crucial shortcomings. First, as even scholars within the field observe, the humanist literature has not devoted substantial attention to many issues that are at the core of economic policy concerns, including the role of work and human productive capabilities in development. Secondly, though questions about collective capabilities are certainly present in the scholarship, these are mostly centered on micro-level, grassroots initiatives and seldom touch upon large-scale collective action like state policy. These gaps in the literature, I argue, make it difficult to understand how a subject like economic policy and its role in development can be theorized and conceptually approached from the humanist perspective.

Chapter 3 builds on this argument by making the case that the humanist scholarship's relative neglect and theoretical ambivalence on economic policy has made it all too easy for conspicuous inconsistencies and ambiguities to emerge in the economic policy prescriptions presented in the practically-oriented literature, like the Human Development Reports and the Agenda for Sustainable Development.

The analysis begins by examining the positions on economic policy in the thought of Amartya Sen, who, in addition to his central position as the thought-leader and standard bearer of the humanist approach, also has the most clearly discernible views on the topic within the scholarship. This analysis focuses primarily, though not exclusively, on Sen's *Development as Freedom* (1999) because of its significance as a kind of manifesto for the humanist perspective. The policy prescriptions included in this work are, presumably, the ones Sen considered important enough to be included in a work of such political significance.

My analysis shows that, while Sen is clear and explicit in his prescriptions on issues related to what are generally considered 'social' policies (namely health and education), his positions on economic policy are more ambiguous and even, on occasion, contradictory or

misleading. On the one hand, Sen is unequivocal in his rejection of measures like austerity and anti-inflationary fundamentalism. On the other hand, although Sen recognizes the importance of industrialization as part of the policy package that has historically proved effective in enhancing development, the policies he recommends are limited to social provisions, health and education, while industrial promotion and production sector policy in general are neglected, even in his discussion of cases like South Korea, where such policies were central to industrialization. Though some of Sen's earlier works (*e.g.*, his Ph.D. dissertation on choice of techniques in development planning (Sen, 1966)) deal more explicitly with the question of industrialization, even there he is careful to include caveats against elevating his technical analysis to the level of policy prescriptions. Moreover, while Sen criticizes free-market fundamentalism with respect to some policy areas, like social services, when it comes to trade policy (a key dimension of industrial policy), his full-throated endorsement of 'open markets' errs closely toward an un-nuanced rejection of historically successful measures like tariff protections for infant industry promotion.

An analysis of the Human Development Reports and Sustainable Development Goals shows that the policy recommendations in this literature mirror and exacerbate the ambiguities in Sen's work, leading to recommendations of contradictory measures like "activist industrial policy" (UNDP, 1996, p.54), on the one hand, and the confinement of the state to the provision of social services and infrastructure, on the other (UNDP, 1999, p.64). Unlike some scholars who view these contradictions as a virtuous sign of flexibility in the humanist approach (Lengfelder, 2016), I defend the view that it is ethically and pragmatically imperative for scholars working in the humanist tradition to articulate a less agnostic stance on the relative desirability of different economic policy options, given how profoundly these can shape development. Chapter 4 aims to contribute to this objective by offering an answer to the question of what economic policy oriented toward the expansion of human freedoms and capabilities should look like.

To this end, Chapter 4 examines the policy options that have been put forth in recent decades as solutions to poverty, defined not only in terms of income, but also in terms of capabilities deprivation. I show that, while popular instruments like microfinance and cash transfers can help people cope with poverty, and while "social" policy solutions, such as the expansion of health and education services, can be effective long-term strategies for overcoming poverty by building personal and collective capabilities, none of these solutions

are sufficient due to two intertwined reasons. First, investments in human capabilities do not translate into increased income if people's skills cannot be productively deployed — that is, if there is insufficient demand for their productive capabilities (*i.e.*, work opportunities); and, second, sustained investments in policies like cash transfers and health and education services is untenable if countries lack the productive base (the collective productive capabilities) to sustainably generate the necessary income for such investments.

Based on an analysis of competing theories of trade as well as historical and statistical evidence, I conclude that the twin challenges of generating demand for individual productive capabilities, on the one hand, and building the collective productive capabilities at the national level to make competitive, income-generating products, on the other, cannot be surmounted without the use of industrial policies. Therefore, just as Sen takes strong stances against anti-deficit fundamentalism and in favor of the public provision of education, humanist scholars should defend industrial promotion as a key component of poverty reduction and sustained capability expansion. This entails either rejecting or taking a more nuanced and critical stance on some of the positions that have been endorsed in some of the human development literature, like open trade and a limited role for state institutions in the economic sphere.

Furthermore, I argue that, if policy is understood as a mechanism of collective action to solve collectively defined problems, then a humanist economic policy should be one in which the collective process of articulating and solving problems should be democratically pursued, as opposed to being concentrated in the hands of a few decision-makers. In this spirit, the final section of the chapter draws on historical and political economy literature on successful (and unsuccessful) industrialization and poverty-reduction experiences to offer guidance, not just to policy makers within state institutions, but to all people in developing countries seeking to productively engage in industrial policy design.

Part II. Ecuador's economic policies (2007-2017): a humanist assessment

Having discussed what economic policy for human development should broadly comprise, Part II uses the normative framework developed in Part I to evaluate Ecuador's economic policies under the Correa administration.

Chapter 5 presents the key historical and contextual features necessary to understand the significance of Ecuador's economic reforms in the 2007-2017 period and explains how the evaluative framework developed in Part I was specified for the case study. Following the methodological guidelines put forth by Ibrahim (2014, p.16-18) and Robeyns (2003; 2017), I explain and justify the selection of three central human capabilities for our analysis: health (the capability to live a healthy life), education (the capability to pursue a quality education) and work (the capability to engage in decent and fulfilling work).

Chapter 6 then examines how each of these capabilities was impacted by Ecuador's economic reforms. Although, on balance, I find generally positive results on each of these accounts, there are also some important limitations.

Ecuador's partial nationalization of the oil and mining sector and a host of creative macroeconomic, fiscal and regulatory reforms that broke sharply with the anti-deficit and free-market fundamentalism of the previous decades, enabled increased investments in the expansion of public health and education systems, with social spending overall doubling as a percentage of GDP from 2006 to 2016 (Weisbrot, Johnston & Merling, 2017). These reforms increased access to health and education for many who had been previously excluded and boosted purchasing power and access to decent work for Ecuador's most vulnerable people.

However, a closer analysis of these reforms shows mixed results, both in terms of effectiveness and in terms of the procedural aspects of policy implementation, which raise concerns about the ability of policy makers to effectively include stakeholders and their demands.

On the health front, the balance was largely positive. Ecuador's economic policies in the 2007-2017 made important contributions to expanding people's capabilities to live a healthy life by increasing the accessibility of health services, reducing costs, and—indirectly— by increasing the purchasing power of poorer Ecuadorians through cash transfer programs. Coverage and infrastructure were significantly expanded, infrastructure was updated, and policy makers undertook bold measures to cut drug costs, through mechanisms like regional pooled procurement and compulsory licensing to make the imports of generic pharmaceuticals more affordable. Less successful were the government's efforts to combine cost savings with industrial promotion through the creation of a state-owned enterprise developing local capabilities to produce essential drugs in the middle term. Moreover, the government's effort to reduce drug costs through compulsory licensing was

partially truncated by external pressures from the US and the EU, highlighting both the difficulties developing countries face in navigating restricted policy space around intellectual property in today's global economic order, and the need to deploy more creative measures, such as regional procurement, to reduce the power asymmetries inherent in economic relationships with global superpowers.

Furthermore, despite the importance of environmental health in human health, action on this front left much to be desired, perhaps most saliently in the disregard for the human health implications of investments in and regulatory measures for highly polluting and toxic industries (including certain types of agribusiness [*e.g.* flowers and biofuels], the infrastructure supply chain and petrochemicals).

While the shortcomings on the health front had to do more with missed opportunities than setbacks, an examination of the 'education' dimension of human development found more worrying results. On the one hand, the government funneled significant resources into the construction of new schools and higher education institutions, scholarship programs and the recruitment and training of new teachers. Ecuador's investment in higher education as a proportion of GDP rose to the highest levels in Latin America and above the average for OECD countries (Weisbrot, Johnston & Merling, 2017, pp. 6-7). Ecuador also improved mechanisms for quality control of the higher education systems to curtail prevalent scams in the for-profit sector.

However, the top-down design of some of these reforms proved to be counterproductive. For example, in the attempt to use resources more efficiently to achieve universal coverage in basic education, sometimes small rural schools were closed to divert resources to larger schools in the vicinity, allowing for greater economies of scale and, thereby, higher enrollment potential. For children living in areas with poor transportation infrastructure, however, the closure of their community school could effectively remove access altogether. Similarly, insensitivity to local ecological and cultural conditions led to the construction of high-tech 'Millennium Schools' in the Amazon with materials that were unable to withstand the climate; the schools had been built using a universal modular construction intended for the entire country with the intent of minimizing costs and maximizing coverage.

Chapters 6 and 7 discuss these and other examples of the limitations inherent in a top-down policy design process that in many cases failed to adequately engage relevant

stakeholders. These chapters show that positive economic policy reforms, like the creation and allocation of new resources to social investment, are by no means guaranteed to enhance the capabilities of the people they intend to support. In other words, they are necessary, but not sufficient for enhancing development.

The final central capability selected for analysis —the capability to pursue decent and fulfilling work— is analyzed in two moments. The last section of Chapter 6 zones in on the generally positive impacts of labor market reforms on workers' wages and rights, while Chapter 7 examines work in the context of Ecuador's industrial policy, understood as the set of measures oriented toward the construction of individual and collective productive capabilities.

Chapter 7 begins by laying out the framework for our assessment, building on theoretical discussions from Part I of this dissertation. I make the case that humanist assessments of industrial policy —*i.e.* assessments that are primarily concerned with the wellbeing of people as the ultimate objective of industrial policy— should evaluate industrial policy on the basis of its ability to fulfill two key functions in the expansion of human capabilities. First, the expansion of the crucial personal capability to pursue decent and fulfilling work and second, the expansion of a country's collective productive capabilities for productivity growth, understood as a *means* of financing the eradication of capability deprivations (poverty of capabilities). I conceptualize this second function of industrial policy as an 'indirect' contribution to enhancing personal capabilities and show that both the 'direct' and 'indirect' contributions of industrial policy to development entail policies that target 'personal' and 'collective' capabilities. These policies, I propose, can be best conceptualized through an intersectional lens that contemplates interactions between different policy areas including education, health, nutrition, training, industrial promotion and development finance.

The chapter then analyzes the 'indirect' contributions of industrial policy to personal capabilities by evaluating the extent to which Ecuador's industrial policy succeeded in enhancing collective capabilities for productivity growth, which, as explained in Chapter 4, is an essential requirement for financing the expansion of capabilities to overcome poverty, conceived both in terms of income and in terms of capability deprivation. I find that, notwithstanding substantial efforts at reconstituting state planning capacity, large-scale infrastructure investments to improve systemic productivity, and creative regulatory and

government procurement measures aimed at import substitution, the government's industrial policy was overall too slow and unfocused to be effective —constrained, in no small measure, by the persistence of misguided ideas about development that are skeptical of large-scale, targeted industrial promotion. The limitations of Ecuador's industrial policy hindered the country's capacity to attain a level of productive diversification that could have enabled it to achieve sustained growth and overcome its dependence on commodity exports and consequent vulnerability to the economic instability brought on by the boom and bust cycles of commodity markets. In the absence of these measures, the country's upward development trajectory —highly dependent on public investments sustained by income from oil and other commodities— was truncated.

Chapter 8 concludes with a synthetic analysis of the successes and failures of Ecuador's economic reforms and industrial policy in the 2007-2017 period. I argue that while Ecuador's economic policies enhanced the expansion of human capabilities in many meaningful ways, they also suffered from some serious limitations that can be grouped into three categories: (i) procedural shortcomings related to flawed stakeholder engagement; (ii) limitations on the scale of policy interventions due to insufficient consensus and externally imposed constraints on policy space; and (iii) failures of strategic vision related to the timing, resource-allocation and overall prioritization of policy objectives.

Overall, I conclude that (i) Ecuador's experience highlights the risks of seeing development policy as little more than a collection of measures for 'getting along with a little assistance' and underscores the need for developing countries to take more proactive structural measures in order to achieve sustained improvements in economic and human development; and that (ii) future attempts at implementing long-term development strategies in Ecuador must not only apply the policy lessons that can be gleaned from the the 20th century's successful industrializers, but also seek to innovate the kind of sharp and swift guerilla-like tactics developing countries increasingly need to deploy in order to navigate the ever-growing power asymmetries between them and industrialized countries.

Part I.

A Humanist Perspective on Economic Policy

Far out in the uncharted backwaters of the unfashionable end of the Western Spiral Arm of the Galaxy lies a small unregarded yellow sun.

Orbiting this at a distance of roughly ninety-two million miles is an utterly insignificant little blue-green planet whose ape-descended life forms are so amazingly primitive that they still think digital watches are a pretty neat idea.

The planet has —or rather had— a problem which was this: most of the people living on it were unhappy for pretty much of the time. Many solutions were suggested for this problem, but most of these were largely concerned with the movements of small green pieces of paper; which is odd because on the whole it wasn't the small pieces of paper which were unhappy.

And so the problem remained; lots of the people were mean, and most of them were miserable, even the ones with digital watches.

— Douglas Adams, *A Hitchhiker's Guide to the Galaxy*

Chapter 2.

From 'Growth' to 'Human Flourishing': The Value of the Humanist Approach to Development Analysis and its Limits

Introduction

In this chapter, I explain why I have chosen the normative perspective of human development to assess Ecuador's economic policy. I do this by making the more general case that there are good reasons to evaluate economic policies in terms of how they contribute to human flourishing — the expansion of human freedoms and capabilities — rather than only in terms of their contributions to income-centered, 'instrumental' objectives like growth.

This shift in normative outlook, advanced by the human development and capabilities scholarship (henceforth HDC)⁸, is a crucial contribution to development analysis and it is as relevant for the study of economic policy as it is for the study of the 'social' policy areas (*e.g.*, health and education) to which it is conventionally applied. Moreover, the human development approach can serve as much more than a set of metrics for evaluating policy 'outcomes' through proxies like the Human Development Index or measures like 'Capability Indices.' It can also be productively used to guide and evaluate the design and implementation of economic policies and the processes of social and economic change they engender.

However, there are two shortcomings in the HDC that limit its usefulness for these purposes.

⁸ Although there are differences between the 'human development' and 'capabilities' approaches (see Robeyns, 2017 for an extensive discussion), I group them together because of their common 'humanist' normative perspective: the idea that development should be assessed by examining whether or not human freedoms and capabilities are being expanded. I sometimes refer to the 'human development' approach alone because it is more closely associated with policy spheres, but it should be understood to overlap with streams of the capabilities approach in terms of normative outlook.

First, the human development scholarship has only given peripheral attention to economic processes that are not merely 'means' but 'ends' in themselves, such as the expansion of people's productive capabilities — their capabilities to engage in fulfilling work. I review the HDC scholarship on this topic and identify how a concept of human productive capabilities could be strengthened by drawing more heavily on some of the intellectual roots of the approach: the ideas about work, creativity and fulfillment in classical liberal thought, Smith, and Marx.

Second, the HDC approach does not provide conceptual tools for understanding the relationship between individual (personal) human freedoms and systemic, structural processes. Consequently, it is not helpful for theorizing how systemic dynamics can be changed to expand individual freedoms and remove unfreedoms (like poverty). The absence of a theory of systemic change in the HD approach limits its utility as a guide for people seeking to make choices about effective action to expand their personal freedoms. This shortcoming is particularly problematic for understanding the role of policy, which is one important modality of collective action for systemic change, mediated through state institutions.

2.1 Why use a humanist concept of development to guide economic policy?

The significance of the humanist turn in development theory

2.1.1 Growth and its discontents: the motivation behind the humanist turn and its challenge to welfare and development economics

Amartya Sen's *Development as Freedom* (1999) consolidated the 'humanist turn' in development theory that has marked 21st century development thinking, not only within academic spheres, but also in influential intergovernmental spaces, like the United Nations, where the Human Development approach, largely inspired by Sen's work, has come to dominate development analysis and policy discussions.

The shift toward a human-centric perspective on development began decades earlier in the basic needs literature and in welfare economics debates on the possibility of understanding welfare on the basis of non-utility information (Basu & López Calva, 2011). Driving these strands of scholarship was a common dissatisfaction with the almost fetishistic

focus on utility, income and growth in standard analyses of welfare and development. Critics observed that taking an income-centered approach as the basis for normative assessment often misled us into focusing on the 'means' of development, sometimes at the expense of its ultimate 'end': human wellbeing.

Humanist critiques have taken different forms in welfare economics and development economics, respectively. We analyze these in turn.

The humanist challenge to welfare economics: wellbeing beyond utility

Within welfare economics, humanist critics zoned in on the narrow concept of wellbeing in traditional economic theory, where welfare is understood as the 'utility' derived from the consumption of commodities and where the welfare of a society can be judged by plugging in information about the utility levels of individuals in different kinds of aggregate social welfare functions (Basu & López-Calva, 2011, p.153).

Taking a perspective that overlaps with the basic needs approach, Rawls challenged the primacy of 'utility' as a normative concept by proposing to replace it with a set of primary 'goods' (broadly defined) deemed essential for human wellbeing. Rawls' "primary social goods" are those that "every rational man is presumed to want," including "rights, liberties and opportunities, income and wealth and the social bases of self-respect" (Rawls, 1971, p.62; Meeks, 2018, p.25). Following Rawls, Basu and López-Calva (2011, p.161) identify five groups of primary goods: (a) basic liberties, (b) freedom of movement and choice of occupation, (c) powers and prerogatives of offices and positions of public responsibility, (d) income and wealth; and (e) the social bases of self-respect.

Sen, in contrast, was dissatisfied by the goods-based analysis because of its indifference to the heterogeneity of needs of different individuals. A person with a disability, for example, would require a qualitatively and quantitatively different set of goods than a person without a disability in order to achieve a similar level of 'flourishing' or, in Sen's language 'functioning' (Meeks, 2018, pp.25-8). Moreover, different people value different functionings differently and require different kinds of goods (means) to achieve those functionings (ends). Thus, Sen's theory defines wellbeing not in terms of access to some essential set of goods and the utility derived therefrom, but in terms of people's actual freedoms —or "capabilities"— to achieve the particular functionings ("being and doings")

they "have reason to value" (Sen 1999, pp.74-6). Nussbaum's (2003) framework stands between Sen and Rawls, by proposing a list of central capabilities deemed of universal interest to human beings, while Sen prefers to withhold judgment on which capabilities are 'necessary' for human flourishing for fear of falling prey to a paternalism that would violate the liberal spirit of his theory (we return to this discussion in the next section).

Despite these prolific theoretical exercises, however, there has been little effort to explore the implications of this normative shift for other branches of economic theory that are concerned with questions of wellbeing, such as development economics. This does not mean that development economics has not been subject to criticism from the humanist perspective. In fact, Sen's most influential work, *Development as Freedom*, is in no small measure an indictment of development economics for its focus on growth and industrialization ('means') over the expansion of freedoms ('ends') (Sen, 1999, p.3). This perspective, Sen proposes, is partly to blame for the dehumanizing "blood, sweat and tears" (BLAST) approach to development that marked some of the prominent 'development' experiences of the 20th century (Sen, 1997). But, while there is a great deal of truth to Sen's critique, this assessment of the field is too simplistic.

The humanist challenge to development economics: beyond the 'means' and 'ends' distinction

If interpreted superficially, Sen's critique of development economics can mislead us into a strawman assessment of development economics. The most important limitation in the field's normative outlook is not that it mistakes 'means' (growth, industrialization) for 'ends' (wellbeing). While some development economics scholarship may fetishize growth or industrialization, most works acknowledge, either implicitly or explicitly, that the 'end' of development is the improvement of 'living standards' (wellbeing). Growth and industrialization are understood as a means to that end because of the theories of change that underpin the discipline: both orthodox and heterodox development economics see income growth as a means of acquiring the necessary commodities to raise living standards; approaches grounded in classical development theory see industrialization as the crucial means for increasing productivity and income. We return to this in section 2.3, but for now suffice it to say that the problem with development economics is *not* a conceptual confusion between 'means' and 'ends'. Rather, the problem with the discipline's normative basis lies in

its failure to articulate a clear and substantial concept of 'living standards' that could operate as a standard normative concept of 'development'.

This problem would be easy to solve: there is no reason why 'living standards' could not be defined in terms of 'capabilities' (also a vague category in and of itself), thereby giving development economics access to a wealth of theoretical and conceptual tools that underpin this concept and its practical application (more on this in section 2.1.2). However, in the absence of a clear concept of 'living standards' as a normative guide, the concept tends to be approached intuitively. Sometimes this leads to considering dimensions like health and education, but for development economists intuition mostly leads to measuring living standards in terms of income levels, which, in line with the neoclassical tradition and its utilitarian roots, is a measure of people's capabilities to access goods from which they can derive utility. In other words, development economics —like the rest of the economics discipline— has not quite managed to transition to a theoretical concept of welfare whose normative basis goes beyond utility and, thus, income growth continues to be seen as the defining feature of development: a fundamental necessary (if not sufficient) condition for 'development'; a 'means' to a nebulously defined 'end'.

In fact, although the sub-discipline of development economics is marked by a wealth of critiques of different aspects of orthodox economic theory, it has paid relatively little attention to the humanist critique of *utility* in welfare economics.

There are historical reasons for this. 'Development' scholarship was not borne out of the welfare economics tradition, but rather as an intellectual response to the economic problems of 'poor countries', theoretically rooted in reactions against post-classical economics, which, in its efforts to formalize the discipline, had abstracted away too much of economic reality with assumptions about 'perfect knowledge', 'perfect competition', 'efficient markets' and 'self-seeking, utility-maximizing behavior'. Through some classical development economists (*e.g.*, Prebisch, 1950; Hirschman, 1958), took particular issue with assumptions about perfect competition and efficient markets, with profound implications for their understanding of the legitimate scope of state action in economic management, neoclassical assumptions about self-seeking behavior, understood through the lens of utility, were not subject to the same level of systematic scrutiny, facilitating the persistence of a view in which the objective of development was often reduced to the expansion of people's ability to consume.

Motivated by the concern of expanding consumption capacity —particularly for poor people— the classical development economists focused on questions of how states could achieve capital accumulation for technological change, industrialization and, with it, per capita growth (Hirschman, 1958; Lewis, 1954; Myrdal, 1957; Prebisch, 1950). These processes were generally understood to be a means to the 'end' of increasing living standards, but the relationships between 'growth' and 'living standards', or 'living standards' and a broader concept of 'wellbeing' were not extensively examined. Rising living standards, it was often assumed, would be the natural byproduct of increasing per capita income through industrialization. Even the now trivial observation that per capita growth need not translate into higher incomes for the most deprived was not so obvious. Reflecting on the 'third stage' of his thinking on development, Raul Prebisch writes,

Up to this stage, I had not paid sufficient attention to the problem of income disparities, except in the case of the outdated land tenure system. Nor had I paid enough attention in the early ECLA years to the fact that growth had not benefited large masses of the low-income population, while at the other extreme of the social structure high incomes flourished. Perhaps this attitude of mine was a remnant of my former neoclassicism, which assumed that growth in itself would eventually correct great income disparities through the play of market forces (Prebisch, 1984, p.181).

The spirit of Prebisch's self-critique was reflected in the evolution of classical development economics, which gradually expanded its analytical scope to include issues like poverty, inequality, employment and labor standards and how these relate to processes of growth and industrialization. This allowed for a broader assessment of living standards than was possible with the blunt instrument of per capita GDP or through measures of manufacturing value added as a share of GDP.

Increasingly, development economists have also taken on the challenge of 'humanizing' economics by creating new normative concepts to capture the relationship between the so-called 'social' dimensions of development (*e.g.* health, education, inequality, sustainability, job creation) and the 'economic' dimensions of growth and industrialization. Some economists have even incorporated these dimensions into expanded metrics (Costanza, et. al, 2009; Stiglitz, Sen & Fitoussi, 2009). Let us examine two notable innovations in this

vein to understand why, despite their important contributions, they are still less useful for holistic economic policy analysis than the concept 'human flourishing'.

First, there is the concept of 'quality of growth'. A fixture in contemporary discussions on new metrics of development, the point of this concept is to call upon us to normatively evaluate growth, not only in terms of 'quantity' but also in terms of 'quality.' In the words of the 1996 Human Development Report, we must ask whether growth is "genuinely serving human development," "advancing people's human security, freedom and empowerment," "promoting equity today and between generations," and respecting "nature and its life-supporting functions." (UNDP, 1996, p.43).

The concept of 'quality of growth' calls into question the idea that growth is unambiguously 'good.': its 'quality' depends on whether it contributes to different dimensions of wellbeing. In fact, although proponents of the concept may still see growth as 'means to the end' of promoting wellbeing, the concept of quality of growth implicitly acknowledges that growth is *not always* a 'means' to the desired 'end' and may, in some cases, be antithetical to it. Two obvious examples are growth led by investments in oil exploitation in the face of climate change and growth arising from war spending. In sum, the concept of quality of growth allows us to take a critical perspective on growth that is achieved at the expense of human freedoms and wellbeing and motivates us to think about how growth can expand them instead. This is a valuable contribution to growth analysis.

But how useful is 'quality of growth' for assessing whether policy measures (including economic policies) contribute to wellbeing through mechanisms that are not contingent upon — or even associated with — positive growth?

Take for example, minimum wage regulations, which have an ambiguous effect on growth. They may increase growth through the multiplier effect or detract from it if this effect is outstripped by decreasing investment and increasing unemployment. Even in cases where the effect on growth is negative, if it is associated with limited job loss (or other downsides), there would be a good case for seeing such regulations as contributing to wellbeing because of their benefits for workers. Similarly, regulations on CO₂ and toxic emissions may lead to a negative growth effect through disinvestment in fossil fuel industries, but this effect would likely be outstripped by positive development outcomes, such as improvements in health and cognitive capabilities, arising from better environmental quality (not to mention the fact that declines in fossil fuel investment can be compensated through

investment in clean energy). If we want to do *development* analysis — rather than merely *growth* analysis — we need a broader normative concept than 'quality of growth.'

A more recent conceptual innovation arising from the development economics scholarship is the redefinition of development as "a process of production transformation" that is "led by the expansion of collective capabilities and resulting in the creation of good quality jobs and sustainable structural change" (Andreoni & Chang, 2017). Behind this concept, there is a clear intent to imbue classical development theory with a humanist sensibility, as well as a direct challenge to neoclassical development theory for its obstinate attachment to a view of the economy as a black box of abstract market transactions rather than as a concrete system of production and exchange.

Like the concept of quality of growth, this concept of development as "production transformation" seeks to endogenize the social dimensions of development (in this case, quality jobs and capabilities) into a fundamentally 'economic' concept (in this case, production). Like quality of growth, this approach is valuable for analyzing economic processes through a more human-centric normative lens. Moreover, the focus on productive capabilities and quality jobs raises the profile of an important 'end' of development whose benefits are not reducible to income and which has been largely ignored (even by many of those who talk about 'quality of growth'): fulfilling work (I expound on this in section 2.3). In the spirit of the humanist critique of welfare economics, this conceptual innovation moves the discipline away from the utilitarian bias, which also remains implicit in the concept of 'quality of growth'. From this perspective, the contributions of measures like minimum wage regulations for wellbeing are more easily visible than from the perspective of (quality of) growth.

However, the concept of development as "production transformation" has its own limitations when applied to development analysis of (economic) policies. As Chang and Andreoni point out, "[h]uman capabilities and production capabilities are hardly separable. This does not mean that they are one and the same. There are a number of valued 'beings' and 'doings', as described in Sen's [capabilities approach], that are not immediately related to production" (Andreoni & Chang, 2017, p. 178). To give due attention to these other 'beings' and 'doings' in development analysis, it remains necessary to start from a foundational concept of development that, while allowing room for economic dimensions like growth and production, does not reduce development to these dimensions. For example, a policy like

universal childcare may contribute to expanding children's cognitive capabilities, which would likely expand their productive capabilities, but it would also enhance their capabilities for engagement in a range of other fulfilling activities outside the sphere of production, such as their ability to understand, and participate in, civic or community activities. Only a concept of development as broad as 'human flourishing' or 'capabilities' allows us to value the latter on par with the former.

Readers might note that it would, of course, be possible to use a different concept than 'human flourishing' or 'capabilities' for normative purposes, so long as its breadth allowed sufficient room for all the dimensions of human wellbeing ('ends') we might have reason to value. In fact, the concept of 'wellbeing' itself has gained traction in recent years, particularly in 'first-world' policy analysis (Gurría, 2019; Alexandrova, 2017; Fox, 2012; Stevenson & Wolfers, 2008). However, there are good reasons to believe that, despite its own limitations, the concept of human flourishing, as conceptualized in the human development and capabilities (HDC) scholarship, is the most helpful available concept of the 'ends' of development for the purpose of (economic) policy analysis.

I discuss these reasons in the next section.

2.1.2 Human flourishing, freedom and capabilities: the value of a richer, more flexible and more empirically grounded normative concept of the 'ends' of development

So far, I have discussed the motivations behind the humanist critiques of standard approaches to development analysis. These are centered on the limitations inherent in a utility-based normative gaze — namely (i) the exclusion of dimensions of wellbeing that cannot be reduced either to income or commodities; and (ii) the risk of valuing dimensions like income or growth as inherently positive even when they are at odds with other (possibly more meaningful) dimensions of wellbeing.

However, humanist critiques also have a constructive side to them, which is reflected in their proposals for alternative concepts of the objectives ('ends') of development. In this section, I argue that Sen's concept of 'human flourishing' —and the closely related concepts of 'expansion of freedoms' and 'expansion of capabilities' —help to overcome the central limitations of the normative concepts usually employed in development economics —namely the lack of conceptual development of the concept of 'living standards' and the consequent

tendency to drift toward 'income' as a proxy (2.2.1). I also argue that empirical sociological and psychological work on 'subjective' wellbeing and development shows that there is some level of universality in humans' understanding of what constitutes a fulfilling life and this understanding is largely consistent with the concept of 'human flourishing.' This accounts in part for the broad, intuitive appeal of Sen's ideas, which draw upon a rich intellectual tradition spanning more than two millennia, to theorize the nature of human motivations and aspirations.

The conceptual wealth of the human flourishing tradition

Few would argue that the idea of 'living standards' is less compelling as a concept of human aspirations than the concept of 'human flourishing'. Although there is no reason why 'living standards' could not be conceived in terms of 'human flourishing', due to culturally prevailing associations the former evokes mostly images of material wellbeing, while the latter inspires broader ideas about self-realization, pursuit of one's passions and a fulfilling life. It is no wonder, then, that some version of 'human flourishing' is part of the intellectual histories of societies across the world, from Aristotle's 'good life' to the Andean concept of *Sumak Kawsay* or *Sumak Qamaña*.⁹ Keeping to the so-called 'Western' intellectual tradition,¹⁰ Sen himself draws upon the work of a range of authors that explored some version of the concept over the course of more than two millennia, from Karl Marx to Adam Smith, all the way back to Aristotle (Meeks, 2018). In fact, Sen, as well as basic needs scholars, saw their work partly as an effort to rescue the 'human flourishing' tradition from the shadow of utilitarianism, which, to borrow Meeks' (2018) metaphor, had dominated 'intellectual markets' for generations (Meeks, 2018, p. 23).

Because of its grounding in a long and prolific intellectual history, the concept of 'human flourishing' comes to us with a range of useful conceptual tools for analyzing the 'ends' of development.

For example, the very idea of 'human flourishing' is a translation of Aristotle's concept of 'eudaimonia' — a concept of happiness that contrasts with its hedonic counterpart (implicit

⁹ See Chapter 6.

¹⁰ This is unfortunate but I do this because of (i) space; (ii) communicational pragmatism: because ideas from this tradition are more broadly taught and, therefore, more intelligible to wider audiences

in utilitarianism) by refusing the equivalence between happiness and pleasure. Instead, eudaimonic happiness is the product of a good life — a life in which human beings have and exercise their capabilities to 'flourish'. This entails being able to function in a 'human' way, which for Aristotle involves not only a biological dimension, but also the capacity to reason, to make choices (what sets humans apart from other animals), and to participate in political life (Basu & López-Calva, 2011, pp.156-7). This discussion is the foundation of Sen's conception of 'development,' 'freedom' and 'human flourishing' as the 'expansion of capabilities' to achieve 'functionings' ('beings and doings') that human individuals have reason to value (Sen 1999, pp.1-5, pp.74-6). Sen systematizes the relationship between these concepts as follows, adding a certain practicality to Aristotle's conception:

The concept of 'functionings, which has distinctly Aristotelian roots, reflects the various things a person may value doing or being. The valued functionings may vary from elementary ones, such as being adequately nourished and being free from avoidable disease, to very complex activities or personal states, such as being part of the life of the community and having self-respect.

A person's capability refers to the alternative combination of functionings that are feasible for her to achieve. Capability is thus a kind of freedom: the substantive freedom to achieve alternative functioning combinations (or, less formally put, the freedom to achieve various lifestyles). For example, an affluent person who fasts may have the same functioning achievement as in terms of eating or nourishment as a destitute person who is forced to starve, but the first person does have a different "capability set" than the second (the first *can* choose to eat well and be well nourished in a way the second cannot) (Sen 1999, p.75).

As noted by Meeks (2017, p.1065), in this framework the concept of 'freedom' becomes a necessary addition to the concept of 'capabilities' in order to prevent capabilities from being valued at the expense of substantive freedoms. For example, if a person is force-fed, certain capabilities may be expanded, but their freedom to choose whether or not to be fed is violated.

Aristotle also provides guidance on what the realization of *eudaimonia* may require from systems of government. "The best political arrangement," he argues, is one in which political planning is oriented toward the distribution of the conditions for a good life to the people of the city (Basu & López-Calva, 2011, p.156).¹¹ Sen proposes more specifically that public policy "to foster human capabilities and substantive freedoms in general can work through the promotion of five "distinct but interrelated instrumental freedoms": (i) political freedoms, (ii) economic facilities, (iii) social opportunities, (iv) transparency guarantees, and (v) protective security. In both cases, however, there is relatively little guidance on how these 'instrumental' ends can be pursued. This is a weakness of the human flourishing tradition to which we return to in section 2.3.

Another important source of theoretical tools in this tradition is Adam Smith. Smith's ideas about wellbeing, like Aristotle's, are rooted in his conception of human nature, which, in contrast to contemporary economics, he sees as fundamentally gregarious and full of empathic, rather than selfish, inclinations. Smith drew on the classical liberal tradition, in which 'wellbeing' was understood through a metaphysical lens as the expression of essential human nature. For Smith, human "comfort and happiness" was dependent partly on health, fortune, rank and reputation (Smith, 1759/2017, p.112), but also on "the pleasure of mutual sympathy," (Smith, 1759/2017, p.4) itself rooted in an inherent altruism whose breadth and intensity, in Smith's account, borders on the ironic:

[...] our good-will is circumscribed by no boundary, but may embrace the immensity of the universe. We cannot form the idea of any innocent and sensible being, whose happiness we should not desire, or to whose misery, when distinctly brought home to the imagination, we should not have some degree of aversion. The idea of a mischievous, though sensible, being, indeed, naturally provokes our hatred: but the ill-will which, in this case, we bear to it, is really the effect of our universal benevolence. It is the effect of the sympathy which we feel with the misery and resentment of those other innocent and sensible beings, whose happiness is disturbed by its malice (Smith, 1759/2017, p.125).

¹¹ See Aristotle's *Politics* (mainly VII.1–2)

Smith also echoed the classical liberals' concerns with the role of thoughtful and creative activity in human flourishing. In his *Wealth of Nations*, he laments the dehumanizing effects of the division of labor, arguing the need for governments to "take some pains" to counteract its effects on workers, whose confinement to repetitive, unstimulating tasks would render them "incapable of relishing or bearing a part in any rational conversation [...] of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life" (Smith 1776/2009, p.603). Much like Aristotle, Smith sees wellbeing as the expression of this complex, creative, rational and sympathetic human nature and 'the government' as partly responsible for creating the conditions for its expression.

Although Sen mostly abstains from discussions about policy implications (see Chapter 3), he picks up Smith's line of thinking on 'human nature', drawing on concepts like his notion of 'sympathy' to give an alternative account of human motivation. "We do not need to be Nelson Mandela," he says, "to recognize that we have different aims than our own wellbeing" (Sen, 2009, in Meeks 2017, p.1056). In choosing non-self-interested goals (like social justice) "it is the power of reason that allows us to consider our ideals and responsibilities as well as our interests and advantages" (Sen, 1999, in Meeks, 2017, p.1057).

One could draw upon many other useful elements from the classical liberal tradition to form a conception of 'human flourishing', such as Humboldt's ideas about the need for an education in which learning is driven by one's autonomous interests and creative pursuits (rather than by arbitrary authority) (Humboldt, 1792/1854, pp.65-71), and the need for creative autonomy in one's work:

“[...] man never regards what he possesses as so much his own, as what he does; and the labourer who tends a garden is perhaps in a truer sense its owner, than the listless voluptuary who enjoys its fruits...In view of this consideration, it seems as if all peasants and craftsmen might be elevated into artists; that is, men who love their labour for its own sake, improve it by their own plastic genius and inventive skill, and thereby cultivate their intellect, ennoble their character, and exalt and refine their pleasures. And so humanity would be ennobled by the very things which now, though beautiful in themselves, so often serve to degrade it [...] Whatever does not spring from a

man's free choice, or is only the result of instruction and guidance, does not enter into his very being, but remains alien to his true nature; , and is, indeed, effected by him, not so much with human agency, as with the mere exactness of mechanical routine (Humboldt, 1792/1854, pp.28-9).

Similar reflections are present in Marx's (1844/2009) work on 'alienated' vs. 'emancipatory' labor, which goes beyond the contemporary concept of 'decent' work by making the stronger normative claim that work should not only be free from abusive and unhealthy conditions, but should also — in the spirit of 'human flourishing' — provide an avenue for self-realization.

Though one could expound endlessly on the wealth of conceptual tools that become available when we take 'human flourishing' as our guiding normative concept in development analysis, the scope of this dissertation does not allow it. The examples I have given, however, provide a window into the contributions of this intellectual tradition and its potential for expanding our normative gaze well beyond concepts like 'income' and 'growth' and narrow understandings of 'living standards.'

Subjective wellbeing and the empirical foundations for the human flourishing approach

In addition to its depth, breadth, flexibility and intuitive appeal, there is another good reason why 'human flourishing' makes sense as a normative concept of 'the ends' of development: it is consistent with a wealth of empirical work that has been conducted in recent decades on the nature of human aspirations and sources of 'happiness' (variously understood).

In what can be interpreted as a leap from the metaphysics of human nature in classical liberalism to a properly scientific approach, contemporary psychological and sociological studies on 'subjective' and 'psychological' wellbeing and happiness (Hirai, 2018)¹², as well as empirical studies on people's conceptions of 'poverty' (Clark, 2002), provide an avenue for thinking about development beyond the scope of concepts inherited from primarily philosophical traditions, which —for all their good intentions— conspicuously neglect to ask real human beings what they value.

¹² See Hirai (2018) for a review.

Fortunately, the intuitions of the non-empirical 'human flourishing' tradition are largely corroborated by these works. Take, for example, the body of work on Self-determination Theory (SDT), which, inspired by Aristotle's concept of eudaimonia, seeks to understand people's goals, the processes through which they pursue them and their relationship to wellbeing.

In order to understand the content of goals, SDT examines values associated with goals in relation to wellbeing outcomes and categorizes them into intrinsic and extrinsic. It finds that intrinsic goals (e.g. self-acceptance, affiliation, community feeling) are the goals that foster growth towards a thriving way [*sic*] and thus typically promote well-being, whereas extrinsic goals (e.g. financial success, fame, image) are the goals that foster excessive ego involvement and social comparison and thus typically undermine wellbeing (Kasser and Ryan 1993; Grouzet et al., 2005). Although some extrinsic goals are surely important to a certain degree, when they become stronger than intrinsic goals well-being is worsened (Vansteenkiste et al., 2008). This pattern has been found in people of a wide range of ages (Sheldon and Kasser 2001; Vansteenkiste et al 2004) as well as in cultures regarded as both collectivist and individualist (Ryan et al., 1999; Schmuck et al., 2000; Grouzet et al. 2005) (Hirai, 2018, p.395).

In a view that would be wholly consistent with the human flourishing tradition, some scholars within SDT have identified three basic psychological needs — autonomy, competence and relatedness — as determinant for wellbeing or eudaimonia. These findings are also consistent with the Psychological Well-Being (PWB) scholarship, which identifies six 'contents' that constitute eudaimonia: self-acceptance, positive relations with others, autonomy, environmental mastery, purpose in life and personal growth (Hirai, 2018, pp.395-8).

Several aspects of these findings are relevant for development analysis.

First, the finding that wellbeing is closely associated with 'relatedness', 'positive relations' with others and 'community feeling' constitutes a scientifically-grounded challenge to the individualist image of human nature in the utilitarian tradition, including in economics. It also emphasizes the centrality of relations with others and belonging to a community for

'individual' or 'personal' wellbeing. This is very much in line with Smith's and Sen's ideas about sympathy in human nature.

Second, the importance that 'autonomy' appears to have across cultures is in line with the spirit of the classical liberal tradition and the concept of freedom in Sen. It bears noting that these concepts of freedom are substantive rather than formal: they are about people's abilities to pursue a life of purpose and personal growth rather than about being formally free from bondage or even about being 'free' to choose between starving and taking a degrading, abusive or highly dangerous work (Sen, 1999, p.8).

Autonomy in Self-Determination Theory is rooted in the idea of volition, which contrasts with heteronomy, where "one's actions are experienced as controlled by forces that are phenomenally alien to the self, or that compel one to behave in specific ways regardless of one's values or interests" (Chirkov et al. 2003, p.98, in Hirai 2018, p.401). Autonomy, in this sense, "involves fully endorsing actions in which one is engaged and/or the values expressed by them, thus following one's integrated sense of self (Deci & Ryan, 2000; Chirkov et al., 2003, and further corresponds to one's reflective capacity (Ryan, et al., 2003) which is required for eudaimonia" (Hirai, 2018, p.401). This resonates strongly with Marx's and Humboldt's ideas about autonomy, emancipation and self-realization.

The above contributions from the psychology of wellbeing provide not only empirical grounding and additional conceptual tools for the human flourishing perspective, but also a helpful perspective on the relationship between freedom and basic needs: from a psychological perspective, the freedom or capability to engage in meaningful functionings (such as relations with the community) is not only valuable as an 'end in itself' but also as a means for satisfying a basic psychological need. In this sense, psychological wellbeing studies are also instrumentally useful for those who might choose to follow Nussbaum's basic ('central') capabilities approach (or other basic needs approaches) rather than following a more empirical approach to identifying the capabilities different groups of people value on a case-by-case basis (through surveys, public deliberation, etc.) (Clark, 2002; Ibrahim, 2011; Frediani, 2007). Whether or not one subscribes to Nussbaum's view that certain 'universal' capabilities must be seen as fundamental entitlements whose satisfaction is a condition for minimal justice (Nussbaum, 2003), her list of ten central capabilities¹³ is still helpful, if

¹³ Appendix 1. Shows Nussbaum's 10 basic capabilities.

nothing else as a discussion tool for helping people in different concrete contexts think about which capabilities are valuable to them.

Psychological wellbeing scholarship speaks directly to many of these central capabilities. For example, the psychological 'basic needs' (self-acceptance, positive relations with others, autonomy, environmental mastery, purpose in life and personal growth) are reflected in (i) Nussbaum's 'emotions' capability, which is concerned with attachment, love, emotional development, and freedom from fear and anxiety;¹⁴ (ii) the 'practical reason' capability, which entails being "able to form a conception of the good and to engage in critical reflection about the planning of one's life" (this connects with autonomy and environmental mastery); (iii) the 'affiliation' capability, which connects with the psychological basic need for positive relations with others and self-acceptance (Nussbaum highlights the need for "social bases of self-respect and nonhumiliation") (Nussbaum, 2003, pp.41-2).

Finally, all the basic psychological needs are reflected in Nussbaum's capability for 'control over one's environment', which entails the ability to participate in political choices that govern one's life, including rights to free speech and association, as well as a 'material' dimension that involves being able to hold property, "the right to seek employment on equal basis with others; having the freedom from unwarranted search and seizure. In work, being able to work as a human being, exercising practical reason and entering into meaningful relationships of mutual recognition with other workers" (Nussbaum, 2003, p.42).

Despite its breadth, there is an important limitation in Nussbaum's list, which may also be invisible from Sen's perspective and from the psychological wellbeing approach: the role of 'work.' For Nussbaum, the 'work' capability has to do with the right to seek employment without being subject to discrimination and having reasoned, meaningful relationships with other workers. These are, no doubt, important parts of a fulfilling work experience, but this vision misses the importance people place on having the capability to choose from a variety of work options and to pursue productive activities that are purposeful and fulfilling to them, whether through 'employment' or through entrepreneurial pursuits of

¹⁴"*Emotions*. Being able to have attachments to things and people outside ourselves; to love those who love and care for us, to grieve at their absence; in general, to love, to grieve, to experience longing, gratitude, and justified anger. Not having one's emotional development blighted by fear and anxiety. (Supporting this capability means supporting forms of human association that can be shown to be crucial in their development.)" (Nussbaum, 2003, p.41-2).

their own. Our ability to fulfill these, in turn, is contingent upon our productive capabilities, which as I discuss in the next section and in later chapters, have both an individual and collective dimension.

Despite the shortcomings of the HDC approach, however, the contributions discussed in this section support its usefulness as a normative perspective for holistic development analysis. Taking a concept of human flourishing (or its variants, like 'expansion of freedoms and capabilities') as a normative basis for assessment certainly poses methodological challenges since 'freedoms' and 'capabilities' don't lend themselves easily to quantification. Yet, even where the need for practical action leads us to heuristics for measuring development through distant proxies, staying rooted in a broader concept of development helps us to bear in mind its guiding principles, and this can profoundly change the way we assess policy. For example, in chapter six I discuss how, from a growth or production standpoint, Ecuador's education policy, with its massive increases in infrastructure and 'human talent' investments, could hardly be seen as anything but a success, whereas from a human flourishing standpoint, the abrupt standardization of the curriculum, and the consequent dismissal of indigenous intercultural education, leads to a far less enthusiastic assessment.

Moreover, the HDC approach can serve as much more than a set of metrics for evaluating policy 'outcomes' through proxies like the Human Development Index, the Multidimensional Poverty Index, or sophisticated measures like 'Capability Indices.' It can also be fruitfully used to guide and evaluate the design and implementation not only of 'social' policies. but also of economic policies and the processes of social and economic change they engender. To apply the framework to economic policy analysis however, at least two of its limitations must be addressed: its treatment of productive capabilities and of collective action. The sections below outline a way forward.

2.2 Human productive capabilities as 'ends' in themselves: a pending task for the human development approach

One of the limitations of the human development and capabilities scholarship (HDC) for the purposes of economic policy analysis is the limited attention it has paid to human productive capabilities at both the conceptual and the empirical level. This is particularly limiting when

it comes to the study of economic policy, but it is also an important limitation from a human capabilities standpoint, given the prominent role that the core activity of the production process —work— plays in people's lives.

The claim that work is central to the lived experience of human beings hardly needs justification. For all but a small class of rentiers, work is the activity that occupies most of our waking hours. As Chang and Andreoni (2016) point out, "it is within the realm of production that human beings develop their identities as producers" (p. 178). One might go a step further to note that our identities as producers are a central part of our overall identity and, to borrow the language of Self-Determination Theory, play a determinant role in our sense of purpose and autonomy, our sense connectedness to other human beings on a daily basis, and our sense of 'mastery' over our environment. In short, the roles we play in the sphere of production are a central part of our sense of wellbeing and it is, therefore, somewhat striking that the humanist development literature has devoted so little attention to exploring what it means to 'expand our freedoms and capabilities' in relation to this sphere of human experience.

This is not to say that questions related to production have been completely absent from the HDC scholarship. On the contrary, such questions have been explored from several perspectives.

At the conceptual level, for example, we have already seen that prominent authors in the field, like Nussbaum, recognize the importance of capabilities associated with production to a certain extent. Nussbaum's ten central capabilities highlight the importance of being able to "seek employment on an equal basis with others," to "work as a human being, exercising practical reason and entering into meaningful relationships of mutual recognition with other workers" (2003, p.42). One could also easily draw connections between work, production and other capabilities highlighted by Nussbaum, such as "having the social bases of self-respect and nonhumiliation; being able to be treated as a dignified being whose worth is equal to that of others," and "being able to use imagination and thought in connection with experiencing and producing works and events of one's own choice" (2003, pp. 41-2). As pointed out by Comim (2014, p.142) Nussbaum (2006) goes so far as to make policy recommendations in this regard, arguing that "a major aim of public policy" from the capabilities approach should be "the transformation of the workplace, through new flexibility and new radical norms" that

counteract the effect that corporate structures, organizational culture and the pressure for profit have on workload and on workers' freedoms to flexibly allocate their time.

While Sen prefers not to propose a list of central capabilities and generally abstains from policy prescriptions, he also makes some clear assertions with regard to the relationship between freedom and labor. Sen strongly emphasizes freedom from labor bondage as an end in itself, juxtaposing this claim against a utilitarian perspective in which the desirability of freedom from bondage might be contingent on proving that such an arrangement would also raise productivity (see, for example Sen, 1999, pp.29-30). Reflecting on the plight of poor workers, Sen goes further to argue that economic "unfreedom, in the form of extreme poverty can make a person helpless prey in the violation of other kinds of freedom," such as the freedom not to pursue work under highly dangerous circumstances (Sen, 1999, p.8). He also reflects on questions of labor in discussions on adaptive preferences, where he points out that, while exploited workers (among other exploited people) can adapt to their condition to minimize negative impacts on their sense of wellbeing, this does not diminish the undesirability of their condition of exploitation or society's duty to address it (Robeyns, 2017, p.131).

Sen's and Nussbaum's reflections certainly leave enough room for rich conceptual and empirical explorations on the relationship between work, production, capabilities, freedom and wellbeing. Their use of concepts like 'imagination' on the one hand, and 'exploitation', on the other, would also connect easily to the long tradition of humanist reflections on work discussed in the preceding section (*e.g.*, in Smith, Hume and Marx). As Comim (2014) points out, however, perhaps due to the emphasis that the human development literature has placed on critiquing growth, related questions such as the generation of income through work have been all too easily neglected. The question of work remains, in his words, "an exciting field" in which research could be directed toward a better understanding how "beings and doings are shaped (and therefore, how they can be changed)" in the workplace (Comim, 2014, p.142).

Recent HDR scholarship has developed this line of inquiry. Bueno (2022), for example, builds on the classical economists' distinction between "productive" and "unproductive" forms of labor, which normatively assesses labor in terms of its contributions to wealth, and instead proposes a more "human-centered" distinction between "capability-enhancing labor" and "capability-reducing labor" at the individual and societal

level (p.354). However, a humanist perspective on work must examine, not just how workers' beings and doings are transformed in the workplace, but also how collective agency (including, but not limited to the agency of workers) needs to transform *the workplace itself* in order to expand workers' freedoms and, potentially, the freedoms of the broader population.

In this vein, building on on Timothy Weidel's (2018) proposal that Martha Nussbaum's list of central capabilities should be amended to include a capability for "meaningful labour", McGranahan (2020) argues that "meaningfulness in the workplace cannot be addressed without critically examining the formal ownership and management structure of businesses," and that "capabilities scholars and practitioners ought to encourage the proliferation of employee-owned and democratic businesses as a part of their human development strategy" (p. 389).

Beyond these questions of ownership structure and governance, a key question for development regards the *type* of production that takes place within the workplace: what kinds of technologies, products and services may need to be fostered to achieve structural transformation and economic resilience. This requires closer dialogue between the humanist approach and the scholarship of production in order to conceptualize what (collective and individual) human capabilities are required to transform production processes themselves. Chapter 4 tackles this task.

Moreover, this dialogue needs to be rooted in a more substantial notion of production than that used by economists like Atkinson (1995), who explore the relationship between capabilities and poverty in terms of how market structure and industrial organization affect market access and market exclusion, which in turn are seen as a 'capability' that can help a person escape poverty. This understanding of industry through the lens of market transactions—a hallmark of neoclassical economics—obscures the process of production itself, the way that people acquire capabilities to work and the way in which countries develop the 'industrial organizations' necessary to employ workers in the first place. A more useful approach for conceptualizing the relationship between capabilities and poverty can be found in Andreoni and Chang's (2016) concept of 'productive capabilities', which enables us to see much more than a person's ability to 'access the market', as in Atkinson's approach. The concept of 'productive capabilities' also provides a base for exploring work-related capabilities as an asset of central importance in people's daily lives. It allows us to elevate work-related

personal productive capabilities to the level of 'ends in themselves' — expansions of freedom —rather than allowing them to be subsumed into the category of 'means to ends' because of their close association with 'growth'.

Andreoni and Chang's concept of '*collective* productive capabilities' raises the important question of how to conceptualize the relationship between individual agency and collective agency in the expansion of freedoms, which remains somewhat unclear in the HDC literature.

The next section addresses this limitation and its ramifications.

2.3 The 'means' of development in the humanist approach: what role for collective action and systemic change in expanding individual freedoms?

In this section, I argue that the emphasis placed on individual agency in the human capabilities approach has both enlightening and obscuring effects on our conceptions of the 'means' of development (our theory of change). In particular, I argue that it obscures the role of collective action and the relationship between systemic change and individual freedoms.

Let us begin with the 'enlightening' effects, which have to do with the importance that the HDC framework gives to every individual's agency. As opposed to standard development economics frameworks, in which the actors of interest are either 'states', to whom policies are recommended, or abstract 'representative firms' or 'representative consumers' whose agency is essentially reduced to automatic reactions to price signals, the HDC approach seeks to highlight the value of the concrete human agency of all individuals. In the words of Sen, it sees individuals as "active agents of change, rather than as passive recipients of dispensed benefits" (Sen, 1999, p.xiii). In the next chapter I note that, paradoxically, some of the policy recommendations that arise from the HD literature cast individuals more as passive recipients and consumers than as proactive political and economic agents, but this is not a necessary consequence of the HDC conceptual framework, which indeed stresses not only the power, but also the responsibility (Sen, 1999) of individuals to be proactive in expanding their freedoms and capabilities. As Comim notes, although the HD approach recognizes the role of government "in the promotion of decent societies," it also "claims an important responsibility for ordinary citizens" and other civil society actors (Comim, 2014, p.214, p.152). In this

sense, the HD literature is heavily prescriptive in demanding both engagement in "public reasoning and active citizenship" (Comim, 2014, p.152) from individuals.

The explicit identification of individuals, governments and civil society actors as co-responsible in bringing about development is a valuable contribution to development scholarship, where agency —and hence responsibility— for development are usually ascribed almost exclusively to governments, obscuring the roles played by other actors in shaping, directing, promoting and often preventing policies and other measures that affect human freedoms.

However, the HD literature does not go as far as to fully theorize *how* these different agents can act to bring about development. In other words, unlike the development economics scholarship, which is centrally concerned with theorizing what kinds of actions (policies) are most effective in promoting 'development', HDC scholars seem to be apprehensive about developing a theory of change. This can be read as a reflection of a certain agnosticism pervasive in the HDC approach, which in turn stems from the belief that the roadmap for development should be designed by 'the people' to decide in deliberative processes. Without violating this liberal sentiment, I propose that humanist scholars can help inform deliberative processes by engaging in debates taking place in other streams of development literature about what measures are most useful for enhancing development. The next chapter explains what this might look like for the case of debates on economic policy.

For now, however, let us conclude by examining the key 'obscuring' side-effects of the HCA's emphasis on individual human agency.

One side-effect is a lack of a clear conceptual framework for understanding the relationship between systemic processes and individual freedoms — that is, for understanding how systemic or 'structural' processes expand or contract individual (personal) freedoms and what role individual or collective agency can play in shaping those processes. This lack of clarity is consequential because 'unfreedoms' such as poverty (to borrow Sen's language) have structural causes, and failing to understand these may lead to superficial responses. In fact, as I discuss at greater length in the next chapter, the treatment of the problem of poverty in the HDC literature often suffers precisely from this problem. This is evidenced by the enormous amount of attention given to measures that address the condition of poverty directly and immediately, such as cash transfers and microfinance, while ignoring measures that go beyond the immediate symptoms of the problem to attack its structural causes, such as

commodity-dependence and the absence of a robust productive base with its associated opportunities for good employment and entrepreneurial pursuits. This is why in Chapter 4 I argue that conditions like commodity-dependence can be best understood as structural constraints on the sustainable expansion of individual human freedoms and, furthermore, that overcoming commodity-dependence requires ambitious collective action, often through state institutions.

The second 'obscuring' effect of the HDC framework is the undervaluation of the role of collective agency in expanding freedoms. Ibrahim (2014, p.55) defines collective agency as "an exercise of expanding human freedoms whereby a group/or a collectivity seeks to pursue goals collectively that go beyond their individual wellbeing concerns," but one could also define collective agency as the collective effort to expand individual (and collective) freedoms. Regardless of the definition, the HDC approach has not given sufficient attention to the role of collective agency and collective action as a 'means' of development. Sen, for example, sees 'individual agency' as central to addressing human deprivations and laments that "the freedom of agency that we individually have is inescapably qualified and constrained by the social, political and economic opportunities that are available to us," but, even though he goes on to propose that we should "see individual freedom as a social commitment," he does not engage with the question of how that "social commitment" can be realized (Sen, 1999, pp.xi-xii). It is difficult to imagine any expansion of "social, political and economic opportunities" without a serious effort at collective action and it is, therefore, unfortunate that this dimension of the means of development has not been given a protagonic role in the HDC literature.

This is not to say that collective action as a means of development has been neglected, as evidenced by studies on collective agency in grassroots, community contexts (see, for example, Ibrahim, 2014) and by conceptual contributions such as that of D'Amato (2020), who builds on preceding analyses of the tensions between individual and collective freedoms in the capabilities approach to propose a "collectivist capabilityarianism" that includes collectives as inherently morally worthy. However, a deep analysis of the role of collective agency in large-scale efforts at systemic change, such as through economic policy, is a pending task. Further developing the role of collective agency would also allow us to address "collective freedoms" Platzky Miller (2018)— freedoms which only make sense in relation to a collective subject, such as 'policy freedom' (the autonomy the people of a given country

have to design legislation). This form of collective freedom is particularly important for development because policy is a powerful modality of collective action for achieving structural change — and because certain collective freedoms of developing countries, such as 'policy freedom', are so often the target of attack from more powerful countries and economic actors.

Independent of the question of 'collective freedoms', however, the fact remains that unless one subscribes to a theory of change in which all-powerful individuals can engender structural transformations in societal arrangements, the expansion of individual freedoms are contingent on collective action. The next chapters explore how collective action can direct economic policy toward the expansion of individual freedoms, through the construction of individual and collective capabilities.

Conclusions

The purpose of this chapter has been twofold. First, I have sought to defend the normative perspective of 'human flourishing' and the associated objectives of expansion of freedoms and capabilities, which characterize the 'humanist' development scholarship (the human development and capabilities approaches). I have argued that there are many good reasons to adopt a conception of the 'ends' of development rooted in the human flourishing tradition, including its holistic understanding of wellbeing, its rich conceptual toolbox and the empirical support provided by psychological and sociological studies of human needs and aspirations. I have also shown that, although some streams of development economics have moved toward more holistic normative perspectives on development that go beyond 'growth', even these innovative approaches remain rooted in the 'economic' sphere of human experience and are therefore not sufficiently broad to allow us to see how economic policy contributes to enhancing freedoms, capabilities and functionings that people value in 'non-economic' dimensions of their lives. Therefore, I conclude that the perspective of human flourishing is still the most useful vantage point for examining how economic policy affects 'development', broadly conceived.

The second aim of this chapter has been to point out two shortcomings of the humanist approach that limit its usefulness for development analysis, in general, and for the analysis of economic policy in particular. First, I have shown that the HDC literature has

largely neglected the role of human productive capabilities and I have argued that this is an important blindspot considering the central role of work and production in the human experience and in people's sense of fulfillment. Second, I have argued that, although the HDC literature has made an important contribution to discussions about agency in development by recognizing the power and responsibility of individuals — in addition to state and civil society actors— it has not elaborated a substantial theory of the 'means' that these agents can employ to enhance development (a theory of change). The absence of such a theory is reflected in an unclear conceptualization of the relationship between individual freedoms, systemic change and collective action.

In the following chapter, I show how these limitations have led to inconsistency and ambiguity in the economic policy prescriptions arising from the HDC approach in both the academic scholarship and in the 'practitioner' sphere, as reflected in the Human Development Reports and in the Millennium and Sustainable Development Goals. To overcome this inconsistency, I show how the HDC perspective could engage head-on with economic policy debates and take a clear stance on what economic policies are most useful for expanding human freedoms.

Appendix 2.1 Nussbaum's ten Central Capabilities (Nussbaum, 2003, pp.41-42)

1. **Life.** Being able to live to the end of a human life of normal length; not dying prematurely, or before one's life is so reduced as to be not worth living.
2. **Bodily health.** Being able to have good health, including reproductive health; to be adequately nourished; to have adequate shelter.
3. **Bodily integrity.** Being able to move freely from place to place; to be secure against violent assault, including sexual assault and domestic violence; having opportunities for sexual satisfaction and for choice in matters of reproduction.
4. **Senses, imagination, and thought.** Being able to use the senses, to imagine, think, and reason—and to do these things in a “truly human” way, a way informed and cultivated by an adequate education, including, but by no means limited to, literacy and basic mathematical and scientific training. Being able to use imagination and thought in connection with experiencing and producing works and events of one's own choice, religious, literary, musical, and so forth. Being able to use one's mind in ways protected by guarantees of freedom of expression with respect to both political and artistic speech, and freedom of religious exercise. Being able to have pleasurable experiences and to avoid nonbeneficial pain.
5. **Emotions.** Being able to have attachments to things and people outside ourselves; to love those who love and care for us, to grieve at their absence; in general, to love, to grieve, to experience longing, gratitude, and justified anger. Not having one's emotional development blighted by fear and anxiety. (Supporting this capability means supporting forms of human association that can be shown to be crucial in their development.)
6. **Practical reason.** Being able to form a conception of the good and to engage in critical reflection about the planning of one's life. (This entails protection for the liberty of conscience and religious observance.)
7. **Affiliation.** (A) Being able to live with and toward others, to recognize and show concern for other human beings, to engage in various forms of social interaction; to be able to imagine the situation of another. (Protecting this capability means protecting institutions that constitute and nourish such forms of affiliation, and also protecting the freedom of assembly and political speech.) (B) Having the social bases of self-respect and nonhumiliation; being able to be treated as a dignified being whose worth is equal to that of others. This entails provisions of nondiscrimination on the basis of race, sex, sexual orientation, ethnicity, caste, religion, national origin.
8. **Other species.** Being able to live with concern for and in relation to animals, plants, and the world of nature.
9. **Play.** Being able to laugh, to play, to enjoy recreational activities.
10. **Control over one's environment.** (A) Political. Being able to participate effectively in political choices that govern one's life; having the right of political participation, protections of free speech and association. (B) Material. Being able to hold property (both land and movable goods), and having property rights on an equal basis with others; having the right to seek employment on an equal basis with others; having the freedom from unwarranted search and seizure. In work, being able to work as a human being, exercising practical reason and entering into meaningful relationships of mutual recognition with other workers.

Chapter 3.

What is the human development stance in economic policy debates?

The need to move beyond ambiguities

Introduction

The aim of this chapter is to explain why scholarship inscribed in the humanist approach to development should take a clearer stance on the kinds of economic policies that are most conducive to expanding human freedoms and capabilities.

I do this by discussing the ambiguities and contradictions that mark the treatment of economic policy in the scholarly HDC literature and showing how these are mirrored in similar contradictions in the policy-oriented 'practitioner' literature —namely in the UN Human Development Reports, the Millennium Development Goals and in the Sustainable Development Goals. These documents oscillate between two opposite approaches to economic policy rooted in theoretically divergent views on how development can be achieved: on the one hand, a neoclassically-inspired approach that prescribes policies associated with passive adherence to comparative advantage and the 'structural adjustment' (henceforth SA) paradigm and, on the other hand, an approach rooted in classical development theory that prescribes proactive policies for industrial development and 'structural transformation of production' (henceforth STP). These paradigms are marked by divergent positions on fundamental debates in economic policy about the regulation of markets, the provision of public goods and the relevance of interventions directed at defying comparative advantage.

I conclude that, given the inconsistency between these two policy approaches, it is not possible to portray both as being similarly conducive to development: the only way one could portray mutually opposing economic policies as having the same effect on the expansion of

development is if one believed the expansion of development was independent of economic policy measures. This idea is not empirically supported.

HDC scholars should therefore take a clearer stance on which paradigm is most useful as a guide for agents of development seeking to engage in collective action to promote freedom-expanding economic policies.

3.1 Economic policy in the humanist development literature: the costs of ambiguity

This section discusses the ambiguities and contradictions in the way the humanist development literature has addressed questions of economic policy. I begin by addressing some of the prominent themes and narratives in the scholarly literature's treatment of economic policy issues before proceeding to discuss how the 'practitioner' literature—namely the policy-oriented work of influential intergovernmental organizations—has approached economic policy recommendations from the human development perspective and the associated paradigm of 'sustainable development'.¹⁵ Based on this analysis, I then show that the ambiguity and agnosticism in the scholarly literature has had a cost in practice: it has made it all too easy for the Human Development Reports, the Sustainable Development Goals and the Millennium Development Goals to portray directly contradictory policies as 'consistent' with the aims of the human development approach.

3.1.1 The limits of the 'GALA vs. BLAST' dichotomy

Many have noted that humanist development literature is marked by a thematic bias toward 'social' policies, particularly health and education, at the expense of policies more closely associated with the 'economic' sphere (Robeyns, 2017; Andreoni & Chang, 2016; Comim, 2014). Indeed, as discussed in Chapter 2, this bias has been recognized from within the HDC scholarship by leading voices in the field (Comim, 2014; Nussbaum, 2006). This does not mean, however, that matters of economic policy are altogether missing from the humanist development literature. In fact, as discussed below, the leading scholar in the field—Amartya Sen—has devoted a great deal of attention to economic policy questions throughout his

¹⁵ These two paradigms share the same principles and general aim. For a discussion on the overlaps and distinctions between these two, see Lengfelder, 2016.

career and his pronouncements on economic matters continue to set the tone in HDC scholarship, in which economic policy is a marginalized topic.

It is precisely the matter of the tone—in Sen's language "the attitude" (1997, pp.5-6)—toward economic policy that is somewhat problematic in HDC scholarship. More precisely, I argue in this section, the schema that Sen uses to classify the two dominant 'attitudes' toward development—BLAST ('blood, sweat and tears') vs. GALA ('getting along with a little assistance')—does not fully capture the fundamental distinctions between freedom-enhancing and freedom-detracting economic policies in practice.

In the 1990s, Sen famously introduced the 'GALA vs. BLAST' dichotomy as a way to characterize the shift from an "attitude" toward development that was all too willing to accept sacrifices like "low welfare, high inequality [and] intrusive authoritarianism" to achieve "development" in the future (1997, pp. 5-7). This "blood, sweat and tears" (BLAST) approach, he argued, was fortunately in the process of being displaced by an attitude that celebrated "people's agency and cooperation and the expansion of human freedoms and capabilities" (Sen, 1997, p.i). This second attitude, GALA, involved getting "a little help" from "interdependencies" in the market through trade, but also from public services "that make people more capable of helping themselves and others" (Sen, 1997, pp. 5-6).

The BLAST vs. GALA dichotomy made a valuable contribution by drawing attention to the problematic assumption, present in politically divergent streams of developing thinking (e.g., Soviet planning or trickle down economics), that painful sacrifices today are necessary for achieving "development" tomorrow. However, in drawing attention to this dichotomy, Sen also distracted attention from a different dichotomy of attitudes that is more consequential today, in a historical moment where there is little sympathy for BLAST and, therefore, little need to inveigh against it. This dichotomy, we propose, is between a 'passive' attitude toward development, which accepts adherence to comparative advantage and 'proactive' attitude that sees adherence to comparative advantage as a structural obstacle to development and recognizes the need for collective action (through the state or otherwise), in order to overcome it.

This dichotomy between a 'passive' and an 'proactive' attitude toward comparative advantage, as discussed in the next chapter, is rooted in theoretically divergent understandings of global trade and competition, but each of these attitudes is also tied to a

host of corresponding 'attitudes' —reflected in narratives— about other aspects of economic policy.

The 'passive' attitude is closely linked to the rhetoric of TINA —the idea that 'there is no alternative' to the structural adjustment (SA) policies of austerity, privatization, and deregulation that marked the Washington Consensus era and, despite a period of decline at the beginning of the 21st century, have continued to influence crucial policy decisions in developed and developing countries alike, from the 'Troika's' handling of the Greek crisis to the political backlash against the 'left turn' in Latin America.

By contrast, the 'proactive' attitude toward economic policy shares with GALA an appreciation for the role of publicly provided services, but goes beyond this. It is sympathetic to countercyclical policies (vs. austerity), suspicious of privatization, and partial to the use of regulations to accomplish collectively defined goals rather than merely the goals chosen by the 'the market.' When it comes to developing countries, this attitude crucially entails using the above measures as part of an industrial strategy aimed at defying commodity-dependence through structural productive transformation.

In fact, although the industrial policy dimension of the 'proactive' stance has traditionally been associated with developing-country problems, in the 21st century it has increasingly been featured in some developed-country 'attitudes' as well, ranging from 'Green New Deal' proposals in the United States,¹⁶ to industrial policy undertakings in Europe (European Commission, 2021). While the industrial focus of these activist attitudes may hark back to some of the classical development theory discussions that Sen associates with BLAST, it is practically impossible to find in them any traces of a 'sacrificial' tone that justifies any form of authoritarianism, suppression of freedoms or other kinds of suffering for the sake of 'long-term' results. Quite to the contrary, the 'proactive' attitude is rooted in a criticism of the undelivered 'long-term' promises of trickle down economics in the developed world, and —in the developing world— of the promise of eventual 'convergence' with rich countries, which stems from a particular interpretation of neoclassical growth theory (more on this in Chapter 4).

¹⁶ For example, all candidates for the 2020 Democratic party presidential nomination in the United States endorsed some form of 'Green New Deal', including industrial policy provisions. Ohio Congressman Tim Ryan put "national industrial policy" at the center of his bid for the Democratic Party presidential nomination, including the creation of a Chief Manufacturing Officer position. Since then, industrial policy has become an increasingly important feature of U.S. domestic policy (see Tucker, 2021).

This dichotomy of attitudes between 'passive' and 'proactive' economic policy is much more relevant than BLAST vs. GALA when it comes to making sense of the different trajectories that countries have followed in the late 20th and early 21st century. As I discuss in Chapter 4, choosing one over the other has led to sharply contrasting human development results. Precisely because of the practical historical relevance of this dichotomy, it is unfortunate that Sen, as the leading voice of the humanist development scholarship, has not taken as clear a stance on this debate as he has on BLAST vs. GALA.

This is not to say that one cannot infer a position from Sen's works. The problem rather is that —with a little effort— one can infer almost any position. To illustrate this, let us look at his treatment of the quintessential development experiences of the late 20th century —the East Asian Tigers.

3.1.2 Sen's assessment of the East Asian Tigers' economic policies: Ambiguous lessons for economic policy

Sen's appraisal of the East Asian development experience is markedly laudatory. He speaks of the "the great achievements" of the East Asian countries, which have "transformed the lives and longevities of people" (1999, p.45) and repeatedly praises their "economic success" (1997, pp.13-4; 1999, pp.44-5). His analysis of the East Asian experience is focused on challenging the idea that authoritarianism might be helpful or necessary for growth. He makes a compelling argument that "high economic growth of China or South Korea in Asia cannot be taken as proof that authoritarianism does better in promoting economic growth —any more than the opposite conclusion can be drawn on the basis of the fact that the fastest growing African country (and one of the fastest in the world), viz., Botswana, has been a veritable oasis of democracy" in the continent" (1997, p.14).

However, when it comes to pointing to the specific policies that account for the achievements of the East Asian tigers, the crucial role of industrial policy (see Wade, 2004, Chang, 1993; Amsden, 1989) is conspicuously relegated to an afterthought, while the bulk of the emphasis is somewhat misleadingly placed on 'social policies' and 'open markets'. While acknowledging empirical studies on the East Asian economies have emphasized different "helpful" policies, Sen asserts that there is a "general list" of policies around which there is some consensus: "openness to competition, the use of international markets, a high level of

literacy and school education, successful land reforms and the provision of incentives for investment, exporting and industrialization" (1997, p.15). "There is nothing to indicate," he goes on to argue that "any of these social policies is inconsistent with greater democracy, or could be sustained only through the authoritarianism that happened to be present in South Korea or Singapore or China" (1997, p.15).

Two points must be made about this framing of the East Asian experience. First, it is unclear whether Sen is making the claim that *only* the "social" policies on the list are consistent with greater democracy (vs. the 'economic' policies on the list) or whether Sen is including "openness to competition," "the use of international markets," "incentives for investment," "exporting," "land reform" and "industrialization" in the category of "social" policies. Although the boundaries between 'social' and 'economic' policies are more analytical than ontological, it is nonetheless unusual to call these policies 'social'. However, it is more likely that Sen is calling the above policies "social" than claiming that they are inconsistent with "greater democracy."

Second, and relatedly, considering that there are vigorous *economic* policy debates and empirical studies on the relevance and desirability of policies like industrialization, market openness, etc. (see Chapter 4), one is left with the sense that by calling these policies 'social', Sen is neglecting to engage with economic policy debates in order to keep our attention on more conventionally 'social' policies, like health, education and social security. This sense is corroborated by the fact that, in other parts of his work, Sen's portrayal of what constitutes a desirable development policy package rarely includes 'industrialization' or "incentives for investment" but emphatically highlights policies that traditionally called "social" (Sen, 1997, p.2, p.13; Sen, 1999, pp.42-3).

This emphasis on social policies leads Sen to skewed interpretations of the sources of success and failure of particular development experiences.

For example, in his comparison of Brazil and the East Asian economies, Sen notes that, while Brazil was able to attain similar growth in GNP per head, it did not expand "social opportunities," failing to achieve improvements in social inequality and unemployment and neglect of public healthcare (1999, p.45). What Sen does not note, however, is that one of the fundamental differences between the policy packages of Brazil and East Asia was sustained, targeted public investment in industrialization and in the development of productive capabilities (Palma, 2011). Nor does he discuss the fact that, no matter how much is invested

in the expansion of "social opportunities", it is difficult for these to lead to better employment conditions or reduced inequality if productive investment is not expanded in tandem. As discussed by Palma (2011), the failure to sustain high levels of productive investment is perhaps the most salient shortcoming of Latin American development experiences vis-a-vis their East Asian counterparts.

A similar bias is present in Sen's comparison of India and China's moves toward "more open, internationally active, market-oriented" economies. Sen attributes China's "massive results" to a "radically" better level of "social preparedness," produced by much stronger policies for basic education, literacy and health care (Sen, 1999, pp.42-3). This misses the equally powerful contrast between India and China's industrial strategies. In fact, the very characterization of China and India as moving toward "market-oriented" systems in a similar fashion seriously risks misleading the reader as to the nature of China's development strategy. As discussed by Weber (2021), China's "opening up" has been extremely careful and tactically slow. The foundations for its economic success are rooted more in a policy of "experimentalist gradualism" (manifested in the dual-track price system) than in what Sen describes as a "rapid transformation of the economy [...] using trade and markets but without wholesale reform" (1997, p.2). This enthusiastic portrayal of the role of marketization in China's success is also echoed in Sen's repeated assertions of the need to complement "helpful social moves" with greater "openness" in the economic sphere, including "market-friendly policies" and "more freedom to use economic opportunities of trade and business" (Sen, 1997, p.2, p.13; 1999, pp.42-3).

In sum, Sen's assessment of the East Asian experience includes a recognition of the role of industrialization, but his endorsement of industrial policy is at best tepid, particularly in comparison to his full-throated endorsement of social policies and market openness (the presence of which is somewhat exaggerated). Given the strength of the mainstream bias against industrial policy at the time of these writings, one could interpret the mere inclusion of "industrialization" in a list of "helpful policies" as a bold and controversial endorsement. However, the fact remains that the issue of production-sector transformation is conspicuously relegated to near irrelevance in comparison to "social" policies, as well as in comparison to "open market" policies, which in some cases come into conflict with industrialization objectives (a tension that is not addressed).

When it comes to drawing lessons about economic policy from Sen's assessments of the East Asian experience, one comes away with the sense that 'market openness' and 'market-friendly' policies are at the core of their success. Advocating for 'market friendliness' is helpful when it is meant to contrast with command economies characterized by anti-market fundamentalism (*e.g.*, the Soviet economies). However, given that in the intellectual climate of Sen's writings 'market-friendliness' and 'market-openness' were more likely to be read as code words for the policies of the Washington Consensus and structural adjustment, Sen's endorsement of these policies can be dangerously misleading.

The centrality of 'free markets' is, indeed, a constant theme in Sen's work and audiences might easily interpret this as the core of his economic policy ethos, even when his intention is rather to overtly contest fundamentalist interpretations of 'market freedom.' This tension is evident in his use of Adam Smith to both celebrate markets and justify the need to regulate and complement them.

3.1.3 Sen on Smith on economic policy: market freedom, market regulation and public goods

Sen uses Smith's work to draw attention to the fundamental benefits of certain 'freedoms' related to market transactions (especially in the labor market), as well as to draw lessons about when and where governments should supplement and regulate markets to prevent waste and achieve common social objectives that the market mechanism has difficulty delivering on its own. This section discusses the main themes and lessons Sen derives from Smith's work—and the ambiguities therein.

Market freedom in historical context: freedom from 'pre-capitalist' constraints; freedom to "achieve in line with one's wants"

Sen's historical contextualization of Smith's support for free markets is essential for understanding his nuanced concept of the virtues of market freedom, which contrasts sharply with the free-market fundamentalism present in the Washington Consensus perspectives. "The market restrictions against which Smith was particularly vocal," Sen explains, "can be seen, in a broad sense, as 'precapitalist' constraints. They differ from public intervention for

[...] welfare programs or social safety nets [...] and the functioning of the state in providing such services as public education, of which Smith was very supportive" (1999, p.121).

The 'pre-capitalist' constraint most frequently highlighted in Sen's works is the freedom to participate in the labor market. He drives this point home by arguing that the freedom to seek employment *in itself* is intrinsically preferable, even in instances where a lack of labor market freedom is associated with comparatively better incomes and health-related outcomes (Sen, 1999, pp.112-4). Slaves in the United States, for example, may have had equal or better "incomes" and life-expectancies than comparable wage laborers elsewhere, but they nonetheless suffered "a fundamental deprivation in the fact of slavery" (Sen, 1999, p.113). Similarly, Sen argues that bureaucratic socialism in the communist economies (*e.g.*, in the Soviet Union, pre-reform China, Vietnam and Cuba) delivered good results in terms of life-expectancy —with Russian life expectancies markedly declining after the fall of the Soviet Union— but the tight restrictions on labor market participation, which for some included being directly sent to work "where their bosses wanted them to work" took too heavy a toll on people's freedoms (Sen, 1999, pp.113-14).

The emphasis Sen places on labor market freedom is related to his broader concern to people's freedom to choose their own paths in their efforts to "achieve in line with what one wants." This "substantive freedom," he argues, must be judged "not just in terms of the number of options one has, but with adequate sensitivity to the *attractiveness* of those options" (Sen, 1999, p.117). This distinguishes Sen's concept of freedom from more superficial notions (often associated with Hayek and Friedman) where one's 'freedom to choose' is seen as inherently valuable in a more abstract sense, independently of the attractiveness of the available options.

However, in this discussion of substantive freedom, the question of *how* "attractive options" —opportunities for fulfilling work— might be created is once again marked by a tone that borders on dismissal of production-sector policy and could easily be interpreted as an endorsement of structural adjustment policies. Sen proposes that many of the restrictions that "bedevil" developing economies today are "pre-capitalist," in nature, including "the prohibition of some types of domestic trade or international exchange, or the preservation of antiquated techniques and production methods in businesses owned and operated by 'protected bourgeoisie'" (Sen, 1999, p.124). Again, the use of terms like 'protected bourgeoisie' and 'prohibition' of international exchange can all too easily be interpreted as a

dismissal of policies like targeted infant industry protections through trade regulation, which was not only a feature of the industrial strategy of successful East Asian industrializers, but also of quintessentially 'capitalist' economies, like the United States (Chang, 2007, Chang, 2002).

Public goods

On the question of public goods, Sen's position is less ambiguous and more clearly opposed to the 'passive' economic policy approach. I have already mentioned that Sen invokes Smith to generally endorse the public provision of certain types of goods. Sen's own take on public goods also features the contemporary criticism of the "standard" assumption that our welfare depends almost wholly on commodities that can be bought and sold on the market. Arguing against this assumption, Sen points out that "some of the most important contributors to human capability may be hard to sell exclusively to one person at a time. This is especially so when we consider the so-called public goods, which people consume *together* rather than separately" (Sen, 1999, p.28).¹⁷ Sen then criticizes "market enthusiasts" for recommending that developing countries "should rely fully on the free market even for basic education — thereby withholding from them the very process of educational expansion that was crucial in rapidly spreading literacy in Europe, North America, Japan and East Asia in the past" (Sen, 1999, p.129).

Sen's line of argument borders on Chang's (2002) well-known criticism of developed country tendencies "kick away" the development ladder by pressuring and dissuading developing countries from adopting the policy measures that proved successful for them in their own industrialization processes. However, once again, Sen limits himself to addressing 'social' measures, like public education, while neglecting to make a similar point about the industrial policies used by Europe, North America, Japan and East Asia.

¹⁷ Some of the examples he gives are environmental preservation and public healthcare, which provides goods such as "malaria-free" surroundings.

Sen on market regulation and power asymmetries: beyond 'pro-' or 'anti-' attitudes to markets

When Sen addresses the question of market regulation head-on, his tone becomes much more markedly critical of free-market enthusiasm than in his discussions about the loosening of pre-capitalist constraints or his discussions about the East Asian experience.

Sen proposes that "the lesson to draw from Smith's analysis of the market mechanism" is not to "jump to policy conclusions from some general 'pro' or 'anti' attitude to markets" (Sen, 1999, p.126).

After acknowledging the role of trade and exchange in human living, we still have to examine what the other consequences of market transactions actually are. We have to evaluate the actual possibilities critically, with adequate attention being paid to the contingent circumstances that may be relevant in assessing all the results of encouraging markets, or of restraining their operations (Sen, 1999, p.126).

"In Smith's interventionist logic," Sen explains, "the underlying argument is that market signals can be misleading" so that the free market may lead to "much waste of capital, resulting from private pursuit of misguided or myopic enterprises, or private waste of social resources." In other words, Smith "is considering the possibility of social loss in the narrowly motivated pursuit of private profit" (Sen, 1999, pp.124-5). Sen goes further to argue that the market mechanism can generate asymmetries, such that lack of regulation may "allow the powerful to capitalize on their asymmetrical advantage" (Sen, 1999, p.142).

Not to be taken for a regulation enthusiast, however, Sen concludes that the shortcomings of the market mechanism "have to be dealt with not by suppressing the markets but by allowing them to function better and with greater fairness, with adequate supplementation." (Sen, 1999, p.142). Despite his caveats against "suppression," Sen nonetheless makes it clear that "the overall achievements of the market are deeply contingent on political and social arrangements" (Sen, 1999, p.142) and requires a "balancing the role" of government and "other political and social institutions with the functioning of markets" (Sen, 1999, p.126). In their historical context, these assertions are clearly opposed to mainstream attitudes.

3.1.4 Sen on inflation, austerity, and "getting the prices right"

As in his discussions on regulation, Sen's attitude toward the market mechanism in his macroeconomic discussions is overtly critical of the mainstream attitudes.

Sen clearly calls upon us to "reject" a view of the development that prescribes "single, overarching" processes like liberalization. "The search for a single all-purpose remedy (such as "open the markets" or "get the prices right")," he argues, "has had much hold on professional thinking in the past, not least in the World Bank itself," when what is needed is rather "an integrated and multifaceted approach" (Sen, 1999, p.126).

A similar indictment of mainstream thinking is present in Sen's discussion on inflation. Citing Bruno's (1995) critical survey of international experiences, Sen argues that the "pernicious" effects of inflation are grossly overstated by "anti-inflationary" radicals. In Bruno's study "several recorded episodes of moderate inflation (20-40 % [price rise per year]) and most instances of high rates of inflation" suggest that high inflation is associated with significant negative growth effects. However, "the growth effects of inflation are at best obscure at low rates of inflation (less than 15-20 percent annually)" (Sen, 1999, p.138-9). This leads Sen to conclude that (at least in the case of Europe in the 1990s), the tension between inflation-avoidance and "tolerating remarkably high rates of unemployment" must be resolved in favor of prioritizing the elimination of "the capability deprivation that severe unemployment entails " (Sen, 1999, p.141).

The same attitude is reflected in Sen's criticism of "anti-deficit radicalism." Here, he notes that, while there is a strong case for reducing large budget deficits, this argument "must not be confused with the extremism of trying to eliminate budget deficits *altogether* with great rapidity (no matter what the social cost of this might be." Sen goes further to emphasize that "the role of public expenditure in generating and guaranteeing many basic capabilities calls for attention" and "must be considered along with the instrumental need for macroeconomic stability," which, in turn "must be assessed within a broad framework of social objectives" (Sen, 1999, pp.140-1).

Indeed, of all the economic policy topics Sen addresses, fiscal issues seem to elicit from him the clearest and most emphatic stance. Sixteen years after *Development as Freedom*, Sen continued to sharply criticize Europe's austerity policies, referring to them as "rat poison," and lamenting how "half-hearted gestures" toward Keynesian expansionary

policy after the crisis have delivered "half-hearted results" (Sen, 2015). Chapter 4 shows how Sen's own development policy discussions could benefit from a less "half-hearted" attitude to economic policies in the industrial sector.

For now, however, let us turn our attention to the 'practitioner'-oriented humanist development literature to show how its economic policy prescriptions are marked by similar ambiguities as those identified in Sen's work and—in some cases— even sharp contradictions.

3.2 The evolution of economic policy recommendations in the Human Development reports

A comprehensive study of the policy recommendations of all the Human Development reports is a large-scale undertaking that sits outside the scope of this dissertation. Fortunately, this exercise has already been carried out by Lengfelder (2016), on behalf of UNDP's Human Development Report Office, for every report, from 1990-2014. As discussed below, Lengfelder finds that rather than following from the theoretical orientations of the human development approach, "the [HDR's] policy suggestions follow certain ideological strands that have evolved over time," such that both "liberal" and "regulatory" policy options are recommended in different moments (Lengfelder, 2016, pp.6-12).

My more targeted analysis of the *economic* policy prescriptions in the HDRs (1990-2016) is largely consistent with Lengfelder's assessment, but we differ slightly on two points. First, while Lengfelder sees the "diversity" of policy options in the HDRs as a helpful product of the "flexibility" of the human development approach, I argue that the contradictions in the HDR's economic policy recommendations are more a reflection of, not only changing ideologies, but also the fact that the HDRs were produced by different teams over time, with diverse consultants on board — including many who did not endorse the human development approach (McNeill, 2007). The resulting heterogeneity in policy prescriptions makes it difficult to glean clear guidance from the HDRs on the types of economic policies best suited to advance human development and therefore requires HDC scholars to take on the task. Second, I argue that, while the conflict between 'liberal' vs. 'regulatory' policy options is relevant, the more relevant conflict is between 'passive' and

'proactive' policy measures, which are not reducible to Lengfelder's 'liberal' vs. 'regulatory' dichotomy.

My analysis suggests that, by not devoting more attention to what constitutes helpful economic policies, the human development scholarship is effectively outsourcing the debate to economists and leaving policy practitioners to adopt whichever 'attitude' toward economic policy becomes dominant at a particular point in time. To the extent that we take economic policy choices to be important for human development, this raises an important question about the current impact of the HDC approach: if the humanist approach is not being actively used to discern between constructive and destructive economic policy proposals, what is the extent of its practical relevance in economic policy debates?

Lengfelder's analysis of the HDR's policy recommendations finds a clear historical trend from 'liberal' policies toward increasingly 'regulatory' alternatives from 1990 to 2014. Though I generally concur with this assessment, it must be noted that the evolution toward a more 'regulatory' approach is rather moderate and even the more recent reports continue to include policies that are more consistent with 'liberal' than 'regulatory' approaches and—more importantly— more consistent with 'passive' than 'proactive' approaches to production-sector policy.

Lengfelder notes that the early HDRs clearly show a strong bias toward 'liberal' over 'regulatory' policies:

[The] first three reports recommend rather liberal policies—mainly focused on creating free markets and ensuring favourable macroeconomic environments, with a strong emphasis on decentralization and little on social protection schemes [...] For example, the first report recommends creating a proper environment for private sector development and free markets, and supporting private initiatives such as non-governmental organizations, enterprises and community self-help groups. It suggests privatizing “where the private sector is more efficient” (UNDP, 1990, p.20). The 1991 and 1993 reports recommend charging user fees for social services (providing free basic services), and the latter highlights the advantages of social safety nets through access to credit, human investment and worker retraining (UNDP, 1991, 1993; see also Annex I) (Lengfelder, 2016, pp.10-11).

These policies are clearly more in line with 'liberal' than 'regulatory' approaches, but they are also generally more consistent with the 'passive' approach to policy in matters that are not

directly related to 'regulation': for example, the support for the marketization of social services is more about reducing state action to provide public goods than about 'deregulating' the market.

Beyond social services, the 1990 report also argues for the privatization of "productive functions" in (unspecified) cases where this is more efficient (UNDP, 1990, p.64). When it comes to production-sector policy specifically, the report suggests focusing on "the development of micro, small, and medium-size enterprises through such mechanisms as small-scale credit schemes, volunteer executive programmes and venture capital," and, in what reads almost like a caricature of the mainstream approach, the report argues that "[w]hat is required is a smaller but more effective public sector" and that the "role of the public sector should be confined primarily to building economic infrastructure and to providing social services" (UNDP, 1999, p.64). Similarly strong statements are made in the early 1990s reports. The 1992 report, for example, states that "global markets should be liberalized both in goods and services, to accelerate global growth and to ensure much better distribution of this growth" (UNDP, 1992, p.9). These categorical statements are somewhat softened by the tone in other parts of the report, where the harsh social impacts of structural adjustment are criticized, but these are ultimately addressed by arguing for "adjustment with a human face" (UNDP, 1990, p.35).

There is an uncomfortable tension between these structural adjustment prescriptions in the early HDRs and the normative underpinnings of the human development approach, which has been understood by key figures like Haq (1995, p. xvii) and Sen (1989) as a paradigm that emerged in reaction —and resistance— to the Washington Consensus and economic approaches that exclusively centered growth at the expense of human wellbeing. In fact, the discord between the philosophical concept of human development and the policies advanced in its name in the HDRs is reminiscent of McNeill's (2007, p.14) observations about the tension between the World Bank's own discourse and practice:

[It] is widely claimed in UNDP that the World Bank distorted the idea [of human development] (whether intentionally or otherwise) by interpreting it as almost synonymous with education and health — thus reducing both its political and analytical 'edge'. In such circumstances it is difficult to assess how far the idea has been successful in changing actual

policies. As Sen notes: "One can detect some accommodating gestures coming out of the citadels of economic growth — the World Bank and the IMF —though how far this conversion to human development is real rather than rhetorical has yet to be seen. (Sen, 1989, p. 44)."

Similarly, it is difficult to argue that the critical humanist spirit and discourse of the HDC approach translated effectively to the policy prescriptions advanced by the early HDRs. At least two factors stood in the way. First, according to McNeill (2007, p.12), the "views of UNDP staff and member states were not always positive and supportive of human development. Structural adjustment views were also found in the UNDP in the early 1980s," and it took several years —at least until the mid 1990s— for the idea to become officially accepted. Second, there is great heterogeneity among the people who actually produce the HDRs. In addition to staff, numerous consultants and innumerable commentators partake in the process (McNeill, 2007, p.14). Considering that most economists during the early years of the HDRs were operating in a broader environment marked by the hegemony of the neoclassical orthodoxy, it is not surprising that neoliberal proclivities would shine through in the HDRs policy prescriptions.

From 1994 onward, Lengfelder's analysis notes a progression away from the structural adjustment framework and toward more 'regulatory' policies:

The 1994 report recommends international regulations and international public policies on several subjects, including aid and global public good provision (UNDP 1994). Others call for cash transfers (UNDP 2008, 2011, 2013, 2014), **industrial development policies** (UNDP 2003, 2010, 2011, 2013), managing trade and capital flows (UNDP 1997, 1998, 2014), and the latest for free universal social services (UNDP 2013, 2014). The 1998 report [took] a strong stand that went as far as recommending governmental intervention in discouraging consumption patterns that have a negative effect on society (UNDP 1998). The 1999 report [...] recommended codes of conduct for multinationals, the implementation of a "bit tax" in order to expand access to new technologies to the poor, and global action to regulate and supervise banking systems (UNDP 1999). The 2014 report suggests especially strong governmental intervention, such as raising the minimum wage, cash transfers to the

poor, implementation of progressive taxation and targeted labour market interventions (UNDP 2014) (Lengfelder, 2016, pp.10-11).

Two points must be made about this assessment.

First, while on the whole it is possible that the reports show an evolution toward more 'regulatory' approaches, they are still marked by plenty of contradictions, not only from year to year, but even within individual reports. Take for example the 1996 report, in which the thematic focus is 'economic growth'. Despite the economic theme, there are only two references to industrial policy in the whole report. Interestingly, however, these are more laudatory than disparaging. In addition to praising Sweden's "activist industrial policy" (UNDP, 1996, p.54), the report asserts that [f]orms of central planning that are indicative rather than directive also continue to be used with great success, notably in the high-growth countries. The model of development followed by Indonesia, Japan, Malaysia and the Republic of Korea, for example, has used industrial policy to channel resources into the sectors of the economy with the most growth potential" (UNDP, 1996, p.49). Lest the reader become too enthusiastic about industrial policy, however, the report also vehemently defends Mexico's accession to NAFTA arguing that "because of NAFTA, Mexico has continued liberalizing its economy and has expanded exports considerably since the 1994 devaluation, moving ever more firmly towards a solid economic basis for sustained economic and employment growth" (1996, p.96). This assessment contrasts starkly with the kinds of industrial policies endorsed earlier in the report, which are not at all consistent with the kind of wholesale liberalization contained in NAFTA. Even more importantly, as time would show, they are inconsistent with reality, as reflected by the marked economic and social decline of Mexico after NAFTA (Weisbrot, Lefebvre & Sammut, 2014).

Another example of this kind of contradiction is in the 1997 report. While Lengfelder notes that this report introduces more regulatory language on the management of trade capital flows, it also continues to argue for structural adjustment —albeit of the "pro-poor" variety (UNDP, 1997, p.78). To accomplish this, the report emphasizes "the need for an activist state," but its policy recommendations leave no doubt that this "activism" should be confined to "social" policies that "empower" the poor (UNDP, 1997, pp.101-106). There is not a single mention of productive capabilities or industrial policy and their structural role in both "empowering" people and creating opportunities for quality work.

The second point to be made about Lengfelder's analysis concerns the *degree* of the progression toward more 'regulatory' approaches. Specifically, although the vocabulary used in the HDR's general recommendations becomes increasingly 'regulatory' and —I propose— increasingly 'proactive', the tone of the *specific* policy recommendations only changes marginally.¹⁸

For example, while the laudatory language on structural adjustment gradually disappears from the reports and favorable mentions of public goods and industrial policy increase (see UNDP, 2003, 2010, 2011, 2013), the policies remain largely passive in nature. Nowhere is this more conspicuous than in the 2015 report, whose thematic focus is "work for human development," but which fails to include a single mention of industrial policy or production-sector policy. Indeed, the only two mentions of "industrialization" occur when it lists the Sustainable Development Goals (UNDP, 2015, p.15) and when it discusses the negative effects of industrialization on land and water scarcity and on land productivity (UNDP, 2015, p.149). Interestingly, the report contains a suggestive section titled "Structural transformation of work," but its contents are devoted to explaining the shift "from agriculture to industry to services" and the need to focus on where "jobs will be" rather than on proactively transforming productive capabilities and, with them, opportunities for work. This passive take on "work for human development" is further complicated by the acceptance of the common misconception that "development in advanced economies" has followed "a more or less linear" path from "agriculture to industry to services" (UNDP, 2015, p.91). As discussed in the following chapter, this assessment is based on a superficial understanding of the boundaries between 'manufacturing' and 'services' and can often mislead developing countries into detrimental policy approaches focused on low-value added activities.

The 2016 HDR, whose thematic focus is "human development for everyone" shows a clear move toward a more 'regulatory' approach, hand in hand with an approach to production-sector policy that remains markedly *passive*.

For example, the report is critical of so-called 'liberal' policies arguing that, in the past, developing countries have accepted "restrictions on national policy-making in investment protection treaties, tax incentives to foreign companies and the liberalization of

¹⁸ Furthermore, the progression is by no means continuous. Gasper, et al.'s analysis of the 2011 HDR shows a "markedly technocratic direction, largely apolitical and insensitive to human rights issues and justice, giving a diluted successor to the HDR 2007/2008 and now close in perspective to the World Bank" (2013, p.91).

trade," some of which" later became obstacles for development policies (UNDP, 2016, p.138). The report even uses the case of Ecuador's dispute with Occidental Petroleum¹⁹ before the International Centre for Settlement of Investment disputes to illustrate the dangers of accepting the terms of Bilateral Investment treaties and their restrictions on countries' abilities to effectively regulate foreign investment.²⁰ Similarly, the report argues for the need to "regulate currency transactions and capital flows" using capital flows, noting that "even the IMF (which in 1997 attempted to make capital account liberalization mandatory for all its members) has recently acknowledged their benefits, highlighting that they reduced vulnerabilities (overheating and excessive indebtedness) before the financial crisis in 2008" (UNDP, 2016, p.148).

While the shift toward a 'regulatory' approach is evident, however, it is not matched by a shift toward a 'proactive' approach toward production policy. The bulk of policy recommendations continue to be focused on "social sector" issues, like "social protection" "empowerment" and "access to justice" and there is no mention in the entire report of industrial policy and, once again, a solitary mention of "industrialization" in the list of SDGs (SDG 9) (UNDP, 2016, p.46).

What can we conclude from the ambiguities and inconsistencies of the HDR's policy prescriptions?

Lengfelder draws two conclusions. First, she observes that there is no concrete or explicit link between the policies recommended by the reports and the conceptual basis of the human development approach:

¹⁹ "Bilateral investment treaties and national policies in Ecuador: In October 2012 an arbitration tribunal of the International Centre for Settlement of Investment Disputes ruled against Ecuador in a case brought by Occidental Petroleum Corporation and Occidental Exploration and Production Company under the United States–Ecuador Bilateral Investment Treaty. It imposed a penalty on Ecuador of \$1.8 billion plus compound interest and litigation costs, bringing the award to \$2.3 billion. What legal observers found striking about this judgment is that the tribunal recognized that Ecuador canceled its contract because the company violated a key clause (selling 40 percent of the concession to another company without permission) but found that Ecuador violated the obligation of "fair and equitable treatment" under the United States–Ecuador Bilateral Investment Treaty" (UNDP, 2016, p.144).

²⁰ "International investment agreements and bilateral investment treaties might restrict governments' ability to define national policies and standards. These agreements often define expropriation as an action that reduces investors' expected profits—a very broad definition that is ripe for litigation. An international entity, in most cases the International Centre for Settlement of Investment Disputes, resolves disputes related to these instruments. Proper regulation of foreign corporations might become difficult (box 5.4). Most countries have signed some of the 2,958 bilateral investment treaties recorded by the United Nations Conference on Trade and Development (see figure 5.1)" (UNDP, 2016, p.143)

[The] reports show both liberal and regulatory policy options with several different objectives that declaredly aim for human development as defined by the expansion of choices and capabilities. However, no concrete link between the policy options and the human development approach could so far be identified. The suggestions are not necessarily different from the ones commonly made by other institutions with a focus on development (Lengfelder, 2016, p.11).

Furthermore, the evolution of the policies is not presented in the HDRs as a reflection of "conceptual evolutions." Since the grounds for these changes are never "officially announced or conceptually explained in the reports," she concludes, "it is more likely that the general *Zeitgeist* led this evolution" (Lengfelder, 2016, p.11).

I agree with this conclusion, but add that "the general *Zeitgeist*" is, itself, partly shaped by conceptual evolutions—it just so happens that the conceptual evolutions that account for the evolution of the HDR's economic policy prescriptions came from somewhere other than the HDC scholarship or the HDR Office: it came from economic policy debates and economic policy practice. As the mood in these debates became increasingly 'regulatory', so did the HDRs. The fact that the reports have not shifted toward a more 'proactive' approach to the production sector likely speaks to the fact that this 'proactive' attitude has remained somewhat marginal in economic policy discussions and practice.

Lengfelder's second conclusion is, in our view, more problematic. Due to the "broad nature" or the human development paradigm, she argues,

[It] has left room for liberal as well as regulatory policy options, which provides policymakers with a range of suggestions to choose from. Moreover, considering the diversity of the world's countries, the broad nature and wide range of options enables policymakers to identify those policies that are right for the development priorities of their country (Lengfelder, 2016, p.17).

At first, this assessment appears consistent with the humanist spirit of flexibility and its distaste for paternalism and one-size-fits-all policies. In fact, similar sentiments can be found in the academic HDC scholarship. Robeyns (2017, p.196), for example, contends that the "question of what are the appropriate institutions to lead to capability expansions [...] cannot

be answered by the capability approach in itself; it must be coupled with a political economy analysis."

However, as Lengfelder herself acknowledges, there is a trade-off between leaving this room for diversity and aiming for specific policy suggestions. This trade-off is not a purely practical problem that speaks to the HD framework's ability to be translated into concrete policy measures. The problem is also ethical: if there is abundant evidence that certain policies are clearly better at expanding human freedoms, then those who have access to that evidence (*i.e.*, anyone who has the opportunity to study those policies and their impacts) are ethically bound to make that evidence explicit. In the next chapter, I argue that such evidence exists and, if the HD reports were to take it into account, they would not make such "diverse" policy recommendations.

Before continuing to this discussion, however, let us briefly note some similar contradictions and ambiguities that can be found in the MDGs and SDGs, which share the core principles and vision of the human development reports.

3.3 Economic policies in the Millennium Development Goals and the Sustainable Development Goals

The MDGs and the SDGs are related to the humanist approach to development, in that they evolved out of the HDRs and generally aim for a more holistic concept of development than one that is confined to the economic sphere. They are particularly relevant to our analysis because they make more specific claims than the HDRs as to how progress toward development should be measured and —particularly in the case of the SDGs— what policies are the most useful 'means' to this end.

Much like in the HDRs, the change in attitude toward economic policy from the MDGs to the SDGs features a generally more favorable view of market regulation. In contrast to the evolution of the HDRs, however, the move from the MDGs to the SDGs also features a clear endorsement of industrial policy, rooted in an acknowledgment of the structural sources of poverty, unemployment and inequality, which many critics noted were conspicuously absent in the MDGs.²¹

²¹ For a broader discussion of the criticisms and evolution from the MDGs to the SDGs, see Fukuda-Parr (2016).

For example, whereas industrial policy makes no appearance in the MDGs (UN, 2008), the SDGs (UN, 2016) include an entire goal (SDG 9) that explicitly identifies the need to ensure "a conducive policy environment for [...] industrial diversification and value addition to commodities" and to "support domestic technology development, research and innovation in developing countries" Also in contrast to the MDGs, the SDGs raise the profile of full employment and recognize its relationship to industrial strategy. Although the MDGs already acknowledge the need to "achieve full and productive employment and decent work," this objective is only featured at the target level (Target 1.B) as part of the goal of "eradicating extreme poverty and hunger," rather than as a goal in its own right. In contrast, the SDGs dedicate an entire goal (SDG 8) to full employment, explicitly linking it to economic growth ("Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all"). Furthermore, SDG 8's targets highlight the link between employment and industrialization, calling for "higher levels of economic productivity through diversification, technological upgrading and innovation, including through a focus on high-value added and labour-intensive sectors" (Target 8.2).

This framing of the role of technology in development also contrasts starkly with the MDG's aim to "make available the benefits of new technologies," to developing countries in "cooperation with the private sector" (Target 8.F). Whereas the SDGs see domestic technological upgrading as a means of increasing economic productivity and full employment, in the MDGs developing countries appear as passive recipients of technologies delivered by their industrialized counterparts. As even Sakiko Fukuda-Parr (director of the HDR office 1995-2006) points out, even the UN Office of the High Commissioner for Human Rights (OHCHR) has criticized the MDGs for this assumption that poverty can be solved by providing "access" to technology (Fukuda-Parr 2016, pp.45-6).

Despite the move toward a markedly more proactive attitude toward economic policy, however, even the SDGs are not without their ambiguities and contradictions. For example, while SDG 9 affirms the need to ensure "a conducive policy environment for [...] industrial diversification and value addition to commodities," the contents of SDG 17 ("Strengthen the means of implementation and revitalize the Global Partnership for Sustainable Development") aim at largely indiscriminate trade liberalization, without acknowledging that this effectively shrinks policy space for industrial diversification in developing countries. In fact, the SDGs copy much of the MDGs' "liberal" language on trade, calling for "an open,

rule-based, predictable, non-discriminatory trading [...] system" (Target 8.A). Although the SDGs add that this "open, rules-based, non-discriminatory" system should also be "equitable" (Target 17.10), the indicator of progress toward the target merely measures the overall lowering of the worldwide, weighted tariff average in different sectors (indicator 17.10.1). This treatment of trade regulation in SDG 17 is also contradictory to the way trade is addressed in SDG 10 ('Reduce inequality within and among countries'), which calls for trade rules to be based on the principle of "special and differential treatment" (SDT) for developing countries. SDT enters into direct conflict with the principle of "non-discrimination" proposed in 17.10 (UN Economic and Social Council, 2016)²²

The fact that the SDGs continue to promote some measures that are in conflict with its generally proactive language production-sector policy reflects the persistence of a 'liberal' common sense on trade, in which 'liberalization' continues to be seen as inherently 'pro-developmental' and its conflicts with industrialization go unacknowledged. In fact, as we discuss in the following chapter, many features of the 'liberal' and 'passive' attitudes toward economic policy that declined in legitimacy in the early 21st century *Zeitgeist* are lately being reaffirmed in some countries, with detrimental effects for human development. This makes it all the more necessary for human development scholars to position themselves clearly in relation to economic policy debates.

3.4 Conclusions: the need for human development scholars to further engage in economic theory and policy debates

In this chapter I have defended the argument that the humanist development literature has not taken a sufficiently clear stance on economic policy debates. In analyzing the policy positions of the thought-leader of the humanist approach, Amartya Sen, we have seen that, while clear guidance is offered on matters on 'social' policy, it is often difficult to discern similarly unambiguous guidelines for economic policies. Although Sen is often critical of measures like austerity, anti-inflationary fundamentalism and fundamentalist opposition to public provision of social services, his stance on matters of trade and industrialization is more ambiguous. Though he recognizes the value of industrialization in enhancing human

²² For a more extensive analysis of the SDGs and their relationship to trade and industrial policy, see Andreoni, Chang & Estevez, 2019.

development outcomes, his portrayal of the key 'means' of development is generally limited to a 'social' policy package that neglects production-sector policy. Furthermore, while he sometimes criticizes free market fundamentalism with respect to some policy areas, such as the public provision of social services, when it comes to trade policy (a key dimension of industrial policy), his full-throated endorsement of 'open markets' errs closely toward the un-nuanced prescriptions of the Washington Consensus.

I've shown that these ambiguities are mirrored in the practitioner-oriented counterparts of the humanist approach—the Human Development Reports, the Millennium Development Goals and Sustainable Development Goals—and concur with the analysis of authors who identify a general trend from 'liberal' toward more 'regulatory' policy recommendations (Lengfelder, 2016) and toward greater recognition of structural obstacles to development (Fukuda-Parr, 2016). However, I have also noted that even the most recent the HDRs and the SDGs still contain some internal inconsistencies and maintain a relatively 'passive' stance on production-sector policy.

Furthermore, while some see the capacity of the HD approach to accommodate a "diversity" of policy approaches as a strength, I have argued that it is actually a weakness when policies are so diametrically opposed to one another that it is not possible to portray both as being similarly conducive to development (*e.g.*, "special and differential treatment" (SDT) for developing countries in trade rules vs. "non-discrimination"). This is certainly the case for economic policy, including production-sector policy, where there are clearly opposing policy positions and abundant empirical evidence to draw conclusions about what measures are most useful for enhancing development. Therefore, human development scholars are ethically bound to take a stance as to what kinds of policies are most useful as a guide for agents of development seeking to engage in collective action to promote freedom-expanding economic policies.

The next chapter argues that there are good empirical and theoretical reasons for human development scholars to endorse the kinds of policies associated with the 'proactive' approach introduced in this chapter. At the same time, it discusses how this 'proactive' approach to economic policy can be strengthened by incorporating principles and insights from the humanist perspective, which help to clarify how social actors can make "the perspective of freedom coherent and cogent" (Sen, 1999, pp. xi-xiii) in policy design and execution.

Chapter 4.

Economic policies for human development: The central role of industrial policy in expanding human freedoms

In the preceding chapter, I have argued that the humanist development scholarship has not taken sufficiently clear positions on the question of what kinds of economic policies are helpful for enhancing human freedoms and capabilities. The aim of this chapter is to contribute to filling this gap by analyzing the theoretical and the empirical cases for pursuing different policies that have been put forth in recent decades as solutions for poverty, defined either in terms of income or in terms of capabilities deprivation.

I argue that, although instruments like microfinance and cash transfers can contribute to helping people cope with poverty, and while "social policy" solutions, like investments in health and education can also be conceived as long-term human capability building strategies for overcoming poverty (of income and capabilities), none of these solutions are sufficient because of two intertwined reasons: (i) investments in human capabilities do not translate into increased income if people's skills cannot be productively deployed (*i.e.*, if there is insufficient demand for their productive capabilities); and (ii) sustaining programs like cash transfers and social policies is untenable if countries lack the productive base (collective productive capabilities) to generate the required capital.

To overcome the limitations, I argue that industrial policy should be regarded as an essential element of a humanist economic policy and as a structural solution to the problem of poverty. Just as Amartya Sen takes strong stances on anti-inflationary and anti-deficit fundamentalism, humanist development scholars should adopt a strong stance in favor of industrial policy. This entails either rejecting or taking more nuanced and critical stances on some of the policy positions that have been endorsed in some of the humanist development literature discussed in the previous chapter, including 'open' trade, privatization and a limited role for state institutions in the economic sphere.

I also argue that, if policy is understood as a mechanism of collective action to solve collectively defined problems, then a humanist policy (economic or otherwise) is one in which the collective process of articulating and solving a problem is democratically pursued, as opposed to being concentrated in the hands of few decision-makers.

Humanist literature often speaks of 'people first' policies as ones that seek the wellbeing of people above merely economic outcomes. We propose that 'people first' policies must also satisfy a procedural condition: they must not only be 'for the people' but also 'by the people.'

4.1 Foundational principles for a humanist economic policy for development

As Lengfelder (2016) points out, there has historically been a disconnect between the conceptual discussions in the humanist scholarship and the policies recommended by those who identify with the humanist approach. A consequence of this disconnect has been a heterogeneous and sometimes contradictory set of policy prescriptions, whose consistency with the humanist framework is difficult to evaluate. In other words, although many economic policies have been put forth by advocates of the humanist approach (particularly in the Human Development Reports), it appears that their proponents have not entirely heeded Sen's advice on the need for policy analysis to establish "the empirical linkages that make the viewpoint of freedom coherent and cogent as the guiding perspective of the process of development" (Sen, 1999, xi-xiii).

In the sections that follow, I aim to establish the 'empirical linkages' that allow us to evaluate the extent to which different policy solutions to the problem of poverty have proven to be effective and coherent with the viewpoint of freedom. Before this, however, there are some basic principles we can establish *a priori* as necessary features for a humanist economic policy. I consider these principles to be legitimate *a priori* because they follow closely from the basic humanist definition of 'development' as a process in which people expand their freedoms through their own agency.

4.1.1 Human agency and the democratic principle: policy implications

First of all, I propose that a humanist economic policy is one that is democratically created and administered. This follows from the humanist conception of development as a process in which people — acting collectively or individually — are the agents of development. If policy is understood as a mechanism of collective action to solve collectively defined problems, then a humanist policy is one in which the collective process of articulating and solving a problem is pursued democratically, with equitable engagement from relevant stakeholders, as opposed to being concentrated in the hands of few decision-makers.

Humanist scholars often speak of 'people first' policies as ones that seek the wellbeing of people above merely economic outcomes. I propose that, in line with the humanist's concern for process (Sen, 1999, p.17), 'people first' policies must also satisfy a procedural condition: they must not only be 'for the people' but also 'by the people'.

Let us explore the implications of this principle for policy evaluation.

Procedural implications of the "people first" principle for policy evaluation

First of all, the 'people first' principle means that an economic policy cannot be considered consistent with the humanist perspective of freedom if it is not the product of a democratic process in which people have agency in setting up the rules and organizations that structure their lives. This does not necessarily mean that every decision about allocation of resources or every safety regulation on every new product needs to be voted on through direct democracy —it is safe to say that people do not want this level of participation in the administration of their country's economy— but it does mean that people should be the ones to choose the institutional set-up through which these choices are made, whether it be participatory or representative democracy, or an entirely different sort of arrangement, so long as the arrangement itself is chosen through a democratic process and allows for meaningful engagement for those who seek it, though appropriate mechanisms (*e.g.*, hearings, comment periods, etc.).

Let us illustrate how this principle may operate in policy evaluation. In the United States, trade agreements are currently negotiated by the executive branch, through the office of the U.S. Trade Representative (USTR). One of the main complaints from activist

organizations about the current institutional set-up is that the executive can too easily bypass democratic deliberation about trade rules, which have profound implications for people's livelihoods, through job-displacement, changes in food health standards, and the prices of prescription drugs (to name a few). Although Congress retains the authority to ratify agreements through a simple up-or-down vote, its members are not able to change the terms of the agreement. Being a step removed from the negotiating process also means that they are not likely to spend time acquiring the necessary skills to deliberate competently on the desirability of these agreements. This set-up effectively concentrates decision-making power (decision-making 'capabilities') in a small group of experts at the USTR, 'advised' largely by large industry lobbyists, who themselves represent concentrated economic power. For example, during the negotiations of the Trans-Pacific Partnership, twenty-eight trade advisory committees were formed and eighty-five percent of their members were senior corporate executives or industry lobbyists. Many of the committees, including those on chemicals and pharmaceuticals, aerospace equipment, textiles and clothing, and financial services, were composed entirely of industry representatives (Warren, 2016), leaving out an array of other stakeholders, representing less powerful players, who actively sought to influence the process.

A humanist solution to this concentration of decision-making power (*i.e.*, political 'capabilities') might be something along the lines of what was proposed by U.S. Sen. Elizabeth Warren in her 2019 platform for the Democratic Party Presidential nomination. Among other measures, Warren proposed to democratize trade negotiations by (i) publicly disclosing negotiating drafts and allowing 'the public' to comment directly and monitor the entire negotiating process; (ii) requiring trade advisory committees to have more representatives from labor, environmental and consumer groups than from corporations; (iii) creating new advisory committees: one for consumers, one for rural areas and one for each region of the country to account for the geographically differentiated impacts of trade agreements; (iv) seeking expedited congressional approval only when every regional advisory committee and the labor, consumer, and rural advisory committees unanimously certify that the agreement serves their interests. Warren also proposed to require the U.S. International Trade Commission to provide a regional analysis of the economic effects of a trade agreement, rather than merely a nationwide analysis as is currently done (Warren, 2019).

In the language of the humanist approach, we could say that Warren's proposal greatly expands the 'freedom to participate in the policy-making process', which is currently a freedom only enjoyed by the members of a small political and economic elite. In other words, this is an example of a concrete institutional reform that makes the perspective of freedom "coherent and cogent" (Sen, 1999, xi-xiii) at the procedural level. When voters in the United States elected the next democratic nominee, they had the option to *choose* this procedural reform, which itself was the product of long-running demands for reform from U.S. activist organizations that have sought to make trade negotiations a more democratic affair.

It is also important to highlight that this policy proposal has nothing to do with the *content* of the agreements, but only with the process through which they are designed. But, as Sen has noted (Sen, 1999, p.17-18), procedural aspects of policy can be just as important when it comes to expanding people's freedoms. This is because procedures define the degrees of agency different groups of people can have in the design, execution, administration and evaluation of the institutional arrangements that structure their societies. 'People' is not a homogenous category and different procedures give different degrees of agency to different groups. Governments can be judged on the basis of their ability to create procedures that provide equitable access to the decision-making process in a way that compensates for power asymmetries.

At the same time, approaching policy from this perspective goes beyond the simple paternalism of 'protecting' marginalized voices and recognizes the need for, and the responsibility of, people to have a voice and agency in the political process. Under this framework, when I make recommendations on the *content* that these trade agreements (or other policy tools) should have, I am not speaking to narrow political elites officially in charge of trade policy, but rather to all kinds of 'people', willing to use the state as an instrument for setting collectively defined goals and solving challenges of collective interest.

The ethical implications of making policy recommendations from a humanist approach

Having settled the procedural implications of following a 'people-first' approach to policy making, what can we say about the contents? What can we — researchers, with privileged access to tools, information and time to create useful knowledge— recommend to people as they seek to design policy solutions to the challenges they face?

Logically speaking, this depends on the nature of the challenges people in a given context choose to prioritize. Once again, in keeping with the classical liberal spirit of the humanist approach, people must be able to freely define and prioritize their shared challenges rather than being told what to prioritize by experts and authority figures claiming to have universal answers. This is the concern that motivates humanist scholars when they abstain from naming 'basic capabilities' *a priori*, leaving them to be collectively defined by people in specific contexts.²³

This does not, however, mean that one cannot make any policy recommendations to people in those specific contexts. It is reasonable, for example, to assume that in countries where the majority of the population is suffering from poverty, people engaged in democratic decision-making would choose to make it a priority to overcome poverty. Indeed, this is the reason poverty so often features in political platforms and dominates policy discussions in development scholarship and institutions.

It is, of course, theoretically plausible that people in poor countries may choose not to make poverty a priority challenge to be tackled or that people in countries with high levels of inequality may be happy with that state of affairs (especially if high inequality is not accompanied by high poverty). However, the analysis that follows assumes that the reader considers poverty—at least—to be a priority problem. It also assumes a broad definition of poverty understood as deprivation of capabilities, which includes both income poverty and non-income deprivations along the lines of the UN Multidimensional Poverty Index (see Table 4.1).

4.1.2 Evaluating economic policies as tools for solving the problem of multidimensional poverty

Having specified the audience for and the breadth of our concept of poverty, in this section now proceeds to analyze what economic policies can be reasonably expected to address this challenge. In other words, I will evaluate various economic policies as tools for solving the problem of income poverty and multidimensional poverty.

Given that my case study is Ecuador, a middle-income country with a large proportion of the population living in poverty (Chapter 5), I focus mostly, though not exclusively, on

²³ For a discussion of the debates around capabilities selection, see Robeyns, 2017, Sen, 1999, Nussbaum, 2003.

policies that have been put forth specifically for 'developing' countries. However, I acknowledge that poverty is a major problem for many wealthy countries as well (*e.g.*, in the United States around 37 million people live in poverty²⁴). Many of the policies I discuss are equally relevant for such a context, just as many of the policies implemented by wealthy countries in the past (and present) yield useful lessons for developing countries today.

In the spirit of evidence-based policy making, I will analyze the empirical and theoretical grounds for the most influential policies that have been proposed in recent decades as solutions to poverty, variously defined. These policies fall loosely within the stylized policy approaches discussed in preceding chapters — 'proactive' vs. 'passive' or 'liberal vs. regulatory'. Some policies also fall within Sen's category of 'GALA', while none can be easily placed within the category of 'BLAST'. However, focusing our analysis on each concrete policy rather than on the 'attitudes' or 'approaches' to which they belong makes for a clearer evaluative process, so each of the sections that follow focus on specific policy instruments and on whether and how people may find them useful for addressing poverty. I begin with the policies that have received the most attention in recent decades in discussions about poverty reduction: micro-finance and cash-transfers.

4.3. Microfinance and cash transfers as solutions to poverty: rationale and empirical assessments

At the turn of the 21st century, microfinance gained traction as an innovative solution for solving poverty "from below." Muhammad Yunus won a Nobel Peace Prize in 2006 for founding the Grameen Bank, whose microfinance initiatives aimed to empower poor women through access to credit for consumption smoothing and investment in microenterprises.

The rationale behind these initiatives was not so much based on theory, but rather on the perceived practical success of institutions like the Grameen Bank and the intuitive appeal of an initiative that explicitly addressed gender inequality and provided immediate access to financial resources for people who felt the consequences of deprivation most acutely. Microfinance in general aimed to provide small-scale credit and financial services to

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[https://www.census.gov/newsroom/stories/poverty-awareness-month.html#:~:text=In%202020%2C%20there%20were%2037.2,and%20Table%20B%2D1\).](https://www.census.gov/newsroom/stories/poverty-awareness-month.html#:~:text=In%202020%2C%20there%20were%2037.2,and%20Table%20B%2D1).)

individuals and small enterprises who had difficulties accessing the conventional banking system, in the belief that access to these facilities would engender greater economic self-sufficiency. Institutions like the Grameen bank targeted women on the basis of equity, in recognition of the fact that women were particularly underserved by the financial system and more likely to share economic benefits with the rest of the family unit (Yunus, 2003).

However, in the years following Yunus' Nobel Prize, empirical assessments of microfinance have tempered the initial wave of enthusiasm. Most assessments point to one particular shortcoming of the approach: studies have shown that what appear to be microfinance initiatives can often be little more than predatory lending in disguise, with high interest rates that lead to debt spirals and severe financial distress (Shiva, 2004; Sharma, 2006). This suggests that, for microfinance to be effective, it may also need to be significantly regulated, curtailing part of its appeal, which is precisely the ability to provide swift access to credit to people who have trouble accessing standard banking institutions, in part as a result of bureaucratic hurdles. Other studies have found microfinance is frequently used for consumption smoothing (Dichter, 2007), suggesting that these instruments may still be a helpful palliative for poverty insofar as they make it easier for people to meet their basic needs.

Similarly, studies on cash transfers have found that these programs may make it possible for people to more easily cope with the conditions of poverty by addressing pressing deprivations of essential goods, like food and medicine (Neves, et al., 2022; Valencia Lomeli, 2008). Furthermore, unlike microfinance schemes, cash transfers do not come with the risks of predatory lending. Therefore, when it comes to alleviating the immediate conditions of poverty, cash transfers may hold more promise than microfinance.

Within discussions about cash transfers, there is also debate about the desirability of attaching conditions to the schemes—for example, by requiring the children of recipient mothers to go to school. From a humanist perspective, there may be a good reason to specifically opt for unconditional rather than conditional cash transfers insofar as we believe that people should be entitled to the freedom to make choices about how they spend their resources.

On the whole, however, there is reason to think that microfinance (when well-executed) and cash transfers may serve as effective tools for helping people *cope* with poverty.

Nevertheless, critics of these mechanisms argue that, while they may be effective palliatives, they cannot address the more fundamental causes of poverty. As Bateman and Chang (2009) point out, "while the microfinance model may well generate some positive short run outcomes for a lucky few of the 'entrepreneurial poor', the longer run aggregate development outcome very much remains moot" and microfinance "may ultimately constitute a new and very powerful institutional barrier to sustainable local economic and social development, and thus also to sustainable poverty reduction." Similarly, in their review of the scientific literature published between 2003 and 2020 on the Brazilian cash transfer program, Neves, et al. (2022), conclude that, while "there was a relationship between the Brazilian Cash Transfer Program, reduction of child mortality and increase in access to Primary Health Care services; increased access to food, [...] higher school attendance, [...] no improvement in the nutritional status of the families entitled to the program was observed, nor the interruption of the intergenerational cycle of poverty was ensured."

In other words, while access to micro credit and small cash contributions may, under the right circumstances, help people to procure the resources they need to fulfill their most urgent needs, they do not address the question of why people are unable to meet those needs in the first place. This question is the starting point for both, industrial policy solutions to poverty, which I discuss in section 4.4, and the 'social policy' solutions to poverty, which I have discussed in the preceding chapter and which I now re-examine in the next section.

4.3 Social policies as solutions to poverty and macroeconomic implications

Amartya Sen has been explicitly critical about the economic interpretations of social policies as a matter of 'investment in human capital'. In line with the humanist vision, Sen makes the case that people can choose to value mechanisms like social security and public provision of healthcare and education in and of themselves — because of their capacity to directly expand people's wellbeing— rather than choosing to value these mechanisms only instrumentally, by the extent to which they contribute to building the "human capital" needed to expand growth (Sen, 1997).

This point is critical for guiding the assessment development policies and has two immediate implications for economic policy.

First, it has implications for budgetary planning. If it is the case that the capabilities people have prioritized in a given country can be effectively expanded through the provision of certain public goods, such as healthcare or education, then there is a strong case to be made for directing substantial fiscal resources to these services without needing to justify their benefits for "the economy." This may seem like a trivial point, but as evidenced by the appeals politicians make to the economic impacts of social benefits in order to justify their relevance, this trivial point is not uncontroversial.

The second implication of Sen's point falls inside the realm of fiscal and monetary policy. As discussed in the preceding chapter, Sen takes a clear stance against anti-inflationary and anti-deficit fundamentalism, citing evidence to show that fears of inflation and budget deficits are generally unfounded. This insight, coupled with the evidence that public goods (e.g., public education and healthcare services) can be effective for directly expanding people's capabilities,²⁵ means that there is a strong case for allowing significant deficits and monetary expansion in order to allow sustained investment in these goods. The size of budget deficits and the extent of monetary expansion, should, of course, be determined on the basis of the relevant empirical evidence for each particular case, but what decision-makers must consider when making such determinations is, first and foremost, the impact of fiscal and monetary policy on people's wellbeing rather than on inflation — unless, of course, there is reason to think that inflation levels are reaching a point at which they may interfere with the ability to sustainably invest in people's wellbeing. Empirical studies on sustainable levels of inflation can help to make these determinations.

However, continuously printing money and expanding deficits to sustain investments in the expansion of people's capabilities is not feasible indefinitely. At some point, inflation will become problematic and debts must normally be repaid. I return to the implications of this structural constraint in the next section, but for now let us examine how it plays out in the livelihoods of individuals.

Suppose a scenario in which a country has managed to procure sufficient resources to fund and administer the services necessary to address the 'health' and 'education' dimensions of the Multidimensional Poverty Index for all individuals living in poverty (Table 4.1). This

²⁵ Within and beyond the humanist development literature, there is an abundance of scholarship on the impacts of various kinds of social policies on people's wellbeing. In fact, this is a common theme in humanist development scholarship. See for example, the collection of works in Yerkes et al., 2019.

would mean that, thanks to these effective social policies, no individual would be malnourished, all people above age ten would have at least six years of schooling and all children would be in school at least until they have completed grade ten. This would no doubt be a laudable accomplishment in the expansion of people's wellbeing.

Table 4.1. Dimensions of the UN Multidimensional Poverty Index			
Dimensions of Poverty	Indicator	Deprived if living in the household where...	Weight
Health	Nutrition	An adult under 70 years of age or a child is undernourished.	1/6
	Child mortality	Any child has died in the family in the five-year period preceding the survey.	1/6
Education	Years of schooling	No household member aged 10 years or older has completed six years of schooling.	1/6
	School attendance	Any school-aged child is not attending school up to the age at which he/she would complete class 8.	1/6
Standard of living	Cooking Fuel	The household cooks with dung, wood, charcoal or coal.	1/18
	Sanitation	The household's sanitation facility is not improved (according to SDG guidelines) or it is improved but shared with other households.	1/18
	Drinking Water	The household does not have access to improved drinking water (according to SDG guidelines) or safe drinking water is at least a 30-minute walk from home, round trip.	1/18
	Electricity	The household has no electricity.	1/18
	Housing	Housing materials for at least one of roof, walls and floor are inadequate: the floor is of natural materials and/or the roof and/or walls are of natural or rudimentary materials.	1/18
	Assets	The household does not own more than one of these assets: radio, TV, telephone, computer, animal cart, bicycle, motorbike or refrigerator, and does not own a car or truck.	1/18

Source: Alkire, et al., 2020

But what about the remaining elements of the Multidimensional Poverty Index? That is, those classified under the dimension of 'Standard of living': assets, housing, electricity, drinking water, sanitation and cooking fuel. With the possible exception of the infrastructure for sanitation and drinking water, these are not resources that are usually publicly provided in market economies, which comprise the vast majority of countries in the world. For most people, gaining access to housing, to cooking fuel and to any of the "assets" identified in the MPI (See Table 4.2) requires income.

So, where will the people in our scenario, all of whom are well nourished and have at least six to ten years of schooling, acquire this income? In other words, is it enough for people to be relatively well-nourished and educated for them to acquire the income they need to overcome multidimensional poverty?

It would appear that, unless one subscribes to a Say's Law vision of the labor market in which the supply of healthy educated workers creates its own demand, there is no guarantee that the people in our scenario will be able to find opportunities for work that would allow them to procure the income necessary to overcome poverty. In fact, the persistent waves of immigration out of poor countries — by people of all levels of education — would suggest otherwise. Therefore, health and education policies will not necessarily solve the income dimension of poverty on their own, thus requiring another income-providing mechanism, such as cash transfers.

Of course, even if a country were able to procure the necessary resources to invest in cash transfers, health and education policies to lift all of its people out of poverty, continuing such a policy indefinitely would require enormous resources. OECD countries, for example, spend 20% of GDP on average on pensions, income support, and health and social services alone (OECD, 2020).

This leads us back to the question that preceded this thought experiment: where would the money come from to finance this level of public spending without inflation and unsustainable deficits? While social policy solutions to poverty have shied away from the question of how people —and countries— can procure the income they need to sustainably invest in the expansion of capabilities, it is a central concern of the industrial policy solutions to which I now turn.

4.4 Industrial policies as structural solutions to poverty: a theoretical and empirical evaluation

4.4.1 Rationale for understanding industrial policies as structural solutions to poverty

We have seen in the preceding section that, both from an individual and a collective (country) perspective, the ability to overcome poverty (multidimensional or otherwise) requires continuous investment in people's capabilities (including consumption capabilities), which necessarily requires a continuous source of income. This is the case whether the investments are made through the state or through non-state organizations, like cooperatives, non-profit organizations or firms.

No matter what the organizational entities the people of a given country may choose, in many cases, satisfying needs to expand capabilities requires resources that can only be acquired by producing or capturing value, which implies the existence of capabilities to produce (or capture) that value. These capabilities are what is loosely and imperfectly reflected in measurements of GDP per capita; this is the reason that the measure is commonly referred to as "productivity." It is also the reason why, even critics of growth-centered measures of development like Amartya Sen emphasize that growth cannot be neglected in development policy. To illustrate this point, Sen analyzes the case of the Indian state of Kerala, which is well-known for its accomplishments in the implementation of certain policies consistent with the concerns of the humanist approach, such as participatory planning, but has been far less successful in achieving growth, thus limiting its abilities make the investments and sustain the consumption necessary to overcome poverty (Sen, 1999).

If a society's ability to generate the income necessary to address poverty relies on its capabilities to produce value and to retain that value, then it necessarily follows that overcoming poverty requires policies to create those capabilities. In other words, solving the problem of poverty necessarily implies a strategy for creating productive capabilities. The ability to procure income is logically prior to any decisions the people of a given society may make about how to administer that income in a way that reflects collectively defined policy priorities. This does not mean that it is chronologically prior — it is not only possible but desirable for people to create productive capabilities that simultaneously addresses their concerns about how the value they create is (directly and indirectly) distributed and

administered — but it does mean that creating value is necessary for investing in the expansion of the capabilities the society has chosen to prioritize. Industrial policy implicitly starts from this premise and proceeds to ask what kinds of productive capabilities are necessary to sustainably create the necessary income to overcome poverty (or, more ambitiously, to sustain growth), as well as what kinds of instruments are effective in building those capabilities. I evaluate the key industrial policy answers to these questions in the following sections.

4.1.2 (Infant) Industry Promotion and its origins

Infant industry promotion has a long trajectory in the history of economic policy. The idea that countries should direct substantial resources to develop — often by providing trade protections— strategically-selected, internationally competitive industries originated well before the industrial revolution and shaped the policies of many of the countries that would become protagonists in that process.

In France, Jean-Baptiste Colbert (1619-83), finance minister under Louis XIV, embarked on an aggressive campaign to compete with the industrial prowess of France's neighbors, from recruiting skilled workers from Britain, to engaging in industrial espionage by offering bounties to those who procured strategic technologies (Chang, 2002), to banning imports of Venetian glass in order to protect its state-owned enterprise for glass manufacturing which today is the construction materials multinational St. Gobain (Graegert, 2020).

Long before Colbert's efforts, England had already begun to experiment with infant industry promotion in the 14th century, when Edward the III (1327-77) began efforts to develop local wool manufacturing capabilities by buying in Flemish weavers (the leaders in the industry at the time), banning the import of woolen cloth and even wearing English cloth to set an example (Chang, 2002, p.19). State-led investments in naval and military technologies, spurred by competition with other European powers for colonial control, would also form the technological basis for many of the industrial developments that gave England a competitive edge at the dawn of the industrial revolution (Pomeranz, 2001).

The development trajectories of the West European countries are, by and large, variations on these themes,²⁶ and so are the trajectories of most of today's wealthy countries. This notably includes the United States, which began its upward economic trajectory by promoting infant industries in textile and steel manufacturing when its first Secretary of Treasury, Alexander Hamilton, explicitly defied British pressures —as well as advice straight from the mouth of Adam Smith — to continue specializing in raw materials and leave manufacturing to Britain (Chang, 2002; Parenti & Busch, 2020).

Hamilton articulated his arguments for nurturing and protecting new industries "in their infancy" in his Report on Manufactures (1791) and the thesis was later developed by Friedrich List (1885) (Chang, 2002, pp.25-6) and complemented by the insights of the classical development economists in the 20th century (see, for example, Hirschman, 1958; Lewis, 1954; Myrdal, 1957; Prebisch, 1950).

The basic thesis of infant industry promotion is that, in order to industrialize, countries must be willing to protect and support their nascent industries until they are able to compete with incumbent firms. The thesis rests on the premise that, in order to build the productive capabilities that are necessary to overcome poverty, countries need to 'industrialize': that is, they must develop a diversified production structure by promoting manufacturing and other sophisticated, high-value-added industries —whether they are in agriculture or services in conventional classifications.

For most people, this premise hardly needs corroboration. After all, there is a reason we intuitively divide the world into 'poor' and 'industrialized' countries and it is no accident and 'industrialized' is synonymous with 'wealthy' (I return to this matter shortly). In recent years, there has also been growing recognition that industrialized countries also engage, even today, in active policies to promote specific industries (see, for example, Mazzucato, 2011; 2018); and the idea that industrial promotion is required to sustain economic growth and create jobs is once again becoming mainstream: the growing recognition of the importance of industrial policy among Democrats and Republicans in the United States — as well as unusual suspects like the IMF — is a symptom of this phenomenon (see Tucker, 2019).

Nevertheless, industrial policy can mean many things and the specific proposals of the infant industry thesis have often faced challenges from competing theories —particularly the

²⁶ For detailed discussions on this see Chang, 2002 and 2007, Pomeranz, 2001.

neoclassical trade theory of comparative advantage. We examine the theoretical and empirical grounds for the challenges to the infant industry thesis below.

4.4.2 Theoretical challenges to infant industry promotion: theories of comparative advantage and their theoretical and empirical limits

Originally articulated by David Ricardo (1772-1823) and reformulated in the 20th century into the Heckscher-Ohlin general equilibrium model of trade, the theory of comparative advantage (CA) is often cited as one of the most elegant and broadly embraced contributions from economics. It holds that,

[If] the government does not 'distort' trade, a country will specialize in the production of the goods for which it is best suited, given its endowments of land, labor and capital. A country has a comparative advantage in an industry if its relative performance in that industry (i.e., its performance as compared with other countries) is better than its relative performance in other industries (Chang & Grabel, 2004, pp.55-56).

As Chang (2014) points out, this implies that every country — even one that is relatively inefficient in all industries— has a comparative advantage:

Even when a country cannot produce any product more cheaply than another country can, free trade between them will allow both to maximize their outputs. They can achieve this by specializing in products in which they have *comparative* advantage — those with the largest relative cost advantage in the case of the more efficient country and those with the smallest cost disadvantages in the case of the less efficient country (Chang, 2014, pp.116-7).

As Chang is careful to point out, the word 'comparative' in comparative advantage "refers to the comparison between products a country can potentially produce," while the "possibility that one country is more efficient than another in producing the same product is already reflected in the term *advantage*" (Chang, 2014, p.17).

Despite the significant differences between the Ricardian and Heckscher-Ohlin versions of comparative advantage (Chang, Hauge & Irfan, 2016)²⁷ — I return to these in a moment— both share a common belief that markets 'get the prices right': that is, they send price signals that ensure that all countries specialize in producing goods in which they have a 'comparative advantage', such — when countries follow their CA, market transactions produce an optimally efficient international division of labor (and production), allowing markets to maximize output and, through trade, consumption. Thus, when all countries specialize in accordance to their comparative advantage, market transactions produce an optimally efficient international division of labor (and production), allowing markers to maximize output and, through trade, consumption.

If we accept this line of reasoning, some policy implications immediately follow: namely, if freely functioning markets ensure optimal outcomes through their price signals, then policies that disrupt those price signals —like tariffs to protect infant industries — necessarily lead to suboptimal outcomes. This is the rationale behind contemporary critiques of industrial policy, which see industrial promotion as a process in which governments 'pick winners' rather than allowing 'winners' to emerge naturally through freely functioning markets.

Should we, however, accept this line of reasoning? The simplicity of the theory of comparative advantage is certainly appealing, but simplicity does not necessarily mean practical usefulness and, indeed, there is frequently a tradeoff between the two, as increasing simplicity requires abstracting away the messiness of the real world. So, to assess whether or not the theory of comparative advantage is helpful for our purposes (informing economic policy for development), we have to begin by asking whether it is effective in explaining real economic dynamics.

This requires, first of all, making explicit the simplifying assumptions of the theory in order to grasp what realities have been abstracted away and, consequently, what we can reasonably expect the theory to tell us about real world behavior.

Let us begin with the most problematic assumption: homogeneity of technological capabilities.

As Chang, Hauge & Irfan (2016) discuss, Ricardo's version of comparative advantage "posited that differences in productive specialization between countries were due to

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differences in productive capabilities (technology) and that these differences, in turn, were reflected in the number of labor hours required to produce the same product," while the neoclassical Heckscher-Ohlin version of comparative advantage "attributed productive specialization to relative endowments of capital and labor" (Chang, Hauge & Irfan, 2016, p.35). The latter version of comparative advantage assumes that all countries are technologically capable of producing everything and choose to specialize in particular products based on the combinations of labor and capital they require and the country's relative endowment of those two factors (with endowments of those factors varying across countries) (Chang, 2014, pp. 118-119).

To illustrate the absurdity of this assumption, Chang (2014, p.119) points to the unrealistic conclusions it leads to: if, for example, "a country like Guatemala isn't producing things like BMWs, it is not because it cannot, but because it is not economical to do so, given that their production uses a lot of capital and little labour, when Guatemala has a lot of labour and little capital." This interpretation clearly neglects to acknowledge the differences in the productive capabilities embodied in 'labor' and 'capital' across nations, assuming that all 'labor' and 'capital' are homogenous and can be readily deployed to produce and good or service (perfect factor mobility) (Chang, 2014, p. 411). By contrast, the Ricardian version of comparative advantage recognizes heterogeneity in productive capabilities —technologies— which, at least in principle, allows one to consider the tradeoffs between an optimal short-term, income maximizing outcome obtained by conforming to current CA and better long-term outcomes to be obtained by taking measures to *change* a country's CA through the development of new productive capabilities.

There are, however, other theoretical assumptions that are often used to undermine the legitimacy of industrial policy. The assumption of perfect markets (perfect competition), for example, underpins general equilibrium theories, forming the basis for many arguments against 'intervention' in the economy. Although the problematic assumptions inherent in general equilibrium theory are many, as Shaikh²⁸ (2016, pp. 343-344) points out, the idea that markets are composed of price-taking firms —firms that do not set prices, but rather take them as given — is essential to the derivation of individual supply and demand functions, which in turn form the basis for general equilibrium as a state in which markets clear, given a

²⁸ For an extensive review of the various critiques of the assumptions in general equilibrium theory, see Shaikh (2016), pp. 340-379.

particular set of prices that allow the quantity supplied to match the quantity demanded. Crucially, this implies the absence of oligopoly or monopoly firms ('price-setters'), which already renders this assumption inconsistent with reality.

Even though their assumptions do not hold in real life, however, general equilibrium models are so often invoked to justify policy recommendations. So it is that, despite the absence of perfect competition — the defining attribute of a 'free market' — in the real world, theories based on the assumption of perfect competition continue to hold sway.

There have been substantial efforts in contemporary trade theory to adjust the assumptions of the Heckscher-Ohlin model to account for empirical realities that were not initially contemplated, like imperfect competition, increasing returns to scale and even differences in technological capabilities between countries (Shaikh, 2016, p.501; Milberg & Winkler, 2013).²⁹ With these adjustments, however, the model no longer produces the same predictions about the benefits of open trade for developing countries,³⁰ undermining the theoretical basis for the thesis that countries should allow 'the market' (read: open trade) to determine their productive specialization. This is why some have argued that the adjusted versions of CA models make room for some kinds of state intervention in strategic sectors (UNDP, 2003, in Shaikh, 2016, p.501). This undermines the functionality of CA as a theoretical tool for attacking the legitimacy of state interventions.

Even more important than the internal limitations of these models, however, is whether or not their predictions are consistent with reality. On this front, attempts to empirically capture the economic impacts of open trade for developing countries leave little doubt that entrusting productive specialization to 'the free market' does not seem to lead to economically optimal outcomes.

In their extensive review of empirical studies on trade openness and growth, Rodríguez and Rodrik (2000) conclude that the evidence on the growth impacts of open trade is statistically insignificant. Thirlwall and Pacheco-López (2009), find that the results of the econometric literature on the relationship between trade liberalization and export-growth are mixed and conflicting, partly due to the structural differences between countries and partly due to the diversity of measurements of liberalization (Thirlwall & Pacheco-López, 2009,

²⁹ See Shaikh 2016, P.501; Milberg and Winkler, 2013, Ch. 3, for detailed discussions on these adjustments.

³⁰ This is hardly surprising given that, if the advantages of open trade predicted by comparative advantage only hold under conditions of perfect competition (among others), then, in a world where perfect competition is the exception rather than the rule, there is little reason to expect the predicted outcomes.

pp.71-73). They also conclude that studies showing strong correlation between trade openness and growth are the product of either faulty methodology in the specifications of the models used or inadequate proxies for trade openness.³¹ Regional studies are even more discouraging. For example, Latin America's reversal of industrial policies through trade liberalization and 'market-oriented reforms'³² beginning in the 1980s, contributed to de-industrialization and a marked decline in growth performance (Weisbrot & Ray, 2011, pp.7-8; Palma, 2008). Rodrik (2015) points to a similar phenomenon in Sub-Saharan Africa.

These conclusions are consistent with recent research on the relationship between growth, industrial specialization and multidimensional poverty. In an ambitious study for the Oxford Poverty and Human Development Initiative (OPHI), Santos, Diabus and Delbianco (2016) find strong evidence to suggest that (i) economic growth reduces multidimensional poverty (though the impact is well below a one-to-one relationship) and (ii) countries with a higher share of industry in their GDPs have lower multidimensional poverty.

From a longer-term perspective, economists studying historical trade patterns (Weber, et al., 2021; Pascali, 2017; Williamson, 2011) have shown that the divergence between rich and poor countries in the first era of globalization resulted from unequal gains from trade between exporters of raw materials and manufactured goods. These results are echoed in the contemporary scholarship on export specialization, which shows that higher per capita GDP—and higher growth rates—are associated with specialization in more sophisticated exports (Gala, et al., 2017; Hausmann, et al., 2007; Ocampo, et al., 2009). These studies also show that trade specialization is marked by path-dependency: that is, countries specialized in exporting low-valued-added products are very unlikely to shift toward specialization in more sophisticated products. Moreover, close examination of long-run economic complexity, export diversification, and sophistication data shows that this path-dependency has been largely persistent over two eras of globalization (Weber, et al., 2021).

Finally, qualitative case studies show that, much like Western Europe's early industrializers, the few countries that have managed to break with this path-dependency in the 20th century (e.g., South Korea, Taiwan, Japan and China) have done so, not by allowing

³¹ For example, Sachs and Warner's widely cited 1995 study uses of the black market premium as a proxy, although this indicator is more likely to reflect macroeconomic and institutional problems that, indeed, negatively affect growth (Rodríguez & Rodrik 2000, p.25, p.59)

³² Namely the 'structural adjustment' programs promoted or imposed by the IMF, which included privatization, financial deregulation, increased opening to international capital flows and trade liberalization (see Chapter 5).

markets to determine their productive specialization but through extensive use of the kinds of policies associated with infant industry promotion (I describe these later in the chapter) (Wade, 2004; Chang, 1993; Amsden, 1989).

Taken together, this empirical evidence suggests that, contrary to the basic thesis of comparative advantage, it *does* matter whether or not a country specializes in producing and exporting sophisticated products. In fact, industrialization seems to be not just 'one of' the desirable goals of an effective development policy, as Sen suggests (Ch. 3), but almost a necessary condition for overcoming poverty. By contrast, 'open markets' and 'openness to competition', which Sen also advocates (see Ch. 3), does not seem to have the positive effects that comparative advantage theories predict.

This means that comparative advantage theories are not a sound basis for rejecting either 'price-distorting' infant industry promotion policies as a means for industrialization or their underlying premise that industrialization is desirable. Empirical evidence points in the opposite direction.

However, in order to understand the ways in which industrial policy can be helpful for overcoming poverty, it is also necessary to understand *why* industrialization seems to be so closely associated with higher incomes productivity growth. This requires a theory that explains the patterns of path-dependency, divergence and unequal gains from trade which we have just discussed. I address these in the next section.

4.4.4 Modern classical trade theory and classical development theories: more realistic explanations of trade and growth patterns and their implications for industrial promotion

While CA theories struggle to make sense of the trade patterns and growth trajectories of rich vs. poor countries, modern classical trade theories and classical development theories articulate clear explanations for these phenomena, which are helpful for informing policy prescriptions. I discuss these in turn.

Modern classical trade theory on persistent trade imbalances

In Ricardian trade theory, trade imbalances are automatically corrected: if a country begins to export more than it is importing from a trading partner, it is assumed that its currency will

appreciate, making its goods relatively more expensive and the goods of its partner relatively cheaper. Through these adjustments in relative prices, any trade imbalances are expected to be eventually corrected by the market. As pointed out by Shaikh and Weber (2021; 2018), however, this vision of exchange rate adjustments does not allow for the possibility that, when a country accumulates a large trade deficit, it might simply become the recipient of credit that will allow it to continue to consume more imports, leading to persistent trade imbalances and accumulation of debt. This alternative theoretical perspective is based on the Smithean trade theory of 'absolute advantage' :

Smith extends the theory of absolute advantage as formulated for trade between regions of one country to the international level: "Were all nations to follow the liberal system of free exportation and free importation, the different states into which a great continent was divided would so far resemble the different provinces of a great empire." (Book IV, Ch. 5, p. 708) In the absence of Ricardo's monetary mechanism 'the natural advantage which one country has over another in producing particular commodities' (Book IV, Ch. 2, p. 596-7) is not transformed into a comparative disadvantage. Instead, trade imbalances reflect absolute cost advantages and are persistent in the absence of policy interventions (Shaikh & Weber, 2018, pp.13-14).

From this alternative theoretical perspective, the economic realities of poor countries—including recurrent debt crises—are easy to explain and, furthermore, the importance of capital flows in reinforcing path-dependent trade patterns is brought to light.

It follows from this explanatory theory that the 'natural' state of open trade is not conducive to economic stability, and policy interventions are required to break the cycle of persistent trade imbalances, debt accumulation and ensuing crisis.

Classical development theories on trade imbalances and the special role of manufacturing

Classical development theories provide further insights about the sources of persistent trade imbalances and unequal gains from trade. Perhaps most notably, the Prebisch-Singer

hypothesis (Prebisch, 1950; Singer, 1950) begins from the observation that poor countries tend to specialize in primary goods —with low income elasticities of demand— while rich countries tend to specialize in manufactured goods, with higher income elasticities. This difference in elasticities means that, as income grows, demand for manufactures grows more than demand for primary goods, leading to a deterioration in the terms of trade for poor countries. This implies that, in order to sustain the same level of imports of manufactures from abroad, poor countries would have to export their primary goods at increasing levels.

Crucially, although Prebisch and Singer speak in terms of 'manufactured' vs. 'primary' goods, at a more abstract level they are speaking about goods that are produced under oligopoly conditions (namely, high barriers to entry), with higher price-setting power —manufactures— vs. goods produced under more 'perfect' price-taking conditions —primary goods—, where there are many competitors and a limited scope for mark-ups. This is why in 'modern-day' versions of the Prebisch-Singer trap (Milberg & Winkler, 2013), it is possible for developed countries to specialize in high-value-added *services*, which are today produced under oligopolistic conditions, and to trade at an advantage with poor countries producing certain manufactured products that have become 'commoditized' — *i.e.*, their production has become standardized and subject to more 'perfect' competition. The consequence of these asymmetric patterns of trade is, once again, cycles of trade imbalances, borrowing and debt crises, all of which stymie the possibility to accumulate capital for investments that might be able to disrupt the vicious cycle by creating productive capabilities to make 'oligopolistic' products.

A key take-away from these theoretical insights is that part of the reason why specialization in manufactured products has been associated with better economic outcomes lies in the oligopolistic structure of the market in which manufactures were traditionally produced and traded and not (only) in the intrinsic qualities of manufactured products (I return to these in a moment). It is therefore important not to fetishize 'manufactures' when targeting industrial sectors and to think in terms of 'high-value-added' goods and services, which owe part of their 'high-value' to market structure. Of course, oligopolistic markets are much more difficult to penetrate, but therein lies the challenge of defying comparative advantage and, as I discuss in the next section, there are viable policy mechanisms for meeting this challenge.

The above insights about oligopolistic market structure also call into question the pervasive idea that the service sector is 'driver' of the modern economy. It is not so much that services have displaced manufactures as a source of employment and growth, but rather that many of the activities previously performed in-house by manufacturing firms have been outsourced (Chang, 2014, p.216). Some of these activities, like product design, belong in the 'high-value-added' category, while others, like catering, belong in the 'low-value-added' category. Conflating these two types of activities within the homogenous category of 'services' can gravely mislead policy-making.

However, market structure is not the only reason that manufacturing has historically played a special role in development, relative to the agricultural and services sectors. As pointed out by Andreoni and Chang (2017), many other important reasons have been identified by classical development economists.

First of all, from a microeconomic perspective, manufacturing lends itself much more easily to mechanization and chemical processing than the services and agricultural sectors, making it more conducive to productivity growth. In fact, many of the productivity increases achieved in the services and agricultural sectors arise from transpositions of innovations originally developed in the manufacturing sector—for example, agricultural machinery, computerized warehouses and even organizational systems, like the assembly line or the computer-controlled feeding systems that give Dutch agriculture its competitive edge. In short, the manufacturing sector has historically served as a learning center—a wellspring of productivity-enhancing innovations that diffuse to the rest of the economy (Andreoni & Chang 2017, pp. 180-181).

Secondly, manufactured products have certain features that render them beneficial from a macroeconomic perspective, even when they become more standardized and lose the oligopolistic features discussed above. First, the manufacturing sector is the main source of demand for the agricultural and services sectors, and its linkages with those sectors boost growth by creating indirect jobs and income. Second, manufactured products are not highly susceptible to the extreme price volatility that plagues commodity markets, often triggering crises in commodity-exporting countries (Ecuador's oil-shock experience is a prime example of this as I discuss in the following chapters). Third, manufactures have higher tradability, and thus, higher potential for export earnings than most services and agricultural products, which are perishable. Finally, the manufacturing sector has historically been an important

driver of decent employment, offering higher steadier incomes and more decent working conditions (Andreoni & Chang, 2017, pp. 180-181).

In sum, we can draw several conclusions from the theoretical and empirical evaluations of comparative advantage vs. classical development and modern classical trade theories. First, it is crucial for poor countries to develop the productive capabilities to export high-value-added products, especially manufactures, not only as a means of reducing income poverty, but also to tackle poverty 'capabilities' as defined in the broader, humanist definition that the MPI seeks to capture. Second, it is unlikely that such productive capabilities will develop 'naturally', since path-dependency is the 'natural' state of affairs under open trade. Third, when poor countries maintain path-dependent specialization in low-value-added production, this leaves them vulnerable to persistent trade imbalances and debt accumulation, which diverts resources away from investments in expanding people's (productive and non-productive) capabilities. And finally, these realities make it imperative to think about what kinds of mechanisms are necessary to break with path-dependency.

In the next section, I briefly introduce some of the mechanisms that have been successfully implemented by countries that have managed to surmount the challenges of path-dependency to industrialize and dramatically reduce poverty.

4.5 Empirically tested industrial policy tools and challenges of implementation: a humanist perspective

So far, we have established that poverty is unlikely to be overcome through instruments like 'social' policies, microfinance and cash transfers alone, but also requires more structural policies aimed at industrialization—that is, the development of productive capabilities for producing and exporting high-value-added goods and services, including manufactures. Empirical evidence shows that, without industrialization, it appears to be difficult for countries to finance the expansion of human capabilities and to overcome socially unacceptable levels of capability deprivation we call 'poverty'. This is the case whether the financing of human capabilities is organized through the state (for example, through cash transfers and public services), through the creation of jobs, or through a combination of both.

We have also established that these productive capabilities do not develop 'naturally' but require active promotion.

However, these conclusions also raise important questions. Namely, how should countries select which high-value-added industries and manufactures to promote? And what mechanisms should be employed to promote the selected industries?

The diverse experiences of successful industrializers leave no doubt that there are no simple or universal answers to these questions. In fact, one of the main take-aways from the case study literature is that there are no 'right' or 'wrong' institutions of industrial policy 'in general'. The same institution (*e.g.*, low tariffs) may be helpful at one stage of industrial development and detrimental at another, just as it may be helpful for one industrial sector (*e.g.* aluminum), but not another (*e.g.*, aluminum pipes).

Nevertheless, it is possible to draw some helpful policy guidelines from the development experiences of successful industrializers. A detailed overview of useful policies is beyond the scope of this dissertation, but important summary lessons can be gleaned from studies of industrialization processes (Wade, 2004; Chang, 1993; Amsden, 1989). In the interest of exploring how industrial policy can be more closely brought into line with the humanist approach, the following sections combine lessons from the case study literature on industrialization with elements from the humanist literature.

4.5.1 Targeting for industrial promotion: key lessons and guidelines from historical experiences

1. There should be a mix of technologically ambitious and less challenging industries.

As pointed out by Chang (2009), industrial targeting involves a balancing act between realism and ambition. Achieving this balance is particularly challenging when it comes to industrial policy design because it is not easy to judge whether the skills required to develop a particular industry stray too far from the realm of the possible. Japan's entry into the auto industry in the 1950s and Korea's entry into the steel industry in the 1960s show that ostensibly unrealistic 'big leaps' can be successful. Furthermore, one must start from the acknowledgment that investing in new productive capabilities inherently implies risk-taking and the possibility of failure —this is true whether the investor is a country or a corporation.

The key to managing risk is to design a portfolio of projects with different risk profiles (Chang, 2009). The objective of risk-reduction also plays out at the systemic level: having a diversified export basket (and production capabilities) means that countries are less vulnerable to sudden shocks if one of their exports suddenly drops in price or is displaced by a technological innovation.

However, precisely because industrial promotion is a risky and expensive business, it is important for highly resource-constrained countries to target a manageable number of industries at a high level of specificity— *e.g.*, 'synthetic rubber' as opposed to 'petrochemicals' in general. For the same reasons, it is useful to target some less sophisticated industries for short-term promotion in order to generate the capital needed for more ambitious longer-term investments. Korea, for example, manufactured Nike shoes (Nike outsourced almost all its shoe production to South Korea and Taiwan from the late 1970s to the late 1980s), while deploying a longer-term strategy to develop competitive steel, automotive and semiconductor industries (Chang, Hauge & Irfan, 2016).

The level of ambition shown by countries like Korea and the 20th century industrializers are uncommon in more recent industrial policy efforts. In fact, even some of the few scholars who have tackled the methodological aspects of industrial targeting in recent years continue to err on the side of 'caution' by advising countries not to attempt to stray too far from the productive capabilities that underlie their current comparative advantage (see, for example, Hausmann & Klinger, 2010). If we take concrete historical experiences as a guide, however, ambitious moves toward sophisticated technologies are an important part of industrial strategies that have generated fast growth and poverty reduction (see Wade, 2004; Chang, 1993; Amsden, 1989).

2. There are many valid criteria for selecting industries —and 'political' criteria can be just as important as 'economic' criteria.

Although it may be helpful to use sophisticated econometric tools and mathematical models to analyze the relative potential of different industries, it is also important to remember that the successful industrializers throughout history —from Britain to China— managed just fine without them. This is in part because there is no one 'right' methodology for targeting sectors and there may be many good reasons for selecting a particular sector that are

intuitively accessible to those who are unburdened by the constraints of abstract models. In other words, there are many valid targeting criteria which can be considered in a decision-making process, depending on the objectives a given society chooses to prioritize. These range from, 'ecosystemic' considerations to 'economic' considerations, like potential for demand-growth or expansion of opportunities for decent work, to 'political' considerations like the level of support that can be expected from different societal actors or the degree to which the industry lends itself to democratic governance. Table 4.2 summarizes some of these criteria.

Table 4.2. Criteria for industrial targeting	
Ecosystemic and human health criteria	1. Environmental impact of the industry and indirect effects on people's livelihoods, locally and globally
	2. Risk factors created by ecosystemic changes: e.g., how will climate change affect a particular industry?
	3. Windows of opportunity created by the emergence of new technologies related to climate change or other projected ecosystemic changes.
Economic criteria	4. Potential to generate quality work opportunities
	5. Linkages: potential to stimulate other industries through consumption linkages (demand generated by workers for consumer goods), forward linkages (industries that may use the targeted industry's outputs), and backward linkages (demand for raw materials from other industries)
	6. Technological requirements: how difficult will it be to create the technological capacities required to succeed in the selected industry?
	7. Potential to generate foreign exchange reserves and correct trade imbalances
	8. Demand factors: high income elasticity of demand, fast growth in external demand, domestic potential demand through substitution of imports
	9. Challenges and opportunities created by emergent changes in the outsourcing strategies of global firms and market structure of global production networks
	10. Potential to secure financing
Political criteria	11. Potential to create a democratic governance structure for the industry
	12. Potential to secure buy-in from different stakeholders
	13. Policy constraints imposed by global economic rules (e.g., trade agreements) or political pressures
	14. Fallacy of composition risks: what industries are being promoted by other countries and how likely is it that a particular product will become 'commoditized', like low-tech manufactures have?
Source: Author & Chang (2016)	

4.5.2 Implementing industrial policy: lessons and pitfalls

Even if an industrial policy is perfectly designed, it can often fail due to shortcomings in the process of implementation. In fact, opponents of industrial policy often cite this as a reason to avoid industrial policy altogether, arguing that 'government failures' are worse than 'market failures'. In their extensive discussion of implementation, Chang, Hauge & Irfan (2016) discuss some key pitfalls at length. In short, these include:

(i) Lack of adaptability to new circumstances, such as the emergence of a particularly successful competitor, which may require a change in strategy;

(ii) Failure to make full use of 'policy space' in the global economic system for industrial promotion and the inability to find creative ways around existing restrictions (e.g. year limits on infant industry protections). Appendix II shows how some key industrial policy tools used by now industrialized countries have been restricted by global trade and investment agreements and highlights existing flexibilities;

(iii) Lack of strategic management of class politics. Successful industrialization efforts have managed to neutralize economic elites that might oppose industrial policy. For example, South Korea's land reform in the 1940s and 1950s weakened the political power of the landlords, clearing the way for the rise of a pro-industrial policy regime in the 1960s. In the Prussian 'marriage of iron and rye', Bismarck provided protections to the landlord class (the Junkers) in exchange for their acquiescence to industrial policy measures, including tariff protection, for the emerging heavy and chemical industries (p.49);

(iv) Ineffective administrative and organizational capabilities — e.g., clear command structures, institutional routines and records, abilities to recruit and train a capable bureaucracy. On this last point, the authors note that the policy-makers responsible for the success of Korea, Japan, Taiwan and China were not economists, but predominantly lawyers, engineers and scientists, whose strength was the ability to learn and to manage complex projects (for more detail see Chang, 2010, Ch. 23);

(v) Lack of ideological flexibility and policy imagination. The realm of policy imagination can be greatly expanded when policy-makers are willing to think outside the confines of ideological doctrine and theoretical models which, as we have seen earlier in the chapter, can often obscure reality. A prime example of policy flexibility can be found in Singapore, which combines some quintessential 'free-market' features, like an open trade and investment regime, with quintessential 'socialist' features: state-owned enterprises account for 22% of its GDP, 90% of land is publicly owned and 85% of housing is provided by the government Housing Development Board (Chang, et al., 2013). Rather than aiming for a coherent ideological-political model, in the face of complex realities it is often preferable to embrace the "productivity of incoherence" (Grabel, 2017).

Beyond ideological flexibility, expanding "policy imagination" also entails fostering innovative capacity and creativity — the ability to imagine rules, institutions, projects and other policy interventions that significantly change (rather than merely tweak) existing policies, whether by reviving old, perhaps forgotten policies or by inventing new ones. This kind of path-breaking creativity is particularly necessary when profound structural transformation is required or in the case of economic emergencies. Ecuador's experience with "quantitative easing for the people" (Chapter 6), for example, was a creative, completely unprecedented initiative that gave Ecuador's economy an unlikely degree of resilience in the face of recession. This innovative policy initiative contrasted sharply with the government's approach to industrial policy (Chapter 7), which largely consisted of minor policy modifications and yielded commensurately minor economic results.

Finally, no matter what industries are chosen, industrial promotion should be aggressive and sustained. As discussed earlier, France's industrial policy heritage goes back at least to the time of Louis the XIV, but since then it has continued in various forms. From the 1950s to the 1980s, for example, France implemented very similar industrial policy to that of the East Asian countries, using indicative planning, directed credit (including through its many state-owned banks), and a state-owned enterprise (SOE) sector that accounted for around 15% of its GDP (Chang, Hauge & Irfan, 2016). Even today, rich countries strongly promote their industries through strategic, focused investments in research and development (Mazzucato, 2011; Block, 2008) that ensure their technological lead by increasing barriers to entry for potential competitors. The United States' Defense Advanced Research Projects Agency (DARPA), the Advanced Research Projects Agency—Energy (ARPA-E) or the

National Institutes of Health (NIH) (one of the world's foremost medical research centers), are but a few examples.

Beyond R&D, rich countries also negotiate trade agreements aggressively to favor their industries —sometimes also at the expense of the rest of the population, by, for example, expanding patent rights for pharmaceuticals, which raises drug prices. Evidently, this would be inconsistent with an industrial promotion strategy that has people's wellbeing at its core, which is why trade policy should be pursued through democratic procedural mechanisms like those discussed at the beginning of this chapter.

However, industrial promotion should be aggressive in other ways, particularly in ensuring that investments in new industries are sustained in the long-term. This requires creative policy solutions and some political will, given that the current WTO allowance of eight years for infant industry protection is minuscule compared to the periods of protection that have historically been required to develop competitive industries, like the Japanese and Korean auto industries, which required at least a few decades of protection,³³ and Finland's Nokia, which required nearly two decades (Andreoni, Chang & Estevez, 2019).

4.6. Conclusions

This chapter has analyzed the theoretical and empirical case for pursuing different policies that have been put forth in recent decades as solutions for poverty, defined either in terms of income or in terms of capabilities deprivation.

This analysis led to the conclusion that, while instruments like microfinance and cash transfers can contribute to helping people cope with poverty and 'social policy' solutions, like investments in health and education, can also be conceived as long-term human capability building strategies for overcoming poverty (of income and capabilities), none of these solutions are sufficient because of two intertwined reasons: (i) investments in human capabilities do not translate into increased income, if people's skills cannot be productively deployed (*i.e.*, if there is insufficient demand for their productive capabilities); and (ii) sustaining programs like cash transfers and social policies is untenable, if countries lack the productive base (collective productive capabilities) to generate the required capital.

³³ *e.g.*, the Japanese auto industry was established in the 1930s and became competitive in the 1970s (Chang, 2007, p.20)

To build this productive base, I have argued on the basis of empirical evidence that countries must employ industrial promotion policies aimed at developing the capabilities to export high-value-added products, including manufactures, not only as a means of reducing income poverty, but also to tackle poverty as defined in the broader, humanist definition that the Multidimensional Poverty Index seeks to capture. Industrial promotion must be deployed because it is unlikely that such productive capabilities will be developed 'naturally', since path-dependency is the 'natural' state of affairs under open trade.

I have also argued that, if policy is understood as a mechanism of collective action to solve collectively defined problems, then a humanist economic policy is one in which the collective process of articulating and solving problems is democratically pursued, as opposed to being concentrated in the hands of few decision-makers. The final section offered some guidance to all people seeking to pursue and shape industrial policy by briefly introducing some of the mechanisms that have been successfully implemented by countries that have managed to surmount the challenges of path-dependency to industrialize and dramatically reduce poverty.

Appendix 4.1 Industrial policy tools used by now industrialized countries and constraints from global economic rules

Table 4.3 Industrial policy tools used by now industrialized countries and constraints from global economic rules	
1. Targeted investments in infrastructure, training, education, R&D to increase productivity and promote high value-added industries	Not directly affected by WTO or WTO+ agreements
2. Coordinated investments in complementary sectors; government-mediated mergers to achieve scale economies and reduce inefficient competition	Not directly affected by WTO or WTO+ agreements
3. Subsidies for key industrial sectors to promote high value-added industries and exports	<p>The WTO's Agreement on Subsidies and Countervailing Measures (SCM) considers subsidies trade distorting measures and prohibits any sector-specific subsidies, as well as those for export promotion and for enforcing the use of local content in manufacturing. It also prohibits indirect subsidies through intra-private sector transfers brought about by government regulation. In practice, however, subsidies can be used until they are challenged or countervailed.</p> <p>Subsidies for R&D, regional balances, and environmentally friendly technologies are 'actionable' but have seldom been disputed, in part because developed countries often use them. LDCs are permitted to use export subsidies under certain conditions, but are not exempted from countervailing measures from trading partners.</p>
4. Creation of state-owned enterprises (SOEs) to	<p>The use of SOEs is not directly affected by WTO agreements.</p> <p>However, tariff cuts in the General Agreement on Tariffs and Trade</p>

<p>kick-start new, high-value added industries</p>	<p>(GATT) and market-access and national treatment requirements in the General Agreement on the Trade of Services (GATS) - Mode 3 (commercial presence) can be fatal for SOEs, limiting the potential to use them as industrial policy tools (<i>e.g.</i>, a state-owned telecom company buying from local handset makers), or to supply services to locally-owned industries at a subsidized rate (<i>e.g.</i>, state-owned electricity companies giving concessional rates to designated industries or ‘industrial zones’).</p>
<p>5. Infant industry protections, such as tariffs, quotas, and market reservations for domestic industrial producers</p>	<p>WTO member countries are all required to bind at least some of their tariffs at an upper limit. In the Doha Round of Non-Agricultural Market Access negotiations, industrialized countries are pushing to bind and slash all unbound tariffs.</p> <p>The GATT (Art. XVIII) allows developing countries with low standards of living to temporarily raise tariffs to promote the establishment of a particular industry, but this requires difficult negotiations, approval of WTO members, and compensation through other tariff reductions. Furthermore, the time frame allowed (8 years) is very short relative to historically effective time frames for infant-industry protections (Chang, 2003, p.268).</p>
<p>6. Capital controls and capital outflow taxes to prevent capital flight and encourage savings to remain in the country, facilitating productive investments, including investments in R&D</p>	<p>Under the GATS and TRIMS regulations, restrictions on capital controls exist, but violations of the rules can only be challenged in a dispute if a member country initiates state-state arbitration.</p> <p>WTO+ agreements are much more restrictive. US. Bilateral Investment Treaties, for example, require that US firms be allowed to freely transfer payments in and out of host countries without delay.</p>
<p>7. Government allocation of foreign exchange, giving top priority to capital goods imports and the bottom priority to luxury consumption goods imports.</p>	<p>Not directly affected by WTO or WTO+ agreements (or IMF)</p>

<p>8. Performance requirements, such as requirements on foreign investors to incorporate of local content/workers or engage in joint-ventures and technology transfer</p>	<p>The WTO's Trade-Related Investment Measures (TRIMS) Agreement constrains local content requirements, but not conditions for joint venture and transfer of technology. The activities covered by the GATS- Mode 3 (services delivered through commercial presence) are subject to fewer restrictions than those covered by the TRIMS. WTO+ agreements increase restrictions on performance requirements (<i>e.g.</i>, US BITs strictly prohibit all performance requirements; signatories in Sub-Saharan Africa include Cameroon, Congo, DRC, Mozambique, Rwanda and Senegal).</p>
<p>9. Procurement policy through preferential treatment of domestic firms or of foreign providers willing to transfer technology or accept high (and rising) levels of local content</p>	<p>The WTO Agreement on Government Procurement restricts these measures, but most developing countries are not signatories. Some WTO+ trade and investment agreements restrict these measures (<i>e.g.</i>, EU-EPAs categorically prohibit them). Cameroon, Côte d'Ivoire, Mauritius, Seychelles, and Zimbabwe are among the Sub-Saharan African countries that have in force EU-EPAs or are working toward them.</p>
<p>Source: Author; adapted from Andreoni, Chang, & Estevez (2019), with inputs from Chang, Hauge & Irfan (2016)</p>	

This list of policies is drawn from real experiences of successful diversification and industrial upgrading. It bears noting that I have "omitted many of the very effective policies that were implemented by the early industrializers—namely Europe and the United States—because these fall too far outside the spectrum of the politically feasible for today's developing countries (*e.g.* unbridled theft of intellectual property)" (Andreoni, Chang, & Estevez, 2019, p.129).

All these policy measures "were successfully implemented by at least some of the first-tier newly industrialized countries (NICs) (South Korea, Taiwan, Singapore, Hong Kong). South Korea and Taiwan used every single one of these measures in their productive transformation strategies. Singapore has also adopted many of these policies and to this day has one of the largest SOE sectors in the world at 22% of GDP (Chang, 2007). The

second-tier NICs (Malaysia, Indonesia, and Thailand and China) have likewise implemented many of these measures. China, for example, protected and supported the industries targeted in its Five-Year plans through tariff and non-tariff barriers, including local content requirements, and provided them with subsidized loans from state ‘policy banks’, with SOEs receiving the lion’s share of these loans. Transnational corporations (TNCs) were induced to form joint ventures with domestic companies in an attempt to promote technology transfer (Andreoni, 2016).³⁴ Malaysia has likewise used sophisticated industrial targeting, using a range of mechanisms, from FDI regulation and protections for import substitution to incentives for exports, R&D and local content incorporation for export products.³⁵ Thailand and Indonesia have also embraced many of these policies, with their own variations and specificities" (Andreoni Chang & Estevez, 2019, pp.130-136).

³⁴ For further detail on China’s industrial policy, as well as that of Singapore, Korea and others, see Chang, H-J., Antonio Andreoni and Ming-Leon Kuan (2013). *International industrial policy experiences and lessons for the UK*. United Kingdom Government Office for Science.

³⁵ For further detail on Malaysia see, Chang, H-J., Hauge, J. & Irfan, M. (2016). *Transformative Industrial Policy for Africa*, Addis Ababa, United Nations Economic Commission for Africa.

Part II.

Ecuador's Economic Reforms 2007-2017:

A Systemic Humanist Analysis

*“There comes a point where we need to stop just pulling people out of the river.
We need to go upstream and find out why they’re falling in.”*

- Desmond Tutu

Part I of this dissertation developed a framework for the study of the systemic effects of economic policy from a humanist perspective. This 'systemic humanist approach' combines the humanist tradition's focus on personal freedoms, capabilities and wellbeing as the ultimate objective of development with classical development theory's focus on production and per capita growth as a necessary means of development.

Now in Part II, I specify and apply this framework to Ecuador's economic policies under the Correa administration (2007-2017). In other words, I use a tailored systemic humanist framework to analyze the human development implications of Ecuador's economic policies during this period.

Chapter 5.

Introduction to the Case Study: Historical Context and Evaluative Method

This chapter lays out the historical context necessary to make sense of the evaluation of Ecuador's economic policies in the chapters that follow and explains how the conceptual framework developed in Part I was translated into a specific evaluative method, tailored to the Ecuadorian case.

5.1 The Economic Policies of the Correa Administration in Historical Perspective

As discussed in chapter 1, I chose Ecuador's economic reforms from 2007-2017 as my case study because of their historical significance in the context of the “Pink Tide” that swept Latin America in the beginning of the 21st century (see Mendes Loureiro, 2018, for a detailed discussion of the regional context). As the next chapters show, Ecuador changed significantly from 2007 to 2017, under the eclectic administration of the self-described “leftist Christian humanist” (*El Universo*, 2009) Rafael Correa and the country's experience during this period holds manifold lessons about the challenges of development in commodity-dependent countries.

To grasp the significance of the Correa administration's economic policies, however, it's important to understand their place in Ecuador's broader historical context —specifically the broad-based reaction against the economic reforms implemented in the 1980s and 1990s.

5.1.1 Structural Adjustment and its Discontents: The Rise and Fall of the Washington Consensus in Ecuador

Correa rose to power in 2007 in a context of prolonged social unrest in response to two decades of structural reform under the Washington Consensus: the policies of austerity,

privatization, trade liberalization, and deregulation, which in much of Latin America were implemented at the behest of international financial institutions like the International Monetary Fund (IMF) and the World Bank (WB), as conditions for loans and debt restructuring. As in much of Latin America, the transformations that marked this period—which Correa frequently referred to as "the long and woeful neoliberal night"— were far-reaching and impactful.³⁶

Ecuador's process of structural reform came on the heels of a 'developmentalist' period in the 1960s and 1970s. During this period, successive governments had significantly increased investments in social programs (Barrera, 2001, p.259), expanded the public sector, implemented tax and agrarian reforms aimed at reducing inequality, and pursued industrialization through import substitution (Barrera, 2001, pp.83-85). The latter, which had been seen as as a means of diversifying the country's long-standing pattern of productive specialization in commodities (featuring cacao, bananas, seafood, flowers and oil at different historical moments), had begun to bear fruit by the late 1970s with moderate increases manufacturing production and manufacturing exports (Acosta, 2006, pp.157-239; Páez, 2015; Villalobos, 1985, pp.243-292).

Beginning in the early 1980s, however, the country changed course, adopting a host of 'structural adjustment' measures whereby public investment in social programs and infrastructure shrank drastically (Barrera, 2001, p.259); regressive tax reforms were implemented; public utilities were privatized; capital flows, foreign investment, interest rates, financial institutions and the labor market were increasingly deregulated; and, as Ecuador prepared to join the World Trade Organization in 1996, trade protections for infant industries were dismantled, dealing a fatal blow to the country's industrialization efforts (Acosta, 2006, pp.111-156).

These reforms took their toll. Economic growth during the initial years of structural reform was particularly dismal: from 1982 to 1989 the average annual per capita growth rate was -0.4%, as compared to a 4.02% in the preceding decade (World Bank, 2022a), and unemployment rose from 5.7% in 1980 to 14.3% in 1988 (ECSR, 1991). Nevertheless, rather than making countercyclical investments, successive governments chose to direct increasing

³⁶ For a detailed discussion about Ecuador's structural adjustment process during the Washington Consensus period, see Acosta, 2006, pp. 157-239; and Páez, 2004.

shares of public revenue to the debt service. By 1994, oil rents, which had been the main source of government revenues since the 1970s, were allocated primarily to repayment of the foreign debt (Fontaine, 2008, p.11; Forero, 2019). By the end of the decade, privatization of the oil sector decreased the state's contractually established share of revenues from oil exploitation from 87% to 20% (Páez, 2015).

The precarity caused by shrinking public revenues and the volatility caused by decreasingly regulated trade and capital flows was exacerbated by mounting fragility in the financial system as deregulation reached new levels in the 1990s. Interest rate flexibilization and the proliferation of financial instruments had already begun by 1986, but accelerated in the 1990s, leading to successive booms and busts in consumer credit, largely directed toward imports, and culminating in a devastating financial crisis in 1999. The government responded with a bank bailout and *de jure* dollarization—the adoption of the US dollar as legal tender— (Páez, 2004) under terms that decimated household savings and social security pensions (Acosta, 2006) —all in a context of rising inequality, poverty and unemployment that had accompanied the process of structural adjustment in the preceding two decades (Barrera, 2001, pp.109, 259).

The economic crisis that ensued (in 1999 the economy shrank at a rate of -4.7%) led to a wave of emigration, widespread suicides and mass protests that culminated in the ouster of the President, Jamil Mahuad—one of three presidential ousters in the 1997-2005 period—all brought about by mass protests over corruption and grievances about economic exclusion and mismanagement (Forero, 2019; Espinosa, 2009; FLACSO, 2008).

Though the composition of the social movements that led to each ouster varied, the Indigenous movement featured prominently throughout this period, as did groups of otherwise un-affiliated citizens from various social classes who had been directly affected by specific policies (e.g., retired persons whose pensions were slashed), and an array of activist groups of heterogeneous class composition that opposed austerity, trade liberalization and the 'imperialist intrusion' of financial institutions like the IMF and the World Bank (Forero, 2019; Barrera, 2001).

Anti-imperialist sentiment was further inflamed at the turn of the century, as the United States, having successfully established the North American Free Trade Agreement (NAFTA) with Canada and Mexico in 1994, began to aggressively pursue a "Free Trade Area of the Americas" (FTAA) and bilateral "free trade" agreements (FTAs), with Latin American

countries. National movements against FTAs and structural adjustment policies resonated on a regional scale and the oppositional momentum gradually developed into political proposals for concrete alternatives to the Washington Consensus and for regional integration to more effectively counter the power and influence of the United States in the region.

Riding on the momentum of these movements, the turn of the century saw the rise of a wave of governments in Latin America that offered to reject the Washington Consensus in favor of different varieties of left-of-center economic models. In South America alone, the early Pink Tide governments included the United Socialist Party of Venezuela, led by Hugo Chavez (1999-2013); the Workers' Party in Brazil, led by Luis Inácio 'Lula' da Silva (2003-2010) and Dilma Rousseff (2011-2016); the governments of Nestor Kirchner (2003-2007) and Cristina Fernandez de Kirchner's in Argentina (2007-2015); the Movement for Socialism, led by Evo Morales in Bolivia (2006-2019); the Patriotic Alliance for Change, led by Fernando Lugo in Paraguay (2008-2012), the Socialist Party in Chile, led by Michelle Bachelet in Chile (2006–2010; 2014–2018); José Mujica's Broad Front coalition in Uruguay (2010-2015); and Rafael Correa's Citizens' Revolution coalition in Ecuador (2007-2017).

5.1.2 The Rise of Correa's 'Citizens' Revolution' Coalition

Correa's coalition began to form in the context of the downfall of the government of Lucio Gutierrez (2003-2005), which had risen to power on a platform of fighting corruption and reversing structural adjustment policies. What was then called the 'leftist turn' in Latin America had started three years earlier with the election of Hugo Chavez in Venezuela. Gutierrez, a middle-class military officer who was supported by the Indigenous movement and embraced an anti-imperialist, anti-Washington Consensus discourse, was received as a sort of 'Ecuadorian Chavez' (Ramírez, 2010; Espinosa, 2009). Once in office, however, Gutierrez quickly reversed course. He signed a new letter of intent with the IMF, supported the United States' controversial military aid program, 'Plan Colombia' —broadly perceived as an imperialist intrusion—, and returned from his first official visit to the United States with the intention to sign an FTA. The reaction against this perceived betrayal led to massive demonstrations that culminated in his removal from office by the National Assembly and the instatement of his Vice President, Alfredo Palacio (2005-2007), who promised to follow the mandate of the protestors, including the removal of the US military base in the coastal city of

Manta (established under Mahuad), the denunciation of Plan Colombia, and the convening of a new constitutional assembly (Espinosa, 2009, p.756).

Though Palacio did not fully execute the mandate in his brief tenure, due in part to opposition from the National Assembly, he did begin to reverse Washington Consensus measures. He established a 50% tax on windfall profits³⁷ for foreign oil companies — a move the US denounced as "confiscatory" and which prompted it to abandon trade negotiations with Ecuador. Even before the impasse, Palacio, a medical doctor, had already expressed concern over the health implications of the intellectual property restrictions demanded by the US in the FTA negotiations, which would impede access to medicines (Espinosa, 2009, pp.758-759).

Palacio even briefly selected as his finance minister an academic economist well known for his anti-Washington consensus positions: Rafael Correa. In his three-month tenure, Correa eliminated the Fund for Stabilization and Investment of Oil Resources, which had been set up to channel oil money toward the debt service, and replaced it with a Special Account for Economic, Productive and Social Reactivation to redirect oil revenues toward the guarantee to "social rights" (Espinosa, 2009, p.758), signaling a commitment to a change of course that resonated widely: upon his resignation, the right-wing news outlet that would eventually become one of his greatest antagonists, described him as "the most popular Minister" and reported that he "had the support of social organizations, the public sector and labor unions" (*El Universo*, 2005).

In the context of widespread indignity and frustration with the protracted economic and political chaos, the political agenda put forth by Correa and his coalition in 2006 was compelling: 'Alianza PAIS' promised to restore national sovereignty and a sense of dignity in the face of imperialist pressures of the United States and international financial institutions, which had easily co-opted previous governments ('PAIS', in fact, stood for 'Patria Altiva y Soberana' — 'Proud and Sovereign Fatherland'). The coalition also promised to undo the structural adjustment measures of the Washington Consensus period, to reject 'odious' foreign debt incurred illegitimately in the preceding decades, and to reinvest in infrastructure and social services. Rather than bend to the will of more powerful neighbors to the north, it

³⁷ Windfall profits ('ganancias extraordinarias') are profits well above historical norms and that occur due to factors such as a price spike or supply shortage.

offered to pursue economic sovereignty by investing in a more robust national economy that would be less dependent on foreign markets (Alianza PAIS, 2006).

Correa's defiant anti-imperialist discourse, combined with his credentials as an economics professor and his offer of a radical but orderly political reset through a constitutional assembly made for a winning combination in the 2006 elections. Not only did Correa win the Presidency, but his party won 80 out of 130 seats in the Constitutional Assembly (Ramírez, 2012, p.101). Though traditional political parties were part of the process, the new constitution was written with strong majority representation from traditionally marginalized actors: the Indigenous movement, peasants' organizations, environmental groups and water protectors, self-organized local assemblies and development committees, women's, LGBTQ and youth organizations, various members of left-leaning social formations with long activist trajectories (Muñoz, 2008), and a notable contingent of heterodox economists from Correa's orbit trained in the structuralist tradition (sometimes called the 'FLACSO Boys' after the university where many of them taught, drawing a playful contrast with the Chicago Boys of Chile under the Pinochet dictatorship, trained at the University of Chicago, widely regarded as the bastion of economic ideology underlying the Washington Consensus).

The resulting 'Montecristi Constitution', ratified by the Constitutional Assembly in 2008, was innovative in many regards. It became the first constitution in the world to grant rights to nature (Arts. 71-74), guaranteed wide array of personal rights (more on this in the next section), extended national control over an array of 'strategic sectors', and introduced a host of lofty concepts—and even some concrete regulatory provisions—intended to mark an explicit break with the discourse of the Washington Consensus: 'strategic insertion' in the world economy (vs. a passive *laissez faire* approach), 'fair trade' (vs. 'free trade'), 'economic sovereignty' (vs. subordination and dependency of global centers of power) (more in Ch. 6). The Constitution also enshrined the concept of *Buen Vivir* (loosely translated as 'Good Living' or 'Living well') as the ultimate objective of the national development strategy, in a nod to contingents within the Constituent Assembly that rejected economic ideas of development centered on growth, including the Indigenous movement, ecological organizations and even some academic economists—not least among them the President of the Constitutional Assembly, Alberto Acosta.

As the Constitution was being penned, the newly elected government began to use existing executive authority to implement reforms. In a symbolically powerful move, Correa expelled the U.S. Military base that had been stationed rent-free in the coastal city of Manta since 1999 —at the time, the only US military base in North America outside the US. Strictly speaking, Correa offered to allow the military base to remain, provided that the United States would welcome an Ecuadorian military base in Miami, but the offer did not prove to be compelling (Stewart, 2007). As discussed in detail in chapters 6 and 7, the government also halted trade negotiations with the United States, denounced a series of Bilateral Investment Treaties signed by previous administrations, implemented a strategic debt default to reallocate public revenues to social and infrastructure spending, raised the minimum wage and began to rebuild public sector institutions that had been dismantled in the 1980s and 1990s, including the Secretariat for Planning and Development, which began to channel long-term investment funds in social and physical infrastructure and through an Undersecretariat of Public Investment.

The years that followed would be marked by significant —albeit often problematic and sometimes contradictory— reforms that unevenly attempted to implement the vision established in the new Constitution. The next chapters unpack the economic reforms implemented during this period and assess the extent of their contributions to the expansion of human wellbeing, understood in terms of human freedoms and capabilities. For methodological clarity, the following section explains the analytical framework underpinning that assessment.

5.2 Applying a Humanist Framework to Ecuador's Economic Policies (2007-2017)

5.2.1 Drawing evaluative guidelines from the conceptual framework

Part I of this work defended the idea that economic policies should be examined from a humanist perspective if they are to be assessed primarily in terms of their overall contributions to human wellbeing rather than merely in terms of their impacts on 'the economy' more narrowly understood (Ch. 2). It also argued that, despite the reticence and ambiguity of the human development literature on the role of economic policy in human development (Ch. 3), empirical evidence clearly suggests that economic policies are crucial

in the effort to eliminate poverty of income and capabilities: in particular, proactive industrial policies aimed at overcoming commodity specialization to build a diversified, and, therefore, resilient economy (Ch. 4). As shown, building capabilities for manufacturing and high-value added production is a key long-term determinant of both per capita growth and the reduction of multidimensional poverty (*i.e.*, the deprivation of human capabilities including, but not limited to purchasing power). In other words, if one understands multidimensional poverty systemically—that is, accounting for all the socioeconomic forces that play a major role in its perpetuation or elimination— industrial development, and therefore industrial policy, are a matter of central concern. This means that, when evaluating human development outcomes of policy interventions, we should not only examine 'social' policies, such as education and social security, but also the policies that lay the groundwork for the long-term structural changes that are most conducive to poverty-reduction and wellbeing in the long-run.

The analysis carried out in Part I has certain methodological implications:

First, if we are to evaluate economic policies as tools for solving the problem of multidimensional poverty, we should examine the extent to which they contribute to expanding the capabilities that a given society values. This, in turn, requires a methodology for identifying the relevant capabilities (Section 5.2.2) and analyzing the channels through which economic policies affect them. Since sustainably financing the expansion of capabilities in developing countries requires industrial promotion (Ch. 4), a humanist evaluation of economic policy also requires an assessment of the country's industrial strategy. I do this in Chapter 7, where I also present a more tailored methodology for a systemic and intersectional analysis of industrial policy.

Furthermore, I have argued in Chapter 2 that a humanist economic policy should not only seek productive transformation, along the lines of the prescriptions of classical development theories and historical experiences, but must also incorporate core principles of the humanist approach to development. Specifically, to give due importance to human agency, the evaluation of economic policies should examine the extent to which people—particularly those most affected by capability deprivations and furthest removed from power³⁸— are able to exercise their democratic rights to participate and have their interests

³⁸ By 'power' I mean the capability to make decisions about how a society is organized and administered. Concentrations of power can exist, for example, in state entities that concentrate decision-making power and in the hands of social actors who tend to use economic capabilities to exercise influence in the decision-making process to the detriment of the most marginalized people (*e.g.* banking institutions).

represented in policy-making. In accordance with the humanist approach's emphasis on the *responsibility* of people to act as agents of development (Sen, 1999, p.xiii), our evaluation should ideally also examine the extent to which citizens take initiative in shaping economic policy. As researchers, we are well positioned to make recommendations about whether or not the policy agendas pursued by different agents are likely to lead to the outcomes they desire. Though this research project is primarily focused on economic policies and their impacts rather than the process through which they were constructed, I have made an effort to include these procedural concerns in my analysis.

These broad evaluative guidelines can be applied to any developing country, as discussed in the introduction, but I have built them for the specific purpose of assessing Ecuador's policies from 2007 to 2017; the chapters that comprise Part II of this dissertation are a product of their application to this case. Below, I explain how these general evaluative guidelines were translated into more concrete methods, tailored to the Ecuadorian context.

5.2.2 Selecting Capabilities for Empirical Analysis: What Personal and Collective Capabilities do Ecuadorians 'Value'?

In concert with Ibrahim (2014, pp.16-18) and Robeyns (2003, 2017), this analysis proceeds from the belief that, while there are many valid reasons for selecting capabilities of interest for any given research endeavor, the researcher's choice must be defended and discussed ("explicit formulation"); the method used to select capabilities must be clarified and defended ("methodological justification"); the level of generality of the empirical application must be considered; and that no important capability must be left out ("exhaustiveness").

To clarify the level of generality of the empirical application, let us specify the research question: 'to what extent did Ecuador's economic policies (2007-2017) enhance or undermine development?' From this formulation it follows that (i) the empirical domain of my research is the entire country of Ecuador, (ii) the direct object of analysis is its economic policies, and (iii) these policies are to be assessed in terms of how they have impacted 'the development' in Ecuador. Therefore, to evaluate Ecuador's economic policies, we must also evaluate its 'development', which, following the humanist normative gaze, I have chosen to define as 'the expansion of the freedoms and capabilities' of the population.

Since I was not examining a community within Ecuador but 'Ecuador' as a whole, methods like directly asking each of the sixteen million people living in Ecuador what capabilities are important to them, like some capabilities research does (Clark, 2002; Ibrahim, 2011, Frediani, 2007) was not practically feasible in this project. I therefore needed a rationale for selecting a manageable list of capabilities that best represented the values and priorities of Ecuadorian society as a whole.

One possible avenue was the one used by researchers who adopt either Nussbaum's list of central capabilities (Anand, Hunder & Smith, 2005; Uyan-Semerci, 2007) or widely-accepted international normative frameworks, like the human rights framework (Vizard, 2007; Fukuda-Parr, 2011) or the Multidimensional Poverty Index (MPI), which uses various proxies to measure capability deprivations related to health, education and living standards (see Ch. 4). However, I felt that consistency with the humanist approach called for a greater effort to derive the normative capability set as closely as possible from people's actual priorities of needs and aspirations.

To that end, I examined two data sources. First, survey data from the World Values Survey (WVS), collected for Ecuador in 2013 (WVS, 2020); and second, Ecuador's 2008 Constitution, which was the product of a broadly participatory deliberative process (Muñoz, 2008) and prioritizes eight "Rights of *Buen Vivir*" for all people: (i) water and nourishment; (ii) a healthy environment; (iii) communication and information; (iv) culture and science; (v) education; (vi) habitat and housing; (vii) health; (vii) work and social security.

Ideally an exhaustive assessment of economic policy would entail an analysis of how each intervention affects the full range of capabilities that the society in question values. In other words, I would assess how economic policy measures affect each of the capabilities reflected in these Constitutional rights or any other right that might have been excluded, but is captured through other means, like the WVS. However, there are trade-offs between the level of analytical detail and the number of capabilities assessed, so, in the interest of finding a balance, I chose to focus on three core 'rights.' To determine which Constitutional rights were most important to the Ecuadorian people, I compared them to Ecuador's WVS results, where I found convergence around 'work' and 'education.' The survey found that 'work' was considered 'very important' to 88.5% of the survey respondents (only 'family' scored higher, at 98.6%) and the prospect of losing one's job and not finding another was one of the top two worries of the respondents (59.1% worried "very much" about this possibility). The only

prospect that was more worrying to respondents was "not being able to give one's children a good education" (59.7% worried "very much") (WVS, 2013).³⁹

Such high level of concern about work opportunities and education, which is often seen as a means for improving one's work opportunities, is also consistent with the country's scores on the WVS' post-materialist index, which found Ecuador to lean toward 'materialism,' like many lower and middle-income countries, where wellbeing tends to be closely associated with material consumption, likely due to greater levels of deprivation of material needs (Delhey, 2010). In concrete terms, this means that most Ecuadorians tend to see "a stable economy" (56.7%) and "economic growth" (55.2%) as a top priority over factors like "a more humane society" (15.6%) or "giving people more say in how things are done" (26.3%)⁴⁰ However, this 'materialism' is also nuanced: for example, 61.2% of respondents also believed that "protecting the environment should be given priority, even if it causes slower economic growth and some loss of jobs," as compared to 35.9% of respondents, who believed that "economic growth and creating jobs should be the top priority, even if the environment suffers to some extent." This means that, in assessing Ecuador's economic policies, one should be careful to assess tradeoffs between economic objectives and environmental degradation, not only in terms of their immediate and intergenerational effects on human health but also in terms of what environmental degradation might mean to Ecuadorian people in and of itself, on a case by case basis.

Although the results of the WVS corroborate the importance of work and education to Ecuadorians reflected in the list of constitutional rights, it does not provide sufficient information to assess the relative importance of the other rights on the list. At this point, adhering to the principle of exhaustiveness (to make sure no crucial capability is left out), I decided to include the Constitutional right to "health" as the third core capability for our analysis. The capability to be healthy fulfilled the exhaustiveness requirement most fully because it is also highly intersectional: in order for people to be healthy, they must also be

³⁹1) Worry over losing job and not finding another: 59.1% very much, 20.0% a great deal

2) Worry over not being able to give a good education to one's children: 59.7% very much, 18.1% a great deal

3) Importance in life: family (98.1%), work (88.5%); religion (67.1%); leisure (55.9%)

4) Percentage who considered it "fairly good" or "very good" to have experts make decisions: 50.3%

5) When asked if the country is being run democratically, 87% of respondents responded with a five or above on a ten-point scale.

⁴⁰ For detail on the methodology of the post-materialist index, see:
<https://ourworldindata.org/materialism-and-post-materialism>

sufficiently well nourished, housed and live in a sufficiently healthy environment, so that assessing "health" also allows us a window into three other Constitutional rights.

In selecting "education," "health" and "work" as the three core capabilities, my analytical priorities also overlap significantly with normative indices like the Human Development Index (HDI), which assesses health, education and per capita income, and the Multidimensional Poverty Index, which, as discussed in the preceding chapter, analyzes health, education and standard of living to measure deprivations. While the HDI and the MPI seek to capture the capability to procure the resources needed to live well by measuring "standard of living" or "per capita income", I have deemed it valuable to assess this capability through the lens of "fulfilling work" (while at the same time taking into account per capita income). This choice stems from (i) the importance given to "work" in Ecuador's WVS results; (ii) the analysis in Chapters 2, which pointed to the importance of work across time, philosophical traditions and psychological wellbeing research; (iii) the fact that work occupies most of our time and shapes much of our identity; and (iv) the fact that — particularly for those suffering deprivations — work is the main means of acquiring the income necessary to achieve multiple valued capabilities and functionings (*e.g.*, being well nourished, housed and healthy). In other words, the capability to pursue fulfilling work is valuable as both a means to an end (a way to acquire income to satisfy needs) and as an end in itself (Chapter 7 expounds on this point).

The next chapter (Ch. 6) analyzes Ecuador's economic policies in terms of their contributions to eliminating deprivations of these three selected capabilities —*i.e.* in terms of reducing poverty of capabilities in the realms of health, education and fulfilling work.

Chapter 7 then zooms in on one part of economic policy in particular —industrial policy— which, as discussed in Section I, is often neglected in humanist development analysis despite its importance for generating the productive capabilities necessary to generate the income required to expand human capabilities and despite the fact that the realm of production is also the realm of work —one of the central parts of human experience.

Chapter 6.

Building an Economy that Fosters Human Capabilities: The Uneven Impacts of the Correa Administration's Economic Policies on Health, Education and Decent Work

6.1 Introduction

Following the framework built in preceding chapters for a systemic humanist analysis of development, this chapter starts from the premise that the ultimate objective of economic policy is not growth, but rather 'human development', understood as the expansion of human capabilities. Consequently, the objective of this chapter is not to elucidate how Ecuador's economic policies did or did not contribute to growth (though this is addressed), but rather how they did or did not contribute to advancing human development —directly and indirectly— through various channels.

A couple of notes on methodology are in order.

First, although this chapter focuses on 'economic' policies, I acknowledge that the division between 'economic' and 'social' policies is an analytical choice rather than an ontological categorization. For example, a strategic 'social' policy, such as increasing pay for primary school teachers, may be much more relevant for delivering long-term growth and creating good jobs than many macroeconomic measures; or, as I once heard an Ecuadorian bureaucrat suggest in the halls of the Secretariat of Planning and Development, "the best economic policy may be a good nutrition policy." Part of the point of this chapter is to call attention to the ways in which 'the social' and 'the economic' are connected and how policy interventions in each of these spheres affect the other in ways that are all too often neglected in development analyses. I choose to focus on the policies that are conventionally understood to be 'economic' in order to make the overarching theoretical point of this dissertation: that policy prescriptions of the economic orthodoxy (*i.e.*, minimal interventions within a largely

laissez faire approach to structural problems) are inadequate for delivering human development. As I argue in this chapter, there is good reason to believe that the unorthodox mix of policies implemented by the Correa administration contributed in important ways to improving human development outcomes relative to the more *laissez-faire* policy regime that preceded it.

This brings me to the second point. In quantitative and qualitative analysis alike, it is easy to show correlation, but notoriously difficult to prove causation. One cannot always show that the policies in question 'caused' a particular development outcome. In fact, a small, open economy like Ecuador is in many ways much more susceptible to the policy changes of global players like China and the United States than to its own attempts to change the status quo (for Ecuador, this was particularly palpable during the commodities crash of 2014). Yet, this does not mean that Ecuador's own policies are irrelevant. On the contrary, it is all the more important that they be thoughtfully and ambitiously designed to withstand such external shocks while strategically pursuing human development — two objectives that, as we've discussed in earlier chapters, are closely interrelated.

In sections that follow, I make the case that many of Ecuador's economic policies either contributed to tangible improvements in the crucial dimensions of human development, or constituted improvements in and of themselves. Notwithstanding these improvements, other policies were likely counterproductive to human development and partly responsible for the country's difficulties in weathering the economic downturn triggered by the commodities crash of 2014. In both cases, Ecuador's experience provides useful insights into the relationship between economic policy and human development.

Section 2 discusses the broad scope of fiscal, financial and monetary policies that helped to create and re-direct capital toward the expansion of human development through investments in physical infrastructure and social services. The Ecuadorian government was remarkably successful in reclaiming capital from transnational companies and national debt holders through its creative debt default and the renegotiation of royalties in extractive industries. The administration also pioneered creative measures, such as 'quantitative easing

for the people⁴¹ as a means of sustaining counter-cyclical public investments after the 2014 crash in the price of oil.⁴²

Section 3 shows how public investments enabled by those economic policies, in concert with interlocking regulatory policies, affected human development along the three dimensions selected in Chapter 5: health, education and work. While these policies undeniably contributed to reductions in poverty, increases in access to healthcare and some educational opportunities, and higher-wage work opportunities, in some cases the quality of the implementation hindered their effectiveness and even led to unintended negative consequences, partly due to failure to take into account the systemic effects of the policies and to grant agency to stakeholders in the design and implementation of policy (observance of the 'people first' principle discussed in Chapter 4).

Furthermore, the government's public investment-led development strategy reached its limits during a second, more severe crash in oil prices in 2014, which led to a contraction in social spending and especially capital spending. The truncation of Ecuador's promising development trajectory made salient the crucial structural vulnerability of the Ecuadorian economy: its commodity-dependent pattern of productive specialization.

6.2 Financing Development: The Expansion of Capital and Public Investment Capabilities During the Correa Administration

The expansion of public investment capabilities was one of the Correa administration's most successful efforts. Although it is common to write the expansion off as a lucky consequence of the 2003–2013 commodity price boom, its success was largely the product of an ambitious set of interlocking strategies to expand and reallocate public revenue and to creatively implement expansionary monetary policy. I discuss these in turn.

6.2.1 Reallocation of Capital Toward Public Investment: Oil Revenues, Strategic Debt Default, and Tax Reforms

⁴¹An expression coined to draw a contrast with regard to quantitative easing strategies that primarily benefit financial institutions and elites.

⁴²Between June 2014 and January 28, 2015, petroleum prices plunged to \$44.08 a barrel—a drop of over 59% in 7 months (Mead & Stiger, 2015, p.3).

Reclaiming Oil Revenues

In the midst of Ecuador's period of structural adjustment, a 1994 presidential decree directed state-owned oil company profits toward repayment of the foreign debt. Under pressure from creditors, the oil sector was privatized within a decade (Forero, 2020). As oil prices began a rapid rise in 2004, widespread opposition to this arrangement was one of the factors that motivated support for Correa's platform in the 2006 presidential election, and subsequently led to the nationalization of the oil sector in the broadly participatory 2008 Constituent Assembly (see Ch. 5).

Though there was a clear tension between the effort to increase oil rents to finance public investment and the environmental ambitions cemented in the 2008 Constitution (see Ch. 5), which might suggest divestment from the oil sector, the administration solved it rhetorically through the idea of 'planting oil' revenues to 'grow' a post-oil economy (Correa, 2014). Efforts to expand oil extraction garnered criticisms from some environmental and Indigenous groups, but the recuperation of oil rents itself was broadly popular, not least because it signaled a reclamation of 'sovereignty' over strategic national resources, whose financial benefits were perceived as illegitimately appropriated by transnationals. During the Washington Consensus period in the 1990s, grievances about the extractive industries had included both, demands for higher shares of benefits from exploitation for marginalized communities and the prohibition of extractive activities with high environmental impact. Even within Indigenous communities there was discord, with some communities opposing oil exploitation in their territories —sometimes in earnest and sometimes as a bargaining strategy— and the Indigenous movement demanding revenue shares from oil exploitation (Forero, 2020, pp.150-151; Barrera, 2001, pp.144, 151). By 2007, the mandate from the Indigenous movement to the Correa administration did not call for the prohibition of oil and mineral exploitation, but rather (i) its nationalization; (ii) the allocation of oil and mining revenues to productive investments in underserved rural and urban areas, and (iii) an environmental audit of existing operations (Macas et al., 2006, p.3; Forero, 2020, pp.150-1)

In the context of the 2008 Constitutional Assembly, however, negotiations over the terms of governance of extractive industries —*i.e.*, who had the right to decide whether or not a particular project would be allowed to operate under what terms— caused a rift between the government and the Indigenous movement, which demanded the enshrinement of the

principle of 'free prior and informed consent' from communities as a condition for the creation of new projects rather than non-binding process of 'prior consultation' proposed by some members of Correa's party (himself included) and supported by a majority of the members of the Constituent Assembly. In the end, despite their defeat on this provision, the Indigenous movement and its allies voted in favor of the new Constitution (Forero, 2020, p.151).

While environmental and local governance demands were not satisfied, the government did take steps to deliver on the promise of reclaiming national control over its oil resources and 'planting' revenues in line with development priorities. Prior to the Constituent Assembly, in 2007 Correa had already increased taxes on windfall profits⁴³ in the oil sector from 50% (an already controversially high amount established under his predecessor (see Ch. 5)) to 99%. This move increased tax revenue from the sector by an estimated 46%. Furthermore, a Hydrocarbons Law passed in 2010 specified the terms under which foreign companies could operate in the oil sector, tightening regulations and limiting them to service provision contracts, under which payments could only be made if a series of conditions were ensured: a 'sovereignty margin' for the state (25% of gross revenues); a 3% margin for the oil sector workers; and a 13% margin for local development.⁴⁴ Even though seven companies left the country in protest, a year after the implementation of the law, state oil revenues rose by 53% (Herrera, López & Arias, 2012, p.13, p.31; Forero, 2020).

Strategic Debt Default

A similar 'pro-sovereignty' sentiment animated Ecuador's strategic debt default and restructuring. In the first year of the Correa administration, the Ecuadorian government became the first to support citizen demands for a debt audit (Anderson & Watkins, 2008), by creating a Commission for the Integral Audit of the Public Debt, comprised of citizens, activists and experts from national and international organizations, including members of the Committee for the Abolition of Third World Debt (Paez, 2015, p.216). The commission audited the debt incurred over the preceding three decades, documenting hundreds of

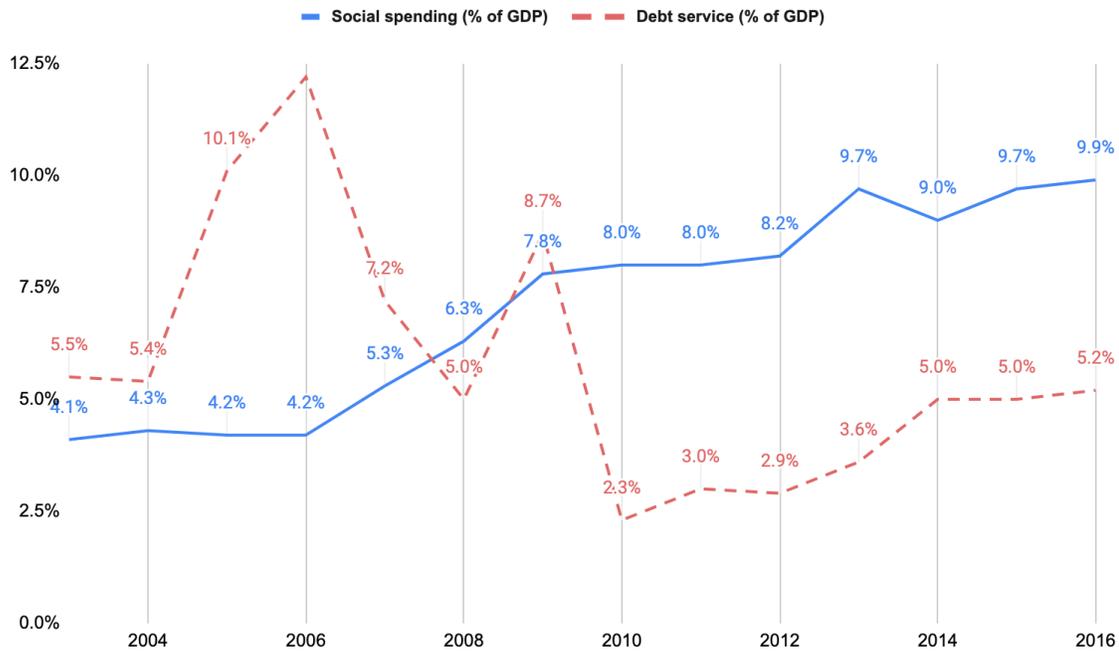
⁴³ Windfall profits ('ganancias extraordinarias') are profits well above historical norms and that occur due to factors such as a price spike or supply shortage.

⁴⁴ Art. 16 and Art. 94 of Hydrocarbon Law (*Ley de Hidrocarburos*, 2010)

allegations of irregularity or illegality, and found large parts of the debt to be either illegal or illegitimate on the grounds of oppressive contractual terms, unfair gains to creditors and the hindrance of public investment in basic public goods and social services. The audit cleared the way for the country to default on \$3.2 billion —about a third— of its foreign debt (Feibelman, 2017; Weisbrot, Johnston & Merling, 2017). As Feibelman (2017) points out, both the decision to undertake a sovereign restructuring of the external debt in the absence of acute financial stress and the success in attaining debt relief on the grounds of illegitimacy were remarkably unique in the recent history of sovereign debt restructurings.

After the default, the value of Ecuador's bonds fell dramatically, allowing the country to repurchase them at a fraction of their nominal value through financial intermediaries, and helping to reduce the debt-to-GDP ratio from 49% (2000-2006) to 25% (2007-2011) and to reduce the debt service from 24% of the public budget in 2006 to less than 7% in 2013. This liberated capital for investment in what the Correa administration often referred to as 'the social debt', such that, for the first time in many years, investments in social programs surpassed the debt service (Paez, 2015, p.216) and social spending as a share of GDP more than doubled from 4.1% in 2006 to 9.9% in 2016. Although the debt burden increased after the oil shock in 2014, it remained relatively small, with interest payments at only 1.4% of GDP (Weisbrot, Johnston & Merling, 2017). Social spending remained consistently higher than the debt service for the remainder of the Correa administration (Figure 6.1).

FIGURE 6.1 Social Spending vs. Debt Service (% of GDP)

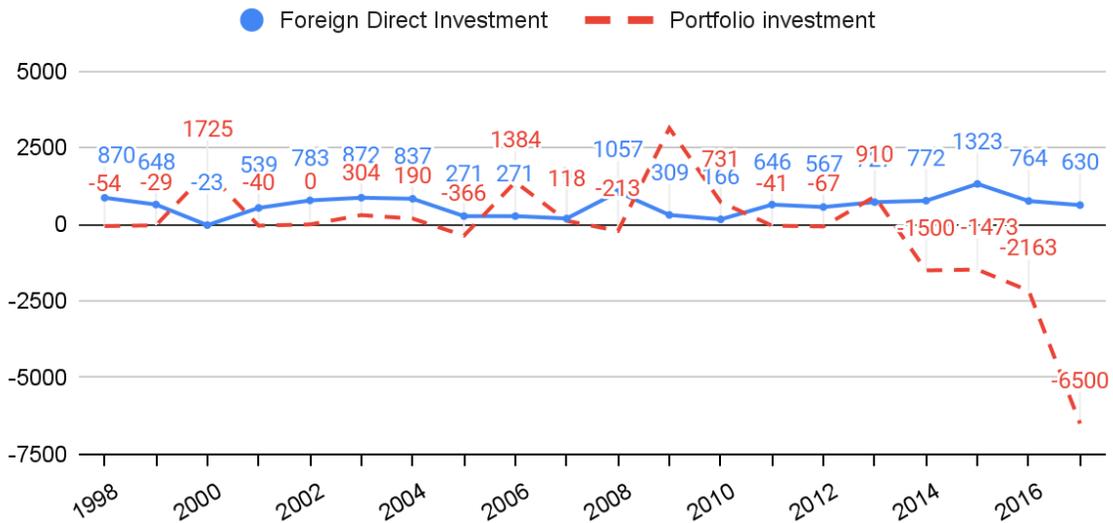


Source: Ministerio de Finanzas el Ecuador, 'Rendición de Cuentas', 2016

The decision to reallocate funds from the debt service to social spending was met with widespread criticism, with detractors warning that the denunciation of the public debt as 'odious' would repel potential foreign lenders and investors, spelling economic disaster. Such claims reflected the common sense among the elites that honoring debts —no matter how 'odious'— should take priority over public investments, while the latter should be kept to a minimum to avoid 'wasteful spending.' In reality, however, after its bold debt restructuring, Ecuador had little trouble finding foreign lenders. The default did increase barriers to credit —Ecuador stayed out of the sovereign bond market until 2013— but the void was readily filled by China, regional development institutions, such as the Andean Development Corporation (Corporación Andina de Fomento), and bilateral debt (Justo, 2014; Forero, 2020, p.178). From 2009 to 2016, Ecuador received more than \$8 billion in financing from China alone in the form of advance payment for oil sales (Weisbrot, Johnston & Merling, 2017). Although portfolio flows as a whole did experience a precipitous decline, the fall did not coincide with the 2008 default —portfolio investment actually rose to historic levels in 2009

(World Bank, 2022b)— but rather with the onset of the 2014 commodities crash, which led to an economy-wide contraction. Net foreign direct investment inflows post 2007 continued the pattern of preceding years (World Bank, 2022b) (Figure 6.2).

Figure 6.2 Foreign direct investment into Ecuador, net inflows (BoP, millions of current US\$) and Portfolio investment, net (BoP, millions of current US\$), 1998-2017



Source: World Bank, World Development Indicators, 2022 and 2022b

Though some sectors did lose foreign investment, the loss was often purposeful. As mentioned, several oil companies left in protest of the reforms to service provision contracts and revenue shares, which nonetheless generated an increase in public revenues. The mining sector also lost investors, most notably the Canadian mining company Kinross, which had taken a \$720 million charge on a gold project, only to offload it on the grounds that the government had refused to compromise on a windfall tax of over 70% (Kinross to sell, 2014). As early as 2008, the government revoked 587 mining contracts because companies failed to pay fees on concessions for reserves of copper, gold and other metals (Soto & Valencia, 2008).

Given that the oil and mining industries are known for their limited linkages and job creation, and the minimal value added they leave in the countries where extraction takes place, absent domestic productive capacities, the loss of foreign investors unwilling to abide by the new revenue sharing terms in these sectors can hardly be considered a substantial loss

—particularly when weighed against the human development gains made possible by reallocating debt payments to investments in infrastructure and human capital— two factors that are also well known to play a significant role in *attracting* investment.

In fact, gross fixed capital formation in Ecuador rose from 6.5% of GDP in 2007 to 15.9% in 2013, declining slightly to 14.7% in 2014 with the onset of the commodities crash. This meant that between 2010 and 2014, Ecuador had one of the highest ratios of total investment to GDP in the region: 28.1%, compared to an average of 22.1% for LAC as a whole (IDB, 2018, p.1).

Thus, rather than serving as a warning to other countries considering bold actions *vis-à-vis* illegitimate debt to increase development investment, Ecuador's experience suggests that, (i) in a time of rising global multipolarity and proliferation of development banks and other lending bodies, countries should not be so quick to sacrifice development investment for the sake of compliance with unreasonable demands from creditors; and (ii) privileging the payment 'social debt' may well be a powerful way to attract investment.

Tax Reforms

Increased social spending during the Correa administration was also buttressed by a host of tax reforms and, particularly, improvements in enforcement.

The tax regime in place when Correa took office in 2007 had last undergone major reforms in the last decade of the 20th century. On the heels of successful efforts in the 1980s to dismantle sources of tax revenue established in the 1970s and adamant lobbying efforts from business associations and their political allies to altogether abolish the income tax, by 1989 the impact of declining tariff revenues as a result of trade liberalization required measures to replace lost tax revenues. In line with IMF recommendations, the government chose to replace the shortfall with a value added tax (VAT), which became a key part of the country's tax structure, along with personal and corporate income taxes and a tax on special consumption. In 1999 the government also implemented a profound institutional reform, including a nearly complete personnel change, of its internal revenue service (*Servicio de Rentas Internas* — SRI), which improved tax collection capacity, but did little to curb income tax evasion, which in 2005 stood at an estimated 63.8% (Shützhofer, 2016, pp.16-18; Gómez Sabaini & Jiménez, 2012).

The Correa administration's response to the tax regime it had inherited focused on creating a more equitable tax structure with less reliance on regressive taxation measures like the VAT and improved enforcement to curb tax evasion by the wealthy. The 2008 Constitution mandated the prioritization of direct and progressive taxation, and reforms were largely consistent with that intent (see Table 6.1).

<i>Increase of top marginal tax rates</i>	Top personal income tax rates raised to 30% and 35% (Jimenez, 2015, p.124)
<i>Corporate income tax</i>	A 10 percentage point reduction of the corporate income taxes for banks was eliminated and advanced tax payments by banks and other financial sector corporations were increased. The VAT tax of 12% was applied to financial services (Shützhofer, 2016, p.21)
<i>Tax on foreign assets</i>	The tax on assets held abroad was changed to a monthly rate of 0.25% and of 0.35% for assets in tax havens (Shützhofer, 2016, p.21)
<i>Inheritance and donation taxes</i>	Changed from a flat tax of 5% to a progressive scheme with a maximum tax rate of 35% (Shützhofer, 2016, p.20)
<i>Rural land tax</i>	Tax on rural land introduced
<i>Capital outflow tax</i>	New tax, implemented to curb capital flight
<i>Special consumption tax</i>	Reformed to focus taxation on luxury goods to take into account environmental, health and social externalities (Carpio Rivera & Carrasco Vicuña, 2012)
<i>Windfall taxes</i>	Tax on windfall profits in the oil sector created in 2007. In 2009, it accounted for 6.7% of all tax revenues (Shützhofer, 2016, p.20).
Source: Author, based on <i>Ley de Equidad Tributaria</i> , 2007; Shützhofer, 2016; Jimenez, 2015; Carpio Rivera & Carrasco Vicuña, 2012.	

These measures, combined with an aggressive, high-profile enforcement campaign targeting wealthy tax-dodgers, helped to increase tax revenues and reduce the government's

dependence on oil revenues. The Internal Revenue Service itself estimated that 91.4% of increases in tax revenue were attributable to improvements in enforcement and administration. Between 2006 and 2013, these helped decrease income tax evasion from 61.3% to 30% and VAT evasion from 40% to 20% (Shützhofer, 2016).

However, some of the more ambitious efforts at redistributive tax reform were thwarted, somewhat counterintuitively, by public opposition. This was perhaps most conspicuous when the Correa administration attempted to introduce higher inheritance taxes in 2015, stirring protests, led by the country's elites, but also supported by the middle class—even though at the time only 3 out of 1,000 Ecuadorians received an inheritance larger than \$50,000 and only five Ecuadorians out of the entire population of 16 million inherited more than a million between 2010 and 2014 (Sosa, 2015; Meseguer, 2015). Public opposition was, thus, partly responsible for the fact that, despite these substantial efforts at expanding public financing capabilities—social spending doubled as a percentage of GDP from 2006 to 2016 (Weisbrot, Johnston & Merling, 2017)—the country's potential to expand the tax burden for further public investment was not fully exploited.⁴⁵

6.2.2 Democratization of the Financial System: The End of Central Bank Autonomy, Expansion of Public Banking and Cooperative Finance, and Development-Oriented Investment Planning

In a salient departure from mainstream conventional wisdom, the 2008 Constitution (Art. 302) ended Central Bank independence and transformed the bank into a mechanism of implementation for a broader mandate than the narrow inflation-focused monetary policy of Washington Consensus. In explaining the logic behind ending central bank independence, administration officials (see, for example, Carrasco, 2015) echoed the criticisms leveled by Stiglitz (2013), who argues that the "notion of the desirability of an independent central bank was predicated on the belief that monetary policy was a technocratic matter, with no distributional consequences. There was a single policy that was best for all—a view to which the simplistic models that the central banks employed may have contributed, but which was not supported by more general models. There does not, in general, exist a Pareto superior monetary policy. That in turn implies that delegating the conduct of monetary policy and

⁴⁵ See Jimenez (2015) and Roca (2009) for an evaluation of the gap between the real and potential tax burden.

regulations to those who come from and reflect the interests of the financial market is going to result in policies that are not necessarily [...] in society's broader interests."

In line with that vision, the Constitution also expanded the functions of monetary policy beyond price stability to include, among others⁴⁶, the "steering of liquidity toward the investment required for the country's development" (Art. 302). This included substantially expanding the volume of credit and the number of public banks. Between 2006 and 2008, the loans from the public banking system rose from \$456 million to \$1.16 billion, including an eighty-fold increase in microcredit. In addition, the National Microfinance System expanded the volume of microcredit and created an array of new financial products targeted at housing, trade, agricultural production and the 'popular economy' (comprising microenterprises, cooperatives, and associations) (Paez, 2015). The 'solidarity' sector of the financial system, including credit unions, cooperatives, and savings and loan associations, expanded from 8.3% to 13.6% of total credit between 2008 and 2016 (Weisbrot, Johnston & Merling, 2017).

In a far-reaching structural measure to steer capital toward development finance, the government transferred public investment authority from the Ministry of Finance to the newly re-established Ministry of Planning and Development (*Secretaría Nacional de Planificación y Desarrollo* - SENPLADES), whose Vice Ministry for Public Investment was charged with aligning investment priorities with the National Development Plan —priorities that were construed as a means for operationalizing the constitutional "rights of *Buen Vivir*" (see Ch. 5).

Nevertheless, although mechanisms were established to allow for citizen participation in decisions about investment allocation, these were limited to the role of sanctioning the investment plan, which meant that, effectively, the degree to which investment priorities were aligned with the Constitution or the objectives or multi-year development plans depended largely on government authorities and decision-makers from the executive (*e.g.*, the ministers of production, finance, economic policy, and planning and development). This is one area

⁴⁶ Article 302. Monetary, credit, foreign exchange and financial policies shall have the following objectives: 1. To provide the necessary means of payment for the economic system to operate efficiently; 2. To establish overall cash flow levels that guarantee adequate financial security margins; 3. To steer excess liquidity towards the investment required for the development of the country; 4. To promote levels and linkages between lending and borrowing interest rates that boost national saving and the financing of productive activities, aimed at upholding the firmness of prices and monetary equilibrium preventing balance of payments deficits, in line with the objective of economic buoyancy as enshrined in the Constitution.

where far more participatory procedures for economic policy design proposed by Sen. Warren (discussed in Chapter 4) could serve as a model for improvement.

6.2.3 Sustaining investment through hard times: 'quantitative easing for the people', fiscal stimuli, balance of payments safeguards

As a dollarized economy facing the challenges of the 2008 global economic crisis, the collapse in oil⁴⁷ and commodity prices and in remittances,⁴⁸ Ecuador's capability to implement countercyclical policies and sustain public investment was severely threatened. However, the government showed dexterity in meeting these challenges, using a mix of unorthodox monetary policy and regulatory mechanisms.

First, immediately following the financial crisis and the sharp drop in oil prices, in 2009 Ecuador implemented a fiscal stimulus of 5% of GDP—one of the biggest in the hemisphere. This helped dampen the effects of the recession, which lasted only three quarters and entailed a relatively moderate loss of output (1.3% of GDP). This was followed by a rebound beginning in the first quarter of 2010 and peaking in 2011 with the fastest GDP growth in South America (7.9%) (Weisbrot, Johnston & Merling 2017, p.12).

Second, beginning in 2011, Ecuador engaged in a creative strategy to expand the money supply—a seemingly unimaginable feat in a country without its own currency—using a strategy dubbed by the administration as 'quantitative easing for the people' (A. Arauz, personal communication, February 23, 2016⁴⁹). Through a reform to the domestic monetary law, the definition of legal tender was broadened to include 'other' instruments besides the dollar, clearing the way for the Central Bank to implement measures like a requirement for certain taxes to be paid using treasury bills. Ecuador's Central Bank became the first in the world to issue state-issued electronic currency (the Bank of China would follow), which was used to finance public development banks (A. Arauz, personal

⁴⁷ After the first collapse in 2009 and subsequent rebound by 2011, the price of Ecuador's oil collapsed a second time in 2014, falling from an average of \$87 per barrel in the third quarter of 2014 to \$24 in the first quarter of 2016. By August 2015, oil prices for Ecuador's oil basket fell below cost of production. From 2013 to 2016, government oil revenues fell from 12.1% to an estimated 4.6% of GDP (Weisbrot, Johnston & Merling, 2017).

⁴⁸ Weisbrot, Johnston & Merling (2017) estimate remittances to have fallen from 6.7% to 4.4% of GDP from 2007 to 2010.

⁴⁹ All references to personal communication with A. Arauz on February 23, 2016, correspond to notes from the following invited lecture by A. Arauz for the Cambridge Society for Social and Economic Development.: 'Industrial and Knowledge Policy in Ecuador: Achievements and Challenges,' Cambridge, February 23, 2016.

communication, February 23, 2016) and to sustain public investment through the recession. From 2011 to 2016, it created about \$6.8 billion through quantitative easing (Weisbrot, Johnston & Merling, 2017, p.15).

Finally, Ecuador was the only country in the world to successfully implement balance of payments safeguards (tariffs) under WTO rules in the 2009-2015 period (A. Arauz, personal communication, February 23, 2016). This enabled reduction in imports that increased GDP by about 7.6% of GDP (Weisbrot, Johnston & Merling 2017, p.3).

This mix of policies helped Ecuador sustain current spending at roughly the same level throughout the crisis (Figure 6.3), but it was not sufficient to prevent cuts to capital spending, which fell by \$5 billion between 2014 to 2016 (Weisbrot, Johnston & Merling, 2017, p.3), during the second protracted oil shock that began in 2014. This experience highlights the constraints that commodity dependence placed on the country's ability to sustainably finance capabilities expansion.

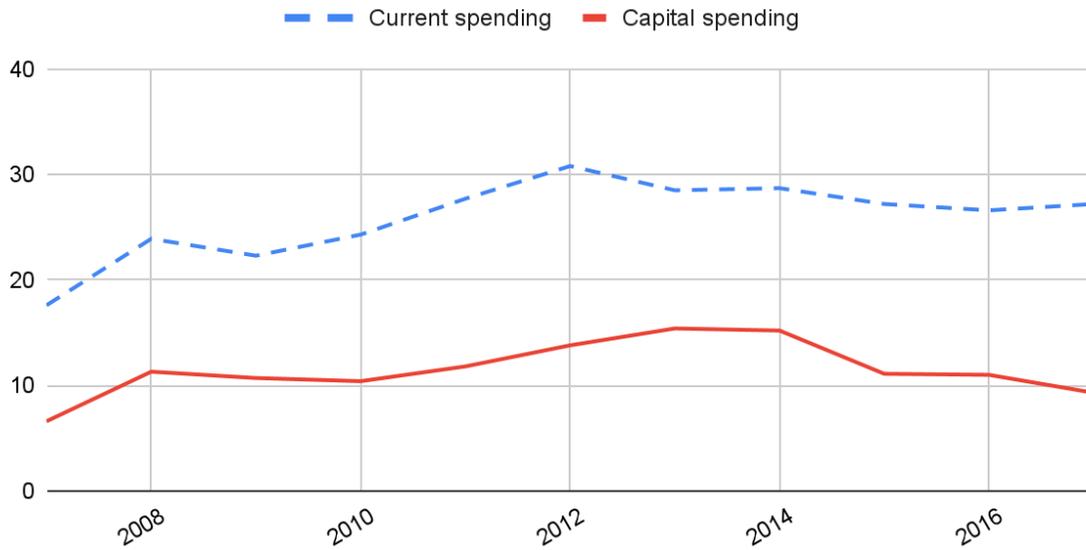
6.2.4 Limiting capital flight and value extraction: capital outflow taxes, domestic liquidity requirements and withdrawal from Bilateral Investment Treaties

Like many developing countries, Ecuador is plagued by capital flight and by a marked tendency by domestic elites to concentrate their assets in international financial centers and tax havens. The Panama Papers scandal revealed that all of the country's main business groups had substantial holdings and companies in Panama and other tax havens (Forero, 2020). Assets equivalent to an estimated 5% of Ecuador's GDP are held abroad and an estimated \$1.15 billion are illegally taken out of the country each year (Arauz, 2015, p.239). These processes clearly limit the country's ability to direct capital to productive investment and Ecuador took several steps toward counteracting them.

One major prong in the effort to prevent capital outflows came in reaction to the recession in 2009, when Ecuador introduced a liquidity requirement for the banking sector, compelling all banks to hold at least 45% of their assets domestically. The requirement was later increased to 60% in 2012. As a consequence of these measures, the Central Bank itself repatriated \$2 billion in reserves from 2009 to 2012 and the total amount of reserves held domestically increased to 80% (Weisbrot, Johnston & Merling, 2017, p.3). In 2007, the administration also enacted a 'Tobin tax' (financial transaction tax) of 0.5% on capital

outflows, which gradually grew to 5% in 2011 (Weisbrot, Johnston & Lefebvre, 2013, p.14). The tax raised around \$1 billion annually from 2012 to 2015 (Weisbrot, Johnston & Merling, 2017).

Figure 6.3 Current and capital spending in Ecuador, 2007-2017 (% of GDP)



Source: Banco Central del Ecuador, 2022

The government also deployed a longer-term strategy for extricating the country from institutional arrangements that had exacerbated value extraction: namely an array of Bilateral Investment Treaties (BITs) that the country had signed in preceding decades under pressure from creditors and international organizations, sometimes without fulfilling the requirements established by Ecuadorian law (CAITISA, 2017, p.15). Among many other effects,⁵⁰ these BITs had limited the state's ability to place controls on 'profit repatriation' and included other strong protections for foreign investors, which left the country vulnerable to litigation from companies like Occidental Petroleum, which took Ecuador to international arbitration before the International Center for Settlement of Investment Disputes (ICSID) after Ecuador terminated its contract in 2006 due to breach of the terms of the original contract. The ICSID tribunal awarded Occidental \$1.77 billion—the largest award in the history of tribunal—in what one of the arbitrators, Brigitte Stern, called a “violation of fundamental principles of

⁵⁰ For example, limiting performance requirements, technological transfer and other industrial measures discussed later in the chapter.

international law,” and “a violation of the international principle against unjust enrichment” (Vis-Dunbar, 2013).

In an effort to overcome these vulnerabilities, reclaim jurisdictional sovereignty and expand policy space for managing capital flows, Ecuador followed the model it had employed for the audit for the public debt by creating a Commission for an Integral Citizen's Audit of Bilateral Investment Treaties and the International Investment Arbitration System (CAITISA) in 2013. Like the debt audit commission, CAITISA included representatives of civil society and national and international experts, as well as representatives from the Ministry of Planning and Development and several other institutions of the executive branch. The Commission found that Ecuador's BITs had not been successful in attracting investment, had facilitated impunity for tax evasion and environmental damages and had, in many cases, not been adequately ratified. It also denounced the deleterious nature of investor-state dispute settlement for developing countries, pointing to gross conflicts of interests, like the frequent moonlighting by lawyers with close corporate ties as arbitrators (Long & Arauz, 2021).

Before the CAITISA process, Ecuador had already denounced several BITs and left ICSID⁵¹ as a consequence of the reforms of the 2008 Constitution, which stipulated that the “Ecuadorian State shall not enter into treaties or international instruments where the Ecuadorian State yields its sovereign jurisdiction to international arbitration entities in contractual or commercial disputes between the State and natural persons or legal entities” (Art. 422) (Long & Arauz, 2021). However, these moves set off a backlash of political pressure from abroad —particularly from the European Union, which threatened to suspend trade negotiations over the matter (Forero, 2020).

The denunciation of the remaining 16 BITs was stalled until 2017 when, following authorization from the National Assembly —and in one of his last measures as president—, Correa denounced all 16 remaining BITs, including ones with the United States, the United Kingdom, France, Germany, Spain, China, and the Netherlands. It helped that by 2017, the consensus around the desirability of BITs and international arbitration had significantly degraded. South Africa terminated its investment treaties in 2012, Indonesia in 2014, and India in 2017. Even among the world's leading powers, investor-state arbitration had begun to

⁵¹ Ecuador withdrew from ICSID in 2009, following the prohibition against international arbitration established in the 2008 Constitution, but its membership remained valid for ongoing legal processes.

draw criticism from the likes of the European Commission President Jean-Claude Juncker and both Republicans and Democrats in the United States (Long & Arauz, 2021).

Given that BITs carry 'survival clauses' that render them effective as many as 20 years after withdrawal, many of the benefits of this measure may not be felt for a long time. Nevertheless, Ecuador's measures on bilateral investment treaties and investor-state arbitration can be interpreted as both a strategic long-term measure for preventing powerful corporations from extracting value from Ecuador through predatory behavior and as a measure for democratizing control over the economy by taking jurisdiction on economic matters back from state-less arbitrators and tribunals.

These long-term measures, coupled with short- and medium-term efforts to expand public investment and domestic control over economic management, formed the basis for the Correa administration's efforts to expand investment in human capabilities.

6.3 Health, Education and Decent Work: How the Correa Administration's Public Investment, Economic Regulation and Industrial Policies Shaped Key Human Capabilities

The economic policies discussed in the previous section, in concert with adjacent institutional and regulatory measures discussed in this section, enabled path-breaking improvements in terms of health, education and decent work—the three dimensions of human wellbeing I have chosen to highlight due to their relevance for the Ecuadorian context (see Chapter 5). I discuss these in turn.

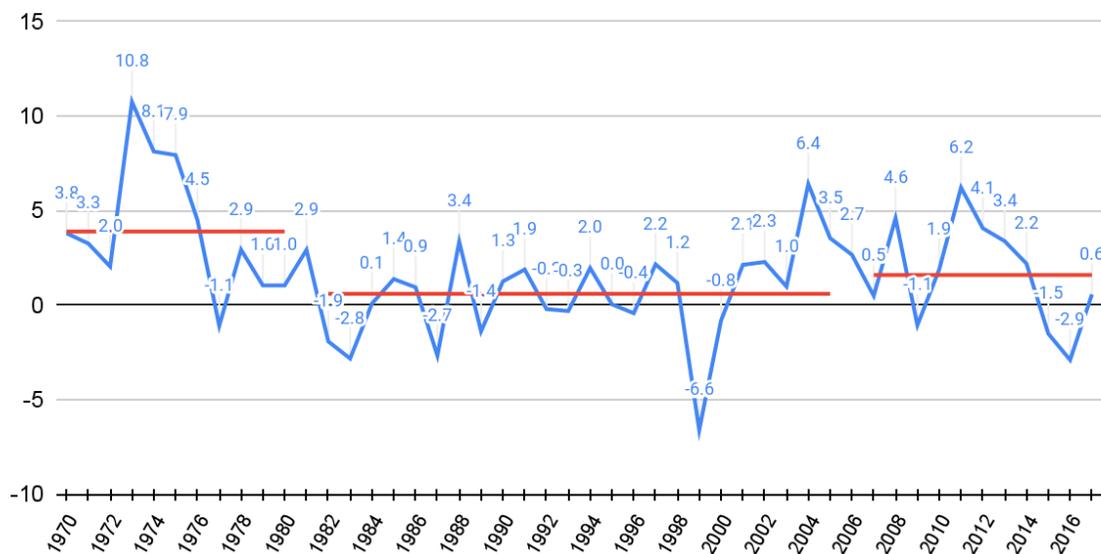
As noted in previous chapters, the three dimensions of human wellbeing I have chosen are closely intertwined with the dimension of income, both in the aggregate—countries with lower incomes have fewer resources to devote to goods and services that improve wellbeing—and at the personal level—people with lower incomes have a more difficult time accessing goods and services that are essential for their wellbeing, including their health, education and opportunities for fulfilling work. Income may only be a 'means' to the 'end' of satisfying human needs and expanding human capabilities, but it is a fundamental 'means' that cannot be ignored in the analysis of capabilities expansion. In fact, income can be understood as spending power or spending 'capability', which in the context of market economies serves as a good indicator of a person's capability to feed, clothe and otherwise

satisfy their needs. Therefore, this section begins with an overview of growth and poverty reduction patterns during the period of our study.

6.3.1 Economic Policies, Poverty and the 'Means to an End' Capability: Spending Power

The decade spanning 2007-2017 was characterized by an improvement in economic growth *vis-à-vis* the Washington Consensus period, though growth rates did not reach the heights seen in the pre-Washington Consensus developmental phase (Figure 6.4): from 1970-1982, annual GDP per capita growth averaged 3.9%, dropping to 0.6% between 1982-2006, and rising to 1.6% from 2007-2017 (World Bank, 2022c). The difference in growth rates between the two later periods becomes even more stark when one considers that the major economic shock of the Washington Consensus period —the 1999-2000 banking crisis and subsequent dollarization— was engendered by domestic policies of financial deregulation (see Ch. 5), while the shocks that assailed Ecuador during the Correa administration were exogenous: the 2008 global economic crisis; the crash of oil prices in 2014, and a devastating earthquake in April, 2016.

Figure 6.4 Ecuador's GDP per capita growth (annual %)



Source: World Bank, 2022c (World Bank national accounts data and OECD National Accounts data files)

Another exogenous phenomenon —the dollar's appreciation in international currency markets— is estimated to have increased Ecuador's real effective exchange rate by 24% from 2012-2015, dampening demand for its exports (Weisbrot, Johnston & Merling, 2017).

Thus, while many have correctly noted that the commodities boom provided a boost to Ecuador's economy during the Correa years, the headwinds were also considerable. Were it not for the creative countercyclical policies discussed in the preceding section, it's unlikely that the economy would have outperformed the preceding period to such a degree. Furthermore, the breakdown of sectoral contributions to GDP growth (Table 6.2) shows that oil and mining made a small contribution to growth from 2007 to 2017 (0.34%), particularly as compared to the top contributors: manufacturing (12.07%), construction (11.19%) and teaching, health and social services (11.81%), and public administration, defense and social security (10.08%) —all sectors that were strongly stimulated by the government's public investment policies. Therefore, as Weisbrot, Johnston and Merling argue, it is misleading to attribute Ecuador's growth during the decade to the "production of oil and minerals *per se*. Rather, [it was] the capture of revenue from these activities, and spending it on public goods and services, [that] made a major contribution to growth" (2017, p.8).

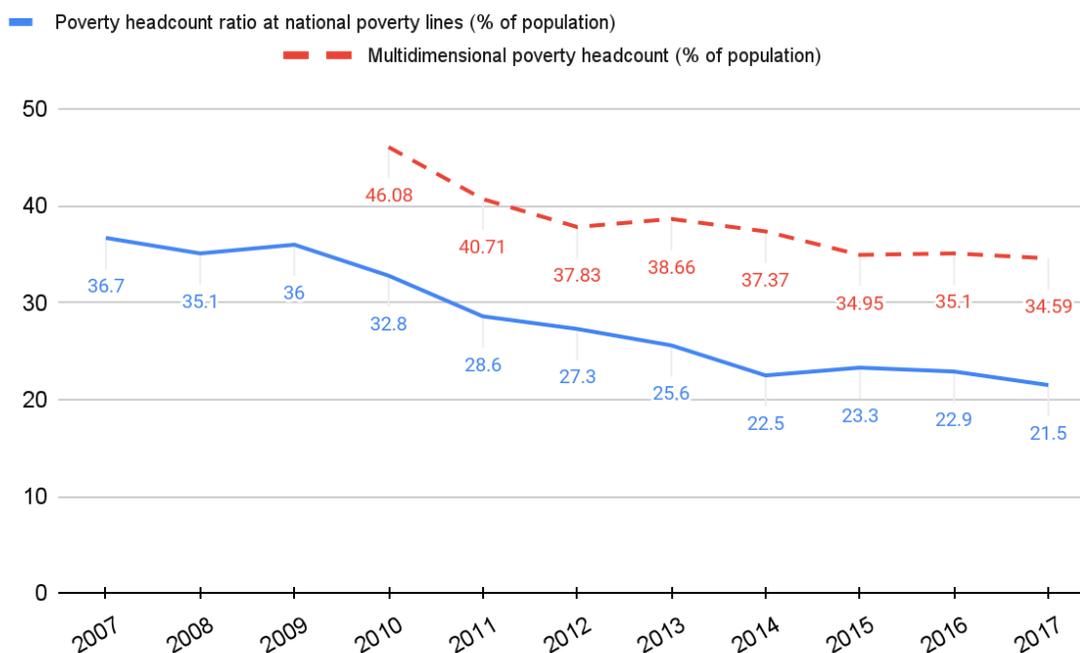
Growth during the Correa period was also accompanied by reductions in poverty and, to a lesser extent, inequality. The Gini coefficient declined from .53 in 2007 to .45 in 2017 (World Bank, 2022d). Poverty (based on the national poverty line) declined from 36.7% in 2007 to 21.5% in 2017 and the proportion of people living on less than \$3.2 a day⁵² declined from 19.4% to 9.8% (World Bank, 2022d) (Figure 6.5). The flip side of these reductions was an increase in purchasing power: from 2007 to 2012 alone, the percent of the basic market basket covered by the average family income rose from 67.1% to 91.5% (SENPLADES, 2013, p.57). Average nominal monthly wages rose from \$198 in 2007 to \$450 in 2017 (Banco Central del Ecuador, 2022).

⁵² Based on 2011 purchasing power parity.

Table 6.2 Sectoral breakdown of GDP growth in Ecuador, 2007-2017		
	<i>Gross value added</i>	<i>% of Total Growth</i>
Manufacturing	4.25	12.07%
Teaching, health and social services	4.16	11.81%
Construction	3.94	11.19%
Public administration, defense, social security	3.55	10.08%
Agriculture and fishing	3.52	10.00%
Commercial services	3.28	9.32%
Transportation	3.03	8.61%
Water and electricity provision	2.46	6.99%
Mail and communications	2.45	6.96%
Technical and administrative services	2.33	6.62%
Financial services	1.79	5.08%
Oil and mining	0.12	0.34%
Oil refining	-0.37	-1.05%
Food and hospitality services	0.7	1.99%
Domestic services	0.1	0.28%
Total:	35.21	
Source: Author, based on Banco Central del Ecuador, 2021		

Comparisons to previous periods are difficult due to limited data and changes in methodology, but based on consumption-based estimates, poverty fell by 2.7% from 1995 to 2006, whereas from 2006 to 2014, it fell by more than 32%. Whereas the Gini coefficient increased by more than 7% from 1995-2006, it fell by more than 10% (Weisbrot, Johnston & Merling, 2017, p.5).

Figure 6.5 Income poverty and multidimensional poverty in Ecuador, 2007-2017



Source: World Bank, 2022d

The income growth achieved in the 2007-2017 period, itself enabled by the policies discussed in Section 6.2, no doubt contributed to a decline in the multidimensional poverty index (MPI), which, as discussed in greater detail in Chapter 4 (Table 4.1), measures health, education and standards of living, from 46.08% in 2010⁵³ to 34.59% in 2017 (Figure 6.5). The following sections further unpack how health, education and work were shaped by Ecuador's economic policies during this period.

6.3.2 Economic Policies and Health: Public Investment, Trade, Intellectual Property, Procurement and Environmental Quality

Investments in health

The ten-year period of the Correa administration saw significant improvements in health indicators— some were continuations of past trends, while others were path-breaking.

⁵³ The MPI was measured for the first time in 2010.

Infant mortality declined from 18.5 to 11.1 per 1000 live births, but this was in line with a steep decline beginning at least as early as 1960, when the rate was 118.7. Neonatal and child mortality also declined in line with pre-existing trends. However, the probability of dying among youth ages 20-26 years, which had remained steadily between 7 and 8 deaths per 1,000 since the mid-1990s, declined from 7.6 in 2007 to 5.4 in 2017 and has since begun to climb⁵⁴ (World Bank, 2022e). Undernourishment showed a more pronounced departure from previous trends. According to FAO estimates, after hovering between 21% and 22.8% between 2001 to 2007, undernourishment in Ecuador plummeted to 8.5% in 2011 and remained steady until 2015, before climbing to 10.7% in 2017 (World Bank, 2022f). The sharp decline in undernourishment coincides, and could be associated with, sharp increases in investment into social programs targeting poor Ecuadorians: the 'Human Development Bond' (*Bono de Desarrollo Humano*) unconditional cash-transfer program for homes below the poverty line, which more than doubled from \$15 to \$35 in 2007 and then to \$50 in 2012; the doubling of the 'housing bond' from \$1,800 to \$3,600 and the creation of a new 'bond' for people caring for the disabled (SENPLADES, 2013, p.57). Given the well-known strong associations between income levels and stress, particularly for low-income people, and the outsized impact of stress on health (Maté, 2019), it is almost certain that these safety-net income measures also improved people's health in ways that are more difficult to measure. This is particularly the case for children, considering that many disparities in overall health and well-being are rooted in early childhood and that stressors in early childhood can disrupt neurologic, metabolic, and immunologic systems, leading to poorer developmental outcomes (Robinson et al., 2017).

In terms of access to healthcare, the government made significant improvements through expanded investments in basic health infrastructure and personnel, and an increase in the length of the workday for healthcare service providers to eight hours. The 2008 Constitution (Art. 298) established a floor for budget allocations for health of at least 4% and the government raised health spending from 5.57% of GDP in 2007 to 7.4% in 2017 (World Bank, 2022g). It also eliminated costs for medical appointments and expanded free access to

⁵⁴ There is no clear explanation for this small but marked break in the trend, but given that suicide is second leading cause of death for youth under 25 in Ecuador (Gerstner et. al, 2018), it stands to reason that the decline could perhaps be related to a similarly path-breaking decline in the suicide rate, which had climbed from 6.4 per 100,000 in 2000 to a high of 10.5 in 2008, before declining to 8.8 in 2014 and rising to 9.2 in 2017 (World Bank, 2022e).

essential drugs (SENPLADES, 2013, p.58). The public provision of health services—which particularly benefited poor and middle class Ecuadorians— contributed to a steep decline in out-of-pocket expenditures from 61% of current health expenditure in 2006 (after hovering between 61% and 63% from 2000-2006) to 32% in 2017 (World Bank, 2022g).

Pro-health reforms in trade, intellectual property and procurement

Health care accessibility was also improved by cost-savings on drugs through policies that defied mainstream prescriptions about 'ideal' trade and intellectual property regimes.

Within the economics profession, the dominant view of intellectual property continues to be aligned less with the theoretical tenets of neoclassical economics, which would require one to disavow monopoly rights (such as patents) for the sake of logical consistency and more with a political ideology that puts the protection of property rights above 'market freedom' when the two enter into conflict. While in the 19th century, most free trade economists opposed patents (Chang, 2007, p.126), today the protection of intellectual property rights is often justified on the basis of market failure (knowledge is 'non-excludable') and on the grounds that, without the potential reward of a patent monopoly, there would be no incentive to invest in innovation, hindering technological progress and economic growth.

Empirical research has done much to call the contemporary mainstream claim into serious question. First, scholarship shows that, in many industries, the prospect of receiving a patent is not considered to be influential in the decisions to invest in research and development (Chang, 2007, pp.124-126). Second, one of the salient features of development experience of now-industrialized countries is precisely the disregard with which these countries treated the intellectual property rights of foreigners, not only in their early stages of economic development, but in many cases well into the 20th century. Britain allowed imported inventions to be patented by nationals until 1852. Later, the United States famously copied British technologies, refusing to recognize foreign patents. Swiss patent law did not acknowledge intellectual property rights over inventions until 1888 and its intellectual property regime only became comparable to that of other industrialized countries in 1954—still, chemical substances remained unpatentable until 1978 (Chang, 2002, pp.84-85). More recently, South Korea made similar—albeit far less blatant— efforts to exploit flexibilities around intellectual property rights in its own development trajectory. Like the U.S. one

hundred years before them, it refused to accept the restrictive intellectual property regimes pushed by their industrialized counterparts. Today it ranks as one of the most inventive nations in the world (Chang, 2007, p.11).

It was the experience of these successful industrializers, rather than the prescriptions of the economic orthodoxy, that inspired Ecuador's reform of the trade and intellectual property regime during the Correa administration. Correa even entrusted the reform to his Minister of Science and Technology, René Ramírez, a development economist and former student of Correa's, who was critical of the intellectual property provisions of 'free trade agreements', frequently spoke about the need to create a 'haven of free knowledge' (drawing a contrast to 'tax havens'), and had studied the experiences of the East Asian tigers, as well as India and Brazil's efforts to circumvent intellectual property restrictions to promote domestic production in the pharmaceutical sector (R. Ramírez, personal communication, 2011-2014).

Ecuador, of course, started from a position of particular disadvantage relative to the East Asian Tigers: it was already a signatory to the WTO's Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) and therefore subject to heavy restrictions on the management of intellectual property rights (IPRs). Furthermore, when Correa took office in 2007, the country was under heavy pressure from both the United States and the European Union to sign free trade agreements that would only expand intellectual property rights, further curtailing policy space and inflating the drug prices by extending the length of patents (see Chapter 7 for further discussion on the role of the latter in Ecuador's development strategy).

The Correa administration had a mixed policy response to these restrictions.

First, Correa, who had built his political career partially on his opposition to FTAs, resisted pressure from the U.S. and Europe to further expand intellectual property rights restrictions. Although the United States threatened to withdraw unilateral trade preferences granted under the Andean Trade Promotion and Drug Eradication Treaty (ATPDEA), Ecuador refused to resume negotiations for a free trade agreement. When it came to negotiations with the European Union—seen by many as a pressing priority due to the impending expiration of Ecuador's eligibility for the Generalized Scheme of Preferences in 2015⁵⁵—Correa's position was more ambivalent, leading to highly publicized rifts between

⁵⁵ The EU's GSP removes import duties from products coming into the EU market from vulnerable developing countries. Ecuador's reclassification by the World Bank as upper-middle income rendered it ineligible in 2015.

members of his cabinet who held opposing views on the desirability of the agreement. These tensions slowed the pace of the negotiations, as critical members of the cabinet pursued policies that directly contravened the terms of the proposed agreements (more on this in Chapter 7). This included the reform of the country's intellectual property law, which had been drafted in 1998 to comply with the requirements of the TRIPS agreement and in some cases went beyond the necessary restrictions (H. Nuñez, personal communication, 2017). The proposed reforms included regulations to facilitate technology transfer from abroad, an expansion of copyright flexibilities and, most critically for the health sector, increased requirements for patent issuance, fewer procedural hurdles and waiting periods for the implementation of compulsory licenses.⁵⁶

Second, during negotiations with the European Union Ecuador issued ten compulsory licenses —the highest number in Latin America— allowing for domestic production or imports of generic essential drugs, including for HIV/AIDS, cancer, kidney transplant and rheumatoid arthritis (Vidaurreta, 2021; Public Citizen, 2014). According to government estimates, the licenses saved the Ministry of Health \$162 million in their first year, with an average rate of growth of 21% (*Respecto al cierre de la negociación para un Acuerdo Comercial*, 2014) and an overall estimated savings of drug procurement of 30-70%.⁵⁷

Third, the government created a state-owned enterprise for the production of pharmaceuticals, ENFARMA, charged with the double mission of administering parallel imports of drugs as part of the compulsory licensing strategy and developing local capacities to produce essential drugs in the middle term. The SOE was successful in administering imports but it was not successful in stimulating domestic productive capacities.

However, Ecuador's policies around intellectual property drew a backlash from European and American pharmaceutical lobbies and even U.S. officials,⁵⁸ ultimately prompting a request from European trade negotiators, not only to halt the issuing of pharmaceutical and agrochemical compulsory licenses, but also to sign a side letter containing language that would discourage the use of such licenses in the future (Personal

⁵⁶ See Section 7, [Ley de Propiedad Intelectual, Ley No. 83, RO/ 320](#), May 1998 and Section 10, [Código Orgánico de la Economía Social de los Conocimientos, la Creatividad e Innovación \(Código Ingenios\)](#), December 2016.

⁵⁷<https://www.derechosintelectuales.gob.ec/invitacion-rueda-de-prensa-resolucion-de-dos-nuevas-licencias-obligatorias-para-el-pais/>

⁵⁸See Public Citizen, 2011, for more detail.

communication with members of the Ecuadorian negotiating team, 2014-2016). The letter also requested:

- Rapid a cost-free recognition of 117 European geographical indications (GI), in exchange for a single Ecuadorian GI (for its Montecristi straw hats).
- A lowering of Ecuador's intellectual property registration fees
- Stronger penalization of intellectual property infractions
- The elimination of incentives for domestic research directed toward plant varieties IPRs

Though the Correa administration resisted European pressure for some time, it ultimately signed the trade agreement with the EU—including a tightening of IPRs— citing concerns over the prospects of the country's banana exports. After issuing ten compulsory licenses between 2010 and 2014, it did not issue any more for the remainder of the administration, despite numerous requests (Vidaurreta, 2021).

In addition to compulsory licensing, the government implemented measures to cut drug costs through pooled procurement. A national initiative that centralized procurement by central and local governments increased the purchasing power of a dollar of the drug budget by 230% and saved \$423 million (0.4% of GDP) between 2016 and 2018 (Vásquez, 2016). Based on its experience, Ecuador played a leading role in establishing a broader regional effort by UNASUR to pool drug procurement power for high-cost medication (*La experiencia ecuatoriana de compras públicas*, 2022).

As I discuss in Chapter 7, procurement policies became a powerful tool during the Correa administration, not only for cost savings in the health sector but also for industrial promotion. However, the administration's procurement policy was not universally constructive. Even in the realm of health, while sometimes school nutrition programs engaged local producers to promote consumption of nutritionally and culturally appropriate food, like porridges from Andean grains, in other cases large contracts were handed out to transnational corporations for 'fortified' cookies even when nutritionally sound locally produced alternatives were readily available (E.L., personal communication, 2009). Such cases point to a disconnect between implementation and the professed intent of procurement policies, which in the case of the food industry included extensive studies carried out by the

Planning Ministry on the country's production capacity for culturally appropriate and nutritious food.

Environment and human health

Despite the importance of clean air, water and food for human health and, particularly for children's development, the government's efforts at curbing pollution and enhancing environmental quality show mixed results.

On the one hand, efforts to reduce air pollution appear to have yielded some results: after growing steadily since the 1990s, mean annual exposure to particulate matter air pollution (PM2.5), declined from 20% in 2010 to 15% in 2017 (World Bank, 2022h). According to governmental assessments (SENPLADES, 2013, pp. 230-232), some of this improvement was related to efforts at improving gasoline quality, but as of 2022 the quality of gasoline sold in Ecuador continues to be one of the lowest in the region (*Calidad de gasolinas*, 2022). Moreover, the government's monitoring of air quality in ten Ecuadorian cities found that levels of particulate matter are above maximum permissible levels (SENPLADES, 2013, p.230).

In terms of toxic pollution, in 2012 the Ministry of Environment reported a nation-wide elimination of plaguicides containing persistent organic pollutants, otherwise known as 'forever chemicals' due to their imperviousness to environmental degradation, and ongoing work to identify and prohibit the use of toxic agrochemical (SENPLADES, 2013, p.230). However, there is little to indicate that these processes have been effective—studies continue to find the quality of toxics standards in agroindustry permissive and inspections and compliance flawed (Vos, et al. 2019)—and the health impacts of these shortcomings are not minor: in the banana industry—Ecuador's most important non-oil export—studies continue to show strong evidence of chronic poisoning of banana workers due to pesticide overexposure (Zambrano-Ganchozo, et al., 2022). In terms of environmental remediation related to extractive industries (which, among other health impacts, is responsible for the toxic pollution of drinking water in many communities), by 2013 the government had only cleaned up 19% of the sites in need of remediation and pointed to a clear need to do more (SENPLADES, 2013, p.231).

This lackluster performance in terms of environmental health is somewhat of a tragic irony given the government's pioneering efforts in environmental policy. When the country rejoined OPEC in 2007, it did so while spearheading an initiative to impose an 'eco-tax' on oil exports (the tax was even named the 'Daly-Correa' tax), the revenues from which would be directed toward environmentally friendly projects (SENPLADES, 2013, p.231). Early in the administration, the government also teamed up with the country's leading environmental organizations to create the Yasuní initiative —an ambitious proposal to forego oil drilling in the Yasuní National Park in exchange for international contributions worth half the value of its oil reserves. The initiative was abandoned within six years, after only a tiny fraction had been committed from the international community.⁵⁹

Despite these great ambitions, the administration's performance in the environmental sphere leaves much to be desired: even attempts to increase green and recreational spaces still left the country far below the 9m² per person recommended by the World Health Organization (at 4.69m²) (SENPLADES, 2013, p.142).

Concluding notes on economic policies and health

Overall, Ecuador's economic policies in the 2007-2017 period made important contributions to expanding people's capabilities to live a healthy life by increasing the accessibility of health services, reducing costs, and —indirectly— by increasing the purchasing power of poorer Ecuadorians through cash transfer programs.

At the same time, the truncation of the promising effort to reduce drug costs through compulsory licensing highlights both the difficulties developing countries face in navigating restricted policy space around intellectual property in today's global economic order, and the need to deploy more creative measures, such as regional procurement, to reduce the power asymmetries inherent in economic dynamics between superpowers like the EU or the US and countries like Ecuador.

⁵⁹ "In August 2013, two years after the Trust Fund creation and six since the beginning of the initiative, Correa decided to liquidate the fund and start the process of oil extraction in the ITT-Yasuní. While the original objective was to collect USD 360 million per year, the Trust Fund only collected USD 10.5 million during its two years of existence. Correa announced the decision declaring: 'the world has failed us' (López 2017: 229, 232). (Forero 2020, p.166).

Furthermore, despite the importance of environmental health in human health, action on this front left much to be desired. Though it is beyond the scope of this project, a more comprehensive assessment of the overall health implications of Ecuador's economic policies would entail an analysis of other ways in which those policies indirectly impact people's abilities to live a healthy life: in particular the human health implications of the environmental impact of investments and incentives for highly polluting and toxic industries (including certain types of agribusiness (*e.g.* flowers and biofuels), the infrastructure supply chain and petrochemicals) and related regulatory measures. In general, the extent of the health toll of these kinds of measures (not to mention their toll on the long-term life-sustaining capabilities of the ecosystems in which they are embedded) should ideally be accounted for in a systemic analysis of the health implications of economic policies.

6.3.3 Economic Policies and Education: Expansion of Public Education Services and Regulation

Education is one of the few policy areas in which orthodox economic thinking allows a substantial role for the state. Investments in education, research and development, are often considered the only valid way for the state to support the development of the productive sector. But even here, the support for state action is qualified. First, investments in education and research are deemed acceptable only to the degree to which they are not targeted at promoting specific industries or 'picking winners.' As I discuss below, this is neither realistic in practice, nor desirable for various reasons. Second, orthodox thinking allows the state to step in when market failure leads to underprovision, but when the private sector is willing to provide such services, it is assumed the state should step aside (or even in some cases, subsidize the private sector, as, for example, in the case of charter schools in the United States). Third, regulation of private industry is generally considered suspect because it is assumed that 'the market' will select which providers survive and which perish based on the quality of their services. Ecuador's approach to education investments and regulation of the private education industry obeyed none of these prescriptions and, with notable exceptions, obtained good results.

Public Investment in Education and Attempts to Increase Accessibility

As discussed in Chapter 5, the only bigger worry for Ecuadorians than losing their job was "not being able to give one's children a good education" (WVS, 2013). The capability to access a good education—to learn and develop skills—is influenced by various factors, including the increases in income and health factors like undernourishment, discussed in previous sections. For the vast majority of Ecuadorians, access to education is also contingent on the availability and quality of public education resources. Under the Correa administration, Ecuador drastically increased investment in education: overall spending increased from 2.3% to 4.3% of GDP between 2006 and 2016 and higher education spending increased from 0.7% to 2.1% GDP—the highest level of government spending on higher education in the Latin American region, and higher than the average of the OECD countries (Weisbrot, Johnston & Merling, 2017, pp.6-7).

Spending was coupled with reforms and new programs to expand accessibility and equity. Tuition and fees for public education at all levels was eliminated. Through the new 'PROMETEO' program, fellowships with highly competitive salaries were created to attract top academic talent from around the world in an effort to bolster the teaching and research capabilities of local universities and private sector capabilities. Special scholarship funding was earmarked for marginalized groups, including socioeconomically disadvantaged students, historically excluded racial groups, and for high-performing students to attend top programs around the world, contingent upon their commitment to return to Ecuador for a period equal to twice the length of their programs—in addition to an array of general scholarship programs for domestic and foreign studies.⁶⁰ In an acknowledgment of the pedagogical role of the media, reforms were introduced to create a more equitable distribution of radio frequencies (and more diverse content) (Forero, 2020, p.147-148) and the intellectual property law was reformed to minimize copyright restrictions, including new provisions to enable compulsory licensing for educational resources (see *Código Ingenios*, 2016).

⁶⁰See SENESCYT's annual *Rendición de Cuentas* reports for the years 2007-2016 for spending levels on these and other programs.
https://rendicion-cuentas.senescyt.gob.ec/wp-content/uploads/2018/05/Presentaci%C3%B3n-de-informe-de-rendici%C3%B3n-de-cuentas-2016-al-CPCCS_M_F4_2016.pdf

These measures, in combination with expanded investments in personnel, and physical and digital infrastructure, achieved substantial improvements in access to education. From 2006 to 2014, the net enrollment rate for students aged 15–17 increased from 48.3% to 64.7% and high school level enrollment overall (ages 12–17) increased from 65.9% to 81% (Weisbrot, Johnston & Merling, 2017, p.6-7). The rate for primary school attendance increased from 93.8 to 97.0% (INEC, 2022). Learning outcomes also improved substantially: between 2006 and 2013, Ecuador made the largest gains on the UNESCO Latin American regional test of sixth graders, as well as in reading scores among the 15 countries tested. It also achieved the second-largest gains in math after Chile. Learning levels rose from among the lowest in the region to above the regional average in math and close-to-average in reading (Schneider, 2019, p.259).

Beyond high-level statistics, however, the implementation of these policies points to less unambiguously positive outcomes. For example, in the government's attempt to use resources more efficiently to achieve universal coverage in basic education, sometimes small rural schools were closed to divert resources to larger schools in the vicinity, allowing for greater economies of scale and, thereby, higher enrollment potential. However, for children living in areas with poor transportation infrastructure, the closure of their community school could effectively remove access altogether. Furthermore, for Ecuador's rural indigenous children, the transition from a small school based in their community to a larger mestizo school, where staff is less likely to be sensitive to their needs, may only exacerbate their marginalization. A similar bias toward universalist policies complicated the pedagogical reform of the education system, which involved abolishing the separate 'intercultural' (read: 'Indigenous') education system established in response to demands from the indigenous movements, in favor of a single universalist system which, itself, rhetorically aspired to be 'intercultural.' In practice, however, the 'interculturality' of the unified system failed to materialize. Similarly, the pedagogical reform enforced a universal curriculum for the public school system, eliminating experimental programs —particularly in the arts— arising from schools and municipalities. In a telling example of the consequences of this approach, the teacher in charge of an award-winning dance program pioneered at a school in a marginal neighborhood of the capital was forced to close the program and transition to administrative duties (M. Herdoíza, personal communication, 2019).

Insensitivity to local cultural and ecological conditions also led to implementation challenges like the construction of high-tech 'Millennium Schools' in the Amazon with materials that were unable to withstand the region's climate —the schools had been built using a universal modular construction intended for the entire country with the intent of minimizing costs and maximizing coverage (K.E., personal communication, 2016). Correa's cabinet ministers report that the President was known to ponder the relative value of potential budgetary allocations by asking himself 'how many Millennium Schools could I build with that amount of money?' (Personal communication with various cabinet members, 2012-2016). The objective of maximizing the number of schools that could be built with the same budget is clearly laudable in principle —as is the objective of making all schools 'intercultural' and improving nation-wide education standards— but the process of operationalizing those objectives seems to have led to significant adverse consequences, which were not lost on impacted groups. These kinds of seemingly unintended adverse outcomes point to ineffective engagement with critical stakeholders and an excess of importance placed on abstract efficiency gains in the implementation of public investments, to the detriment of substantive improvements.

In terms of higher education, the government's efforts to increase accessibility included an ambitious expansion of the public education system, featuring the creation of a national system of public technical institutes and four new universities charged with specific missions tied to long-term planning objectives: a pedagogical research and teaching university (UNAE) to improve the quality of the training for public school teachers; a life sciences university in the Amazon (IKIAM), devoted to research and development based on Ecuador's biological assets; an arts university, aimed at professionalizing artists and fostering creative industries, and a technological university, primarily aimed at generating industry spin-offs and partnerships with established firms. While the creation of the national system of technical institutes faced little opposition, the creation of the new universities was fiercely attacked by some as an example of government waste and derided by authorities at other public universities as an irrational use of government funds that were needed to bolster existing institutions (SENESCYT functionaries, personal communication, 2014-2017).

On the one hand, critics of the new universities had a strong case: in a public education system with decaying, outdated infrastructure and insufficient and underqualified staff, the idea of creating new institutions could appear like reckless misallocation of

resources. On the other hand, at the time of these interventions, Ecuador's public universities were mired in bureaucratic inefficiency to the point that, in some cases, they were unable to spend even a third of their annual budget (SENESCYT functionaries, personal communication, 2014). Although the private sector had 'stepped up' to fill the supply shortage, the quality evaluations (discussed below) showed that the invisible hand was offering a standard of education too low to endow students with the competencies necessary to thrive in the labor market. Furthermore, the geographic distribution of the new universities was purposefully designed to reach parts of the country that had been historically underserved with higher education services. In such a context, creating the new institutions from scratch, with the conscious intent to overcome the limitations of existing institutions, may have been an act of desperation, but not one of irrationality. In the end, the new universities expanded the supply of higher quality educational programs and this undoubtedly constitutes an improvement in the educational dimension of human development.

In addition to expanding the availability of education services and personnel, the government implemented significant wage increases for teachers and academics, raising them far above the country's median income of \$447.00 (\$826 at PPP). However, while salaries for academics increased dramatically, helping higher education institutions to draw a more qualified labor force from domestic and international talent pools, the wage hike for basic education teachers was insufficient and poorly administered. An entry-level academic position at a university under the new higher education law (LOES) came with a minimum monthly salary of \$1,676 (\$3,100 at PPP)⁶¹, but in the concomitant reform for basic and secondary education teachers, their minimum monthly salaries increased to less than half that of higher education teachers: \$810 (\$1,499 at PPP) (Chiriboga Montalvo, 2019, p.30). Furthermore, teachers were resistant to the reform, which also required them to extend their work days, forcing many of them to quit evening jobs in private schools with which they had previously supplemented their income, in some cases canceling out much of the gains from the wage hike (M. Herdoíza, personal communication, 2017, based on personal accounts from public school teachers).

⁶¹Author's calculations based on the 2017 public sector salary scales:

<https://www.trabajo.gob.ec/wp-content/uploads/downloads/2017/09/A.M.-0154.pdf>, and on the scales established in the regulations derived from the LOES: https://www.ces.gob.ec/doc/historico_LOTAIP/LOTAIP2015/Anexos/reglamento%20de%20carrera%20y%20es%20calafon%20del%20profesor%20e%20investigador%20del%20sistema%20de%20educacion%20superior.pdf

Private schools were exempt from the wage hike and continued to pay teachers even more meager salaries than public schools.

Given the importance of early childhood and basic education for building basic human capabilities and even for delivering economic returns (Cain Miller, 2017), the comparatively low investment in basic education vs. higher education professionals would appear to be misguided —and the contrast is even more stark *vis-à-vis* childcare professionals: by 2015, wages for publicly funded childcare center coordinators reached an average of \$534 (\$987 PPP) per month, and \$434 (\$803 PPP) per month for care assistants (ILO & WIEGO, 2019).

However, investments in early childhood education were not insignificant. Spending rose from 0.28% to .64% of GDP between 2008 and 2014, translating into a six-fold increase in uptake of services over a decade. This entailed the expansion of the number of childcare workers to address low staff-to-child ratios in publicly funded child development centers, operated through agreements with local governments, NGOs, community groups and churches (ILO & WIEGO, 2019). The government sought to increase the quality of childcare by requiring center coordinators to hold a postsecondary degree in early childhood education and have at least one year of work experience in directing early childhood development activities. It also implemented an in-service training program to allow care assistants to earn a technical university degree while working. According to Staab (2018), "these new qualifications and training initiatives are elevating the status previously given to childcare workers who were considered volunteers and received a small stipend" (ILO & WIEGO, 2019, p.10).

Regulation of higher education

Regulation played an important role in the government's effort to improve the quality of educational opportunities. One of the first large-scale efforts of the Secretariat of Higher Education, Science and Technology (SENESCYT) was the regulation of the higher education sector in the Organic Code for Higher Education (LOES for its Spanish acronym) and the creation of a new system of evaluation, accreditation and quality assurance, led by an enforcement body (CEAACES). Responding to what authorities considered large-scale scams perpetrated by so-called 'garage' universities that failed minimum quality standards,

CEAACES undertook an evaluation and ranking of all institutions of higher education, closing fourteen, which it identified as unambiguous scams, and putting a further twelve on probation, pending review after five years (CEAACES, 2013) .

While the closures angered the institutions' proprietors and drew criticism from some opinion leaders who labeled them as 'government meddling', they were regarded in a more favorable light by others, not least because the affected students, many of them disappointed by the quality of their programs, were given opportunities to finish their studies at accredited institutions with public support. This included access to a newly-created 'leveling' program aimed at closing the educational gap created by socio-economic disparities over the course of basic education and supporting students in their preparation for a new entrance exam for public universities (SENESCYT, 2015; SENESCYT functionaries, personal communication, 2011-2017).

The entrance exam, however, was not without controversy. It replaced an open-access system that had allowed students to enter any academic program they chose at public universities, but led to high drop-out rate due to poor performance. In order to improve allocative efficiency, the new entrance exam made access to different disciplinary programs contingent upon students' performance, with some disciplines, like medicine, accessible only to students with the highest scores (SENESCYT functionaries, personal communication, 2011-2017). The replacement of open access education with entrance exams may or may not have helped to more efficiently allocate public resources by diverting them away from students who were unlikely to 'succeed' in a particular disciplinary program: entrance exams are well known to discriminate against students from poorer backgrounds and poorly to predict performance in higher education (Kantrowitz, 2021).

Even if the exams did contribute to cost-savings, they raise the question of whether such savings justify depriving students of their freedom to choose a career path, even when this choice may lead to 'failure.' As discussed in Chapter 2, the legitimate scope of application of the 'freedom to choose' principle is much more limited than its advocates would have us imagine, but this is one case it seems relevant: after all, at its philosophical core, human development is about enabling the flourishing of substantive freedoms, and the freedom to *try* to become doctor, chemist, or artist, can hardly be called anything but substantive, given that the nature of our work occupies such a central role in our identity and sense of fulfillment

(Chapter 2). Furthermore, the Federation of Secondary School Students considered open (exam-free) access to higher education as one of its main victories (Forero, 2020), indicating that the introduction of the exam contravened the preferences of the community most impacted by the policy.

Concluding notes on economic policies and education

Overall, much like in the health sector, the impact of the Correa administration's economic policies on education-related capabilities (the capabilities to learn and develop skills) stands out for its effectiveness in directing significant resources toward the expansion of publicly-provided education services. Like the improvements in healthcare discussed above, the improvements in the education sector would have been impossible without the resourceful expansion in public investment capabilities discussed in Section 2.

However, allocational decisions and implementation were far from optimal.

On the regulatory front, the evaluation and subsequent shut-down of low-quality universities, while perhaps unpalatable to some liberal sensitivities, was a positive consumer protection measure, particularly so since it was coupled with an expansion of supply of higher education institutions that prioritized underserved areas. Improvements in access, however, were somewhat undercut by the repeal of exam-free access to higher education, which contravened stakeholder preferences without providing unambiguous cost-saving benefits.

In various cases, insensitivity to local context and ineffective stakeholder engagement also appear to have undercut the effectiveness of efforts to improve access to, and quality of, education —as well as the working conditions of educators, as evidenced by the ignored grievances of teachers in the salary reform, which undercut the positive effect of the nominal salary hike.

Finally, the disparities between salary increases in early childhood and basic education vs. higher education signals an unfortunately pervasive bias, by no means particular to Ecuador, to undervalue the relative importance of children's early development for their long-term abilities to learn and to pursue fulfilling work. Early childhood development in particular is one area where a great deal more than 'a little assistance' is necessary to expand fundamental human capabilities in a context of poverty and deprivation.

6.4 Economic Policies and Decent Work: A 'Minimum' and 'Fair' Wage, Profit Sharing, Employee Benefits

As discussed in earlier chapters, the capability to pursue 'decent' and 'fulfilling' work is essential to human wellbeing. Yet, discussions about the role of economic policies in expanding human capabilities for decent and fulfilling work are often dominated by simplistic orthodox ideas that privilege the 'freedom' of the (labor) market at the expense of the expansion of *human* freedoms. For example, minimum wage regulations are commonly met with the 'common-sense' criticisms that price floors impede the free functioning of the labor market, leading to deadweight losses and distortion of the market equilibrium, and that 'artificially' raising the price of labor increases unemployment. Similar arguments are leveled against raising labor standards and, more strangely, protecting labor rights, which are interpreted as an indirect artificial increase in the price of labor and a limit to the 'flexibility' of the labor market. The problem of unemployment, thus, is seen as a temporary phenomenon that the market can easily solve if it is 'free' to adjust prices (wages) to clear the labor surplus. In this context, regulations are also seen as distortions that prevent the market from equilibrating.

Chapter 2 addressed the conceptual problems involved in interpreting labor market regulation as a limitation to market freedom. There are also compelling empirical challenges to the claims about the effect of labor market regulation on unemployment: empirical evidence does not support categorical claims, but studies suggest that increases in the minimum wage have little to no effect on unemployment (Baker, 2021; Cengiz et al., 2019) and even help to reduce poverty by increasing wages at the bottom of the income distribution (Dube, 2018).

Nevertheless, the potential of labor market regulation to contribute to wellbeing by creating opportunities for decent work is largely neglected or sidelined as an 'extra-economic' issue in orthodox economics discourse. What is more surprising, however, is that *human development* discussions have done little to challenge the vision of mainstream economics in this regard (see Chapter 2 for a discussion of the neglect of labor in the human development scholarship). Perhaps influenced by the same ethos that led Amartya Sen to emphasize the freedom to sell one's labor in the market (in contrast to being subject to bondage) (1999, pp.29-30), as one of the most fundamental constitutive freedoms of 'development', scholars

have shied away from addressing policies that could be construed as infringing upon that freedom. Instead, they have focused on measures like microfinance and cash transfers to deal with the problems of unemployment and underemployment.

There are two key problems with this approach. First, as discussed in Chapter 4, the efficacy of such measures has been contested by empirical research. Microfinance, in particular, has come under fire, partly for its limited ability to provide the necessary support to propel recipients into decent work and, even more worryingly, for its frequent degradation into a form of predatory lending (Chapter 4). Second, while some forms of microfinance and conditional cash transfers may serve as efficient palliatives for unemployment or insufficient wages, they are just that: palliative measures. They do not address the underlying causes of unemployment and low wages and they certainly do not address the problem of *decent* — never mind *fulfilling*— work.

So, what should economic policy for decent and fulfilling work look like?

First, few would disagree that such a policy should be able to decrease unemployment and underemployment. This, in turn, entails a production sector policy that encourages investment in sectors that generate employment, directly and indirectly, rather than a policy that leaves this to a mythical naturally equilibrating 'free' market.

But looking through the lens of unemployment will not tell us about 'decency' of work. To capture this, one should analyze whether a country's production-sector policy is conducive to creating quality jobs and, as discussed in Chapter 4, for developing countries this entails an expansion of manufacturing and high-value added services. The 'decency' of work must also be evaluated by examining whether and how wage regulations and labor standards are utilized to improve working conditions. This entails taking a less evasive stance toward labor market regulation than the human development scholarship (see Chapter 2 for more detail) and resisting the fear-mongering from mainstream economics.

Then, there is the question of what constitutes 'fulfilling' work. This qualifier is clearly highly subjective in nature. 'Fulfilling work' may mean very different things to people depending on their class, cultural context, and other aspects of their personal trajectories. Moreover, what people value are *opportunities* for fulfilling work —that is, the presence of demand for what they deem to be gratifying work, and the *opportunity* to gain the necessary skills to meet that demand. Access to fulfilling work is thus contingent on access to a quality education that gives individuals the opportunity to develop broad and flexible capabilities that

enable them to 'have their pick' of different professions, but it is also contingent on the creation of demand for those capabilities: this, again, requires production-sector policy that creates diverse opportunities for work with a strong emphasis on expanding the kinds of jobs that, by their very nature, are likely to provide decent wages and labor conditions.

Viewed from this perspective, the combination of public investment, labor, education and industrial policies the Correa administration pursued generally contributed to expanding opportunities for decent fulfilling work, though, as discussed below and in the next chapter, many measures were too timid to make a substantial, lasting difference.

Labor market reforms and employment

Labor reforms were among the earliest measures of the Correa administration, in whose view the labor market deregulation of the Washington Consensus period had enabled worker precarization.

The 2008 Constitution included various measures aimed at increasing labor standards. It enshrined the concept of a 'fair wage' (*remuneración justa* or *salario digno*) — beyond the minimum wage— and defined it as the amount necessary for workers to cover their own basic needs, as well as those of their families (Art. 328). The minimum wage, to be revised on a yearly basis (Art. 328), was set to increase progressively until it reached the fair wage.⁶² In effect, the real minimum wage increased by 48% between 2007 and 2016 (Weisbrot, Johnston & Merling, 2017, p.6)

In an even bolder move, in 2010 the Organic Code of Production, Trade and Investment (OCPTI) prevented firms that turned a profit from distributing dividends to shareholders until all workers were paid the fair wage (Art. 10). This contributed to the increase in the proportion of income to labor vs. income to capital from 50% in 2007 to 62% in 2012 (Forero, 2020, p.144).

The government also undertook an effort to expand access — 'affiliation' — to the social security program, which in Ecuador functions as both the public pension program and the means of access to public healthcare. In a move widely hailed for its recognition of the domestic work of women, the 2008 Constitution (Art. 333), recognized non-remunerated work, including subsistence work and care work in the home as 'productive labor' and

⁶² Transitory Disposition 25 of the 2008 Constitution.

guaranteed the progressive expansion of social security access for those performing non-remunerated work for their families in the home. The Constitutional mandate was translated into law in the Organic Code for Labor Justice, which established a mechanism for self-affiliation for such workers⁶³ (Guamán Hernández & Lorente Campos, 2019). In a more aggressive measure —established through a general referendum— the government passed a proposal that rendered it a criminal offense for employers to neglect to affiliate full-time workers to the social security program (CNE, 2011). Worker affiliation to social security increased from 34% to 53% between 2007 and 2011, climbing more slowly to 58% by 2015 (Forero, 2020, p.143; INEC, 2016). For full-time workers, social security affiliation grew even more quickly, rising from 39% to 62% between 2007 and 2012 alone (SENPLADES, 2013, p.57).

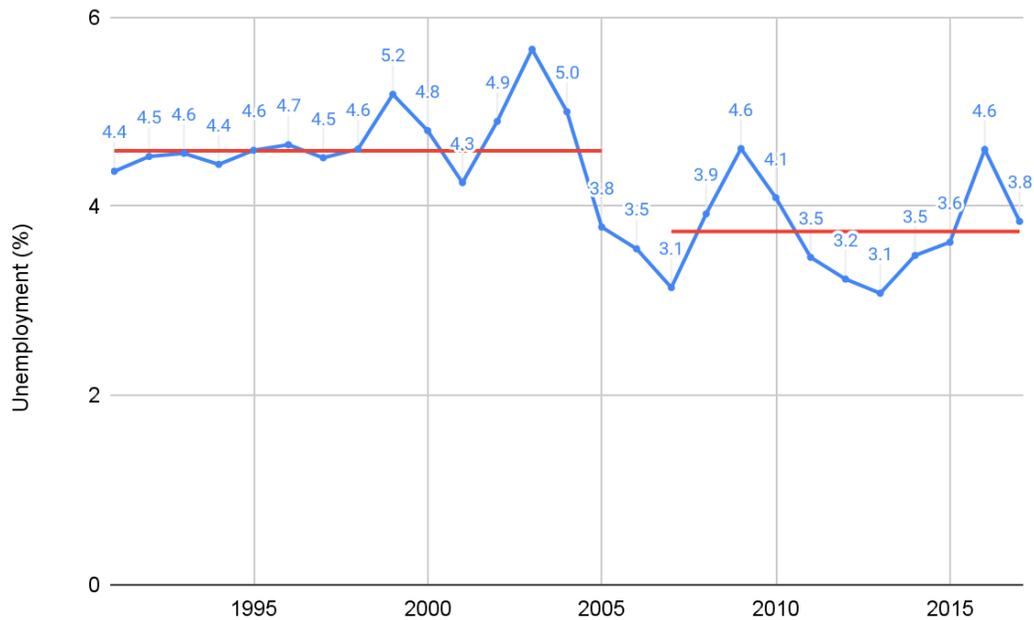
In an effort to curb worker exploitation, the Constitution also strongly restricted the use of outsourcing and hourly contracts for workers performing core functions (as opposed to secondary functions, like cleaning and security) (Art. 327). The implications of this reform on decent work, however, are ambiguous. On the one hand, the measure may have forced exploitative firms to hire *de facto* full-time workers on a full-time basis, forcing them to grant them corresponding social security contributions. On the other hand, for firms that genuinely required nothing more than hourly-contracts to perform their core functions, the reform likely meant either firing hourly workers and overexploiting full-time workers or hiring salaried full-time workers to perform part-time functions, creating unnecessary operating costs. Furthermore, it is well known that regulations of this sort pose a particular challenge to small and informal enterprises —the country's biggest employers.

Nevertheless, the government's efforts to increase labor standards and tighten labor market regulations appear to have been quite compatible with both the increase in per capita growth observed during the Correa administration versus the preceding decades (Section 6.3.1) and with a decrease in unemployment, undermining the notion that labor market regulation should lead to the opposite effects. In the 2007-2017 period, unemployment and underemployment followed cyclical patterns, with unemployment averaging 4.8% and underemployment averaging 14.2% between 2007 and the first trimester of 2017 (INEC, 2022b; Weisbrot, Johnston & Merling, 2017). Overall, average unemployment was 1

⁶³ *Ley Orgánica para la Justicia Laboral y Reconocimiento del Trabajo en el Hogar*

percentage point lower than in the 1991-2006 period (Figure 6.6⁶⁴). Purchasing power, moreover, increased substantially, as discussed in section 6.3.1.

Figure 6.6 Unemployment in Ecuador (% of total labor force), 1991-2017



Source: World Bank (modeled ILO estimate), 2022

Personal (and Collective) Capabilities for Fulfilling work

Wage and labor standards aim at creating an institutional environment for decent work, but an economic policy for fulfilling work must also aim to expand the personal capabilities to engage in fulfilling work. Such a policy requires at least three components.

First, it should expand the capabilities of individuals to perform basic functions, like reasoning and critical thinking, which endow them with the ability to prosper in an array of productive (and non-productive) activities throughout their lives. In the realm of work, it should help individuals expand 'core productive capabilities' that can be deployed across a

⁶⁴ Note that the World Bank's modeled ILO estimates of unemployment (World Bank, 2022d) are lower than those of the Ecuadorian institute for census and statistics (INEC). The World Bank/ILO estimate is used here to provide a comparison with the preceding period with a consistent methodology, given a change in methodology at INEC in 2007.

wide range of economic sectors and activities. This kind of flexibility is increasingly important in an age of rapid skill-obsolescence and technological change, in which the threat of displacement requires workers to re-deploy their skills toward new activities with agility. Expanding core capabilities is not antithetical to specialization, but rather complementary. Specialized skills are essential for individuals to access high-wage work, but these must be built 'on top' of basic, general core competencies. This means that, to assess whether or not a country's economic policy is contributing to expanding fulfilling work, one must examine its policies (for nutrition, family, education) in terms of how they contribute to expanding the core and specialized capabilities of individuals.

Second, contrary to the implicit assumptions of the human development scholarship, expanding the capabilities of individuals is not enough to provide them with the conditions for leading fulfilling lives. A country might succeed in educating many capable individuals, but each of those individuals will be hard pressed to find fulfilling work if the labor market offers nothing more than a limited variety of badly-paid jobs with harsh working conditions. Unfortunately, in countries where the majority of jobs are concentrated in the commodity export sector and low-value added services, this is precisely the kind of prospect that these highly capable individuals will face. Therefore, a country's education policy must also foment *collective* productive capabilities purposefully targeted to diversify the types of economic activities the population is capable of performing.

Finally, to create opportunities for fulfilling work, the presence of individual and collective capabilities is still insufficient. A country may have a highly trained critical mass of capable engineers and no engineering work for them to perform. To create those opportunities, a country must have a supply-side policy: it must actively invest in the development of those sectors, using ambitious industrial, trade and technology policies. As argued in preceding chapters, empirical evidence shows that, in the absence of such policies, path-dependency will almost inevitably dominate the pattern of productive specialization in commodity-exporters.

In the chapter that follows, I argue that Ecuador's education, industrial, trade and technology policies delivered mixed results on each of these accounts.

6.4 Conclusions

In this chapter, I have sought to analyze and evaluate the extent to which the Correa administration's economic policies enhanced the expansion of human capabilities along three dimensions: health, education and decent and fulfilling work. Several conclusions follow from the preceding analysis.

First, it is clear that the Correa administration's ambitious efforts to expand public investment capabilities and implement creative macroeconomic and regulatory policies during this period were instrumental in the expansion of human capabilities (Section 2). The government made some bold choices in this regard that marked a clear break from the preceding Washington Consensus period. These included the reallocation of public revenues from debt service to the 'repayment of the social debt', a strategic debt default, and various macroeconomic measures, including a strong stimulus in response to the economic crisis, and the use of capital outflow taxes, domestic liquidity requirements, balance of payments safeguards and 'quantitative easing for the people'. The measures helped buttress growth and sustain social and capital spending even through the 2008 crisis. They also dampened the decline in spending after the collapse of the price of oil in 2014. Moreover, measures like tax reforms, the re-nationalization of the oil sector, the withdrawal from BITs and the expansion of public banking and the reconstitution of investment planning capabilities helped build the country's long-term financial and institutional capabilities for public investment.

The combination of fiscal, financial and monetary policies deployed by the government helped to create and re-direct capital toward the expansion of human development through investments in physical infrastructure and social services. As shown in Section 3, the public investments enabled by those economic policies, in concert with interlocking regulatory policies, undeniably contributed to reductions in poverty, increases in access to healthcare and educational opportunities, and higher-wage work opportunities.

However, the government's economic policies also suffered from some important limitations in terms of their human development impacts.

In the realm of health (Section 6.3.2), public investment and regulatory policies made important contributions to expanding people's capabilities to live a healthy life by investing in the expansion of health services, reducing costs, and —indirectly— by increasing the purchasing power of poorer Ecuadorians through cash transfer programs. However, some of

the government's more ambitious efforts —such as the use of compulsory licensing to reduce drug costs— were truncated by external pressures from the EU and the US. Furthermore, despite the importance of environmental health in human health, action on this front left much to be desired, as evidenced, for example, by the persistence of highly damaging worker exposure to toxics in some of the country's export sectors.

In the realm of education (6.3.3), much like in the health sector, the administration's economic policies were effective in directing significant resources toward the expansion of publicly-provided education services. However, allocational decisions and implementation were far from optimal, perhaps most notably in the disparities between salary increases in early childhood and basic education vs. higher education, which signals an unfortunately pervasive tendency to undervalue children's early development. Furthermore, insensitivity to stakeholder preferences undercut the human development impacts of certain policies, such as the wage reform for educators and the repeal of exam-free access to higher education.

In the realm of work (6.3.4), the administration made strides in increasing labor standards, including significant increases in the minimum wage, the enshrinement in the Constitution of the 'fair wage', the recognition of domestic labor as 'productive labor' entitled to social security protections, and enforcement mechanisms to increase worker access to social security. These reforms went in tandem with rising wages and purchasing power and declining poverty and inequality. Ecuador's experience suggests that labor market regulations that directly improve worker conditions are compatible with, and perhaps even helpful for economic prosperity.

Overall, the Correa administration's economic policies enhanced the expansion of human capabilities along the crucial dimensions of health, education and decent work and these improvements can largely be attributed to the country's decision to reverse course on the structural adjustment reforms implemented during the Washington Consensus period and to shift toward a more unorthodox and creative mix of economic policies that emphasized public investment. However, the government's public investment-led development strategy was not able to withstand the crash in the price of oil in 2014, which led to a contraction in social spending and especially capital spending. This experience highlighted the vulnerability of the Ecuadorian economy: its commodity-dependent pattern of productive specialization. The next chapter discusses the administration's efforts to transform the production sector and their shortcomings.

Chapter 7.

Building Productive Capabilities for Human

Development:

A Humanist Assessment of Ecuador's Industrial Policies, 2007-2017

7.1 Introduction

The preceding chapter examined how Ecuador's economic policies under the Correa administration (2007-2017) impacted people's capabilities to live a healthy life and their capabilities to pursue educational opportunities. It also began to analyze how Ecuador's policies affected their capabilities to pursue decent and fulfilling work. I continue the analysis of this last issue in the present chapter, by bringing it within our assessment of Ecuador's industrial policy.

The chapter is structured in three sections.

Section one lays out the framework for the assessment. I propose a conceptual framework for examining the systemic relationship and intersections between what is conventionally understood as industrial policy (*e.g.* policies for industrial promotion, technology, trade, and innovation) and policies that are often seen as 'social' (*e.g.* education and nutrition), but which have a profound impact on both, 'personal'⁶⁵ and 'collective' productive capabilities. Building on theoretical discussions from Part I of this dissertation, I make the case that humanist assessments of industrial policy — *i.e.* assessments that are

⁶⁵ Following the suggestion of Robeyns (2017), I will often use the term "personal capabilities" rather than the more loaded term "individual capabilities" when referring to capabilities that can be the properties of a single human being — for example, the capability to be healthy— as opposed to those capabilities that can be better understood as properties of a collective subject — for example the capability to produce cars, which requires a firm or some other kind of productive unit composed of many individuals collaborating. This does not, however, mean that personal capabilities can be attained by an individual without relying on collective capabilities — for example, a human being can only be healthy if there are collective capabilities in her society to provide sufficient nourishment, healthcare, etc.

primarily concerned with the wellbeing of people as the ultimate objective of industrial policy— should evaluate industrial policy by its ability to fulfill two key functions in the expansion of human capabilities:

1) First, one should examine the extent to which industrial policy contributes to expanding the crucial personal capability to pursue decent and fulfilling work. This implies recognizing that the opportunity to pursue fulfilling work is contingent on the *demand* for different types of work, which itself implies the existence of collective productive capabilities;

2) Second, one should analyze the extent to which industrial policy succeeds in expanding a country's collective productive capabilities for productivity growth, as a *means* to finance the eradication of capability deprivations — poverty of capabilities. I conceptualize this second function of industrial policy as an 'indirect' contribution to enhancing personal capabilities. I show that both the 'direct' and 'indirect' contributions of industrial policy to development entail policies that target 'personal' and 'collective' capabilities and propose that such policies can be best conceptualized through an intersectional lens that contemplates interactions between different policy areas including education, health, nutrition, training, industrial promotion and development finance.

Section two evaluates Ecuador's industrial policy in terms of its contributions to building personal capabilities for fulfilling work, building on the analysis in Chapter 6. It discusses how improvements in the areas of nutrition, childcare, health and education and training — discussed in Chapter 6 in terms of their contributions to the capabilities to learn and to live healthy lives— also contributed to the expansion of personal capabilities to pursue fulfilling work. However, I also note limitations in these areas, both in terms of effectiveness and in terms of the 'procedural' aspects of policy implementation, which raise concerns about the ability of policy makers to effectively include stakeholders and their demands.

Section three analyzes the 'indirect' contributions of industrial policy to personal capabilities. I evaluate the extent to which Ecuador's industrial policy succeeded in enhancing collective capabilities for productivity growth, which, as discussed in Chapter 4, is a requirement for financing the expansion of capabilities to overcome poverty, conceived both in terms of income and in terms of capability deprivation. The evaluation concludes that, notwithstanding substantial infrastructural investments, creative regulatory measures and some promising experiments in the areas of innovation policy and government procurement,

the country's industrial policy was too unfocused to be effective — constrained, in no small measure, by the persistence of misguided ideas about development that are skeptical of large-scale, targeted industrial promotion.

The shortcomings of Ecuador's industrial policy, I conclude, undermined the country's ability to sustain investments in the expansion of human capabilities. The light-touch, unfocused approach to the production sector prevented the country from developing the productive capabilities necessary to achieve diversification and through it, a buffer against the crash of oil and commodities prices. While the economic turmoil that ensued after the crash did not deal a fatal political blow to the Correa administration, it did erode its ability to sustain further investments in infrastructure and production, as well as in social sector investments that had proved to be instrumental in expanding human development.

Thus, it was the ineffectiveness of industrial policy that, above all else, truncated a process of expansion of human development that could have become sustainable had the imaginations of policy makers been able to escape the ideational constraints of both, orthodox economic prescriptions and standard human development discourse.

7.2 The Role of Industrial Policy in Human Development: Industrial Policies as Structural Solutions to Poverty of Capabilities

Chapter 4 established the importance of industrial policy as a necessary element of economic policies aimed at human development and particularly at the eradication of poverty (of income and of capabilities). It showed that, while the policies promoted by conventional human development approaches — like microfinance and social policies (health, education, social security) — can play a role in fighting or alleviating poverty, they are not sufficient for overcoming it. Our theoretical and empirical analysis showed that:

(i) financing the eradication of poverty of capabilities also requires sustained productivity growth, which implies building capabilities for producing and exporting a diverse range of high-value-added products; and

(ii) these capabilities cannot be expected to emerge 'naturally' due to path-dependent structural patterns of trade and productive specialization. These realities, corroborated by the experiences of successful development and poverty-reduction throughout history, all pointed

to the need for industrial policy as a tool for human development that provides a structural solution to poverty.

This chapter takes that analysis one step further by proposing a framework for evaluating industrial policy —measures aimed at shaping the production sector— from a humanist perspective.

Industrial policy, I propose, can be conceived as having a dual role in human development (see Table 7.1). One role, derived from the above analysis, is to enhance a country's collective capabilities to produce and export high-value-added products, enhancing productivity growth and, through it, the eradication of capability deprivations. I call this the 'indirect' contribution of industrial policy to the expansion of personal capabilities because its immediate function is to enhance productivity growth —income per capita— as a *means* of expanding personal capabilities (to be well fed, housed, etc.). The more 'direct' function of industrial policy in human development, I propose, is to expand a personal capability that, as discussed in previous chapters, is highly valued in and of itself across cultures and historical moments: the capability to pursue fulfilling work. I expound on these two functions of industrial policy in the following sections.

Finally, as discussed in Chapter 4, the 'people first' humanist approach to policy-making must also be grounded in real human agency. This means that the extent to which a policy contributes to people's freedoms can also be partially judged by the level of agency that people seeking to participate in the political process —not just elites— have in the design and implementation of policy. This does not necessarily mean that all decisions must be taken through direct democracy — as discussed in chapter 4, people are not necessarily inclined to weigh in on, say, every new food quality standard — but it does mean that when people actively seek to participate in a decision-making process or in making the rules that structure such a process, policy-making organizations should make this possible, recognizing the role of the state as a mechanism for collective action —for collectively solving collective challenges. The flip side of this, of course, is that as the humanist approach stresses, people also have a *responsibility* to engage in the policies that structure their societies.

Table 7.1 Functional role of industrial policy (and ancillary policies) in human development		
Direct role in expanding human freedoms and capabilities	Expansion of core human capability to pursue fulfilling work	
	<i>Personal dimension</i>	<i>Collective dimension</i>
	<p>Expanding people's personal capabilities to pursue a broad range of work opportunities through expansion of cognitive, affective and physical capabilities.</p> <p><i>Relevant industrial policies:</i> investments in specialized training and education in a range of sectors.</p> <p><i>Relevant ancillary policies:</i> Nutrition, prenatal care, childcare, human & environmental health and education and training</p>	<p>Expanding people's personal capabilities to pursue a broad range of work opportunities implies creating diverse industries that create demand for those capabilities.</p> <p><i>Relevant industrial policies:</i> industrial promotion in strategically chosen sectors to create collective productive capabilities in diverse industries</p>
Indirect role in expanding human freedoms and capabilities	Expansion of a country's collective productive capabilities to increase productivity growth as a means of financing the eradication of capability deprivations (multidimensional poverty)	
	<i>Personal dimension</i>	<i>Collective dimension</i>
	<p>Expansion of personal capabilities from a 'human capital' perspective. This includes creating foundational and specialized skills for generating value added and incentives for people to work in industries that increase productivity.</p> <p><i>Relevant industrial policies:</i> targeted programs for education and training needed to build personal capabilities required in competitive, high-value- added industries.</p>	<p>Expansion of the capabilities of domestic industries and the economic system to increase productivity growth.</p> <p><i>Relevant industrial policies:</i> investments in (i) systemic productivity that benefit a range of industries (e.g., infrastructure); (ii) in the promotion of specific industries, strategically selected to increase value added (and financing for these policies); and (iii) state capacity for public investment and management of industrial policy.</p>
Source: Author		

7.2.1 Building personal capabilities for fulfilling work (through the expansion of personal and collective capabilities)

Chapter 6 discussed how certain economic policies — namely labor and wage reforms — can be useful for ensuring 'decent' work. It also pointed out, however, that 'fulfilling' work requires more than surmounting exploitative conditions through regulatory measures.

Expanding a human being's capability to pursue fulfilling work implies expanding their ability to perform foundational cognitive and emotional functions, like reasoning, critical thinking, and interpersonal communication, all of which are helpful for working in an array of industries. Expanding these capabilities also allows people greater self-determination (Chapter 2) — the ability to understand themselves and to define their own path. In other words, there are certain core capabilities that can logically be expected to expand people's freedoms to imagine and to realistically project themselves into a broader range of fulfilling work opportunities, in different industries and through a range of modalities (as employees, cooperative workers, entrepreneurs, etc.). Beyond these core personal capabilities, specialized skills may also be required for pursuing many kinds of fulfilling work (*e.g.*, teaching, surgery, engineering). However, as the reader may recall from the discussion in Chapter 4 on Korea's development experience, even high-impact — and presumably fulfilling — work, like the management of a country's industrial development projects can rely more on 'general' intellectual capabilities than on specialized ones. In an age of rapid skill-obsolescence and technological change, strong basic capabilities that enable agile redeployment to new industries can be expected to become increasingly important relative to the specialized capabilities.

All of this points to the need for a country's industrial policy to give serious attention to the construction of **personal capabilities** —particularly foundational cognitive and affective capabilities— as a crucial means of expanding opportunities for fulfilling work. Moreover, industrial policy interventions cannot be limited to higher education or specialized training. Considering the wealth of evidence that points to early childhood development as the key moment for building foundational cognitive and affective capabilities (Robinson, et al., 2017) there is good reason to focus substantial resources on policies aimed at young children and their caregivers, like nutrition, health, childcare and family leave. This does not necessarily entail the counterintuitive move of extending the label 'industrial policy' to these 'social' policy areas, but it does require industrial policy makers to acknowledge the systemic importance of 'social' policies in achieving industrial policy objectives— particularly in the long run.

Expanding people's personal capabilities to pursue a broad range of work opportunities also implies creating diverse industries that create demand for those capabilities (Chapters 4 and 6). This entails fomenting the country's **collective productive capabilities**

required for a diversified production sector and, through it, the expansion of work opportunities. This is especially the case in developing countries, where work opportunities are concentrated in few, poorly-paid, and often exploitative sectors. In fact, without the presence of these collective productive capabilities, people seeking to develop their own 'personal' specialized productive capabilities may be hard pressed to do so, given that many specialized skills are acquired *within* firms and other productive units. One may go a step further and point out that even the capability to provide a child with the care needed to expand her personal capabilities requires 'collective' capabilities embodied in childcare organizations or family units.

An industrial policy aimed at expanding fulfilling work must therefore include measures to expand both personal and collective capabilities, which must be seen as complementary and inextricable from one another.

7.2.2 Building a country's collective productive capabilities to increase productivity growth as a means of financing the eradication of personal capability deprivations

While the first function of industrial policy, discussed above, is aimed directly at expanding opportunities for fulfilling work, industrial policy has a second function, whose importance has already been extensively discussed in Chapters 4 and 6: increasing productivity growth (GDP per capita) as a *means* of financing the eradication of capability deprivations (multidimensional poverty).

This function of industrial policy also has a 'personal' and 'collective' dimension.

On the one hand, the 'personal' dimension requires us to see the expansion of people's capabilities from a 'human capital' perspective — that is from the perspective of existing or aspirational productive units that require certain human skills to become competitive. For example, if a country has determined that it is strategically necessary (productivity growth) to invest in semiconductors, then its industrial policy should include targeted incentives or programs for people to acquire the skills required by that industry.

On the other hand, the 'collective' dimension of a productivity-oriented industrial policy requires measures to expand the capabilities of local industries. While this also entails policies for fostering personal 'human capital' capabilities, it additionally requires measures that expand other capabilities that cannot be conceived as properties of a human being, such

as investments in infrastructure, which increase systemic productivity, benefiting a range of industries.

It must be borne in mind that, as Amartya Sen (1999) has pointed out, it is dangerous to reduce people and their capabilities to 'human capital'. In fact, without the proper caveats, such a categorization can become unambiguously dehumanizing, subverting the spirit of the humanist approach. A humanist industrial policy must see people — first and foremost— as human beings and the expansion of their capabilities as its main objective. Therefore, when a productivity-oriented industrial policy is deployed, it must be remembered that its ultimate objective is to finance capability expansion and any measures that instrumentalize people for that purpose — convert them into 'human capital' (a value-adding capability of a firm) — must not contravene their fundamental freedoms through coercion, exploitation or other forms of abuse.

At the same time, the need for productivity growth must not be underestimated because, without it, it is not possible for people to overcome the myriad of capability deprivations which cannot be satisfied without money. Accessing finance for investments in capability expansion is a crucial challenge of developing countries precisely because their economies are not able to create and retain sufficient value. A humanist industrial policy must therefore also contemplate how to finance capability expansion — how to create financing capabilities.

Chapter 6 already examined the government's expansion of financing capabilities and the deployment of those capabilities to overcome capability deprivations in the areas of health, education, and decent work. I now use this framework to analyze Ecuador's industrial policy, understood as the implementation of measures for expanding personal and collective productive capabilities.

7.3 Building personal capabilities for fulfilling work: policies for nutrition, child development, health, education and training — and their limitations

The collection of economic policies discussed in Chapter 6 constituted an expansion of Ecuador's collective financing capabilities for development. The ensuing investments enabled the country to substantially increase its investments in the expansion of human capabilities

for fulfilling work, which, as discussed in section 7.2. (and Table 7.1), can be regarded as the 'direct' function of industrial policy in human development.

Chapter 6 has already covered how labor and minimum wage reforms contributed — though not without some problematic contradictions — to improving the *decency* of work. This section goes one step further to examine how Ecuador used various industrial and ancillary policy tools to expand people's personal capabilities — particularly foundational cognitive and affective capabilities — as a crucial means of expanding opportunities for *fulfilling* work. Since many of these policies have already been covered in Chapter 6 in the evaluation of the impact of Ecuador's economic policies on personal capabilities related to health and education that are valuable in their own right, this section only considers the systemic role of Ecuador's health, child development and education policies in the specific industrial policy objective of expanding access of fulfilling work.

7.3.1 Expanding foundational capabilities for fulfilling work: nutrition, child development centers, subsidies for caregivers, basic education and health expansion, environmental regulations

Research suggests that the first 8 years of a child's life build a foundation for future health, learning capacity and earnings. Chronic stressors in early childhood, such as poverty, can have cumulative lifetime effects on health, learning, and earnings (for example, vocabulary skills by age 3 predict grade level reading, which predicts high school graduation rates), while factors like responsive caregiving relationships and quality early education and healthcare can ameliorate the impact of adverse circumstances and help children to reach a healthy trajectory (Robinson, et al., 2017).

Considering the strong evidence pointing to early childhood development as the key moment for building foundational cognitive and affective capabilities, and considering the importance of those capabilities in people's abilities to learn —a crucial requirement for the capability to pursue fulfilling work— there is good reason to focus substantial resources on policies aimed at children and their caregivers, like nutrition, health, prenatal care, childcare and education.

Several measures undertaken by the Correa administration stand out on this account.

First, as discussed in Chapter 6, the substantial increases in investment in healthcare services, early childhood education and basic education expanded the supply of services critical to child development. The expansion of supply combined with measures to reduce barriers to access, including the elimination of fees for medical appointments and childcare, expanded free access to essential drugs and educational materials, the elimination of registration fees for public schools and free distribution of school supplies and uniforms in rural schools (SENPLADES, 2013, p.58). At the same time, the expansion of the unconditional cash-transfer program (the 'Human Development Bond') provided a basic income to women⁶⁶ with children, allowing them greater resources and flexibility to care for them (see Chapter 6 for more detail).

While it is difficult to empirically evaluate how these measures may have contributed to expanding children's capabilities for fulfilling work in the long-run, there is good reason to think that they should. Greater access to healthcare services and free childcare centers with trained professionals gives parents greater means to care for their children's development in the critical prenatal and early stages of development. Perhaps more importantly, even though the 'Human Development Bonds' (HDB) were not conceived as a child development measure, the income they provide allows for better (or at least more) nutrition and could be used by parents to 'buy' time to care for their children. As discussed in Chapter 6, it is noteworthy that the expansion of the HDB program coincided with sharp declines in undernourishment.

Similarly, the elimination of school fees and increased availability of childcare and educational services evidently has the potential to contribute to foundational capabilities, given that access to formal education can be a determinant in whether or not a child has the opportunity to acquire key cognitive capabilities like literacy and numeracy. It also stands to reason that the HDB program, along with the caregiver subsidies discussed in Chapter 6, freed time for parents to support their children's learning process (parental involvement is a strong predictor of learning outcomes (Topor, et al., 2010)).

Nevertheless, the question of *how much* health and education services are expanded is no more important than *how* they are expanded and, on this account, the Correa administration's policies were limited by both, the failure to meaningfully engage relevant stakeholders in policy design, including teachers and Indigenous communities, as well as an

⁶⁶ As well as elderly and disabled people in need.

overemphasis on investment in higher education to the detriment of investment in early childhood and basic education (see Chapter 6 for more detail).

Furthermore, the persistence of exposure to environmental threats, like toxic pesticides, described in Chapter 6, point not only to a general failure in the management of health risks, but to a specific failure in the realm of child development that particularly affects some of Ecuador's most vulnerable people. In Ecuador's flower industry alone, studies continue to find neurobehavioral alterations in children exposed to pesticides in (Suarez-Lopez, et al., 2017), and prenatal exposure to pesticides—even at levels that do not produce adverse health outcomes in the mother—has been found to cause lasting adverse effects on children's brain development. Given that the Ecuadorian flower industry has a female-dominated workforce, scientists contend that "pesticide exposure therefore may contribute to a 'silent pandemic' of developmental neurotoxicity" (Harari, et al., 2010).

Considering that many disparities in overall health are rooted in early childhood and that stressors such as these lead to developmental outcomes (Robinson, et al., 2017), stronger action is clearly needed to prevent environmental stressors—particularly ones so clearly identified—from severely limiting children's capabilities to learn and flourish. This is not only a matter of health policy but of industrial policy: to the extent that one views the ultimate objective of industrial policy to be the improvement human wellbeing (as one must do from a humanist perspective), the effectiveness of industrial regulations related to environmental quality must be considered, at least insofar as they have a bearing on human health. Regulations set the conditions under which industries operate and conditions such as those described above fall well outside the realm of the tolerable. This is not to say that there are not many cases in which the tradeoffs between environmental quality and other desirable objectives, like job creation, can legitimately lead to decisions that undermine environmental and even human health, but the level of curtailment of human capabilities observed in the flower industry (as well as others described in Chapter 6), is not justifiable—particularly when in Ecuador itself there are viable production models that do not entail such transgressions (Johnson, 2012).

7.3.2 Expanding specialized productive capabilities: higher education and training policies

Expanding the foundational cognitive capabilities discussed above may well contribute more to people's overall potential to pursue fulfilling work than higher education. However, many kinds of work opportunities —particularly well-remunerated work— also require some form of specialized capabilities, which are conventionally acquired through higher education and on-the-job training.

As discussed at length in Chapter 6, the Correa administration devoted substantial attention and resources to higher education, raising investment as a share of GDP to the highest levels in Latin America and above the average for OECD countries (Weisbrot, Johnston & Merling, 2017, pp.6-7). Between 2007 and 2015, the higher education budget grew from \$421 million to \$2.1 billion, with accumulated investment reaching 11.4 billion (Calderón, 2016, p.121).

However, once again, the effectiveness of any policy cannot be fully assessed in terms of spending. It may be the case that the expansion of the higher education system, on the whole, contributed to expanding people's capabilities for fulfilling work —at least those who had the benefit of reaching higher education with sufficient preparation to take advantage of it— but, as noted above, the question of whether some of the substantial resources used for higher education might have been more impactful in the realms of nutrition, health, child development and basic education is well worth further inquiry, particularly considering that increases in higher education spending as a share of education spending appear to mirror decreases in the share of primary education spending: from 2009 to 2015 the share education expenditures devoted to tertiary education rose from 30.21% to 43.5%, while the share of spending on primary education decreased from 36.35% to 23.25% (World Bank, 2022i). Furthermore, while investments in the expansion of the higher education system increased supply, other measures, like the elimination of exam-free access to any academic program in public universities, limited students' capabilities to freely pursue their career of choice —a capability that they had fought for and won (Chapter 6). Given that the Ecuadorian higher education system provides mostly specialized, career-oriented programs (vs. more flexible liberal arts programs), the choice of academic program is considered tantamount to a 'choice of career', so freedom of choice in this realm is intimately related to student's abilities to pursue work that aligns with their aspirations —work that feels fulfilling.

Beyond higher education, some promising efforts to expand training and certification were either sidelined or limited in vision.

For example, an effort to certify competencies acquired outside the education system through practice or self-teaching only began toward the end of the administration after a lengthy restructuring of the country's training and certification system (Garzón Pazmiño & Padilla Zambrano, 2019, pp.34-37). Earlier implementation could have not only allowed many people to gain access to credentials to pursue more work opportunities and better pay, but could have also empowered people to become more active agents in their own education, making use of the growing wealth of freely available knowledge. Moreover, the array of options for competency certification focused on lower-value-added sectors, like construction, sales, and textiles⁶⁷, rather than aiming for high-value added sectors —not even including ones with low barriers to entry and manifold self-teaching options, like coding and data science.

Similarly, the attempt to broaden technical education through a network of technical institutes was focused on liaising with existing firms to train workers for their particular needs, but did not significantly project into the future by training workers for the creation new industries, aligned with the country's industrial strategy — likely because, as discussed in the next section, efforts to create those industries were also limited, so work opportunities would have been constrained as well. In fact, as evidenced by the difficulty in finding work many students faced upon returning from specialized study funded by the government's scholarships (Tobar-Pesántez, et al., 2021), in order for people to realize their personal capability of fulfilling work, a country must also have industries — *collective* productive capabilities — that create the demand for their skills. I expound on this point in the following section.

7.4 Building the country's collective industrial capabilities for productivity growth as a means of poverty reduction: the limits of "getting along with a little assistance"

In Chapter 4, I argued that expanding human capabilities often requires resources that can only be acquired by producing or capturing value, which in turn implies the existence of capabilities to produce (or capture) that value in the form of income. These capabilities are

⁶⁷ See <https://www.secap.gob.ec/esquemas-de-certificacion/>

what is loosely reflected in measurements of GDP per capita, which is why the measure is commonly referred to as 'productivity.' I noted that even critics of growth-centered measures of development like Sen (1999) emphasized that productivity growth cannot be neglected in development policy because of its function as a 'means to the end' of expanding capabilities. This is why I call the productivity-enhancing function of industrial policy an 'indirect' contribution to human development.

Nevertheless, as discussed throughout this dissertation (particularly in Chapter 3), Sen's work, and the humanist development scholarship more broadly, have tended to shy away from endorsing industrial promotion policies even, on occasion, endorsing antithetical measures, like unqualified open trade. This is despite the fact that, as shown in Chapter 4, the bulk of evidence suggests that without active policies for industrial promotion, which often directly contravene open trade, developing countries are unlikely to develop the productive capabilities required to overcome poverty (a diversified, high-value-added productive base), due to structural tendencies in global productive specialization.

Ecuador's handling of industrial policy under the Correa administration can be partly interpreted as a symptom of the protracted neglect and deliberate sidelining of industrial promotion, not only in the humanist framework—which was profoundly influential among policy-makers—but also within development and economics scholarship and training more broadly.⁶⁸

The following sections argue that, while it is certainly true that Ecuador faced external political pressures and institutional constraints inherited from previous administrations (such as policy space restrictions embedded in trade agreements), part of the reason why its industrial promotion policies were ineffective in achieving industrial and export diversification or substantial increases in high-value-added production also had to do with its constrained vision of what effective industrial policy entails: in short, the logic of 'getting along with a little assistance' seems to have spilled over into attempts to revive industrial promotion, leading to unfocused, light-touch interventions that were not complemented by targeted promotion of strategic industries. This logic can be observed in both, Ecuador's policies aimed at human capital formation (the 'personal' dimension of the

⁶⁸ This observation is based on personal communications with functionaries and personal experience of the curricula in the development economics program where many functionaries were trained and some taught. Is also evidenced, for example, in references to Sen's work and the human development framework in the country's National Development Plans (e.g., SENPLADES, 2017).

productivity-enhancing function of industrial policy) and in its policies aimed at creating new industries and expanding the collective productive capabilities of existing industries (the explicitly 'collective' dimension of the productivity-enhancing function of industrial policy) (Tables 7.1 and 7.2).

Table 7.2 The indirect role of IP in expanding human freedoms and capabilities:	
Expanding of a country's collective productive capabilities to increase productivity growth — as a means of financing the eradication of capability deprivations (multidimensional poverty)	
<i>Personal dimension</i>	<i>Collective dimension</i>
<p>Expansion of personal capabilities from a 'human capital' perspective that generates foundational and specialized skills for generating value added and incentives for people to work in strategically chosen industries for increasing productivity.</p> <p><i>Relevant industrial policies:</i> targeted programs for education and training needed to build personal capabilities required in competitive, high-value-added industries.</p>	<p>Expansion of the capabilities of domestic industries and the economic system to increase productivity growth.</p> <p><i>Relevant industrial policies:</i> investments in (i) systemic productivity that benefit a range of industries (e.g., infrastructure); (ii) in the promotion of specific industries, strategically selected to increase value added (and financing for these policies); and (iii) state capacity for public investment and management of industrial policy.</p>
Source: Author	

7.4.1 Measures aimed at systemic productivity: transportation, telecommunications, energy and knowledge infrastructure

The Correa administration's first forays into industrial policy were aimed at infrastructure investments designed to (i) expand the capabilities of the economic system to increase productivity and (ii) satisfy basic human needs. In fact, this dual role of infrastructure was enshrined in the 2008 Constitution, which established that the state shall "promote the development of infrastructure" for the "satisfaction of basic needs" (Art. 337), as well as the public provision of infrastructure for "water, waste management, electricity,

telecommunications, roads, ports and airports" with the aim of promoting "systemic productivity" (Art. 314).

The expansion of infrastructure was a priority of the Correa administration from the beginning and large-scale investment in that area was one of its most salient features (Calderón, Dini & Stumpo, 2016, p.239). Beyond the highly visible expansion and refurbishment of the road system, the transformation in sectors like energy and telecommunications included ambitious projects, like the construction of eight hydroelectric plants aimed at energy independence and the expansion of the fiber optic network (Arauz, 2015; A. Arauz, personal communication, February 23, 2016).

Support for these projects, however, was not universal. For example, the construction of the Coca-Codo Sinclair Hydropower dam —promoted by the government as a major strategic step in the clean energy transition— faced opposition from environmental groups due to concerns about ecosystemic effects and insufficient environmental safeguards (Caselli, 2011), and raised concerns about the quality of the execution and worker safety: accidents at the construction site killed 15 workers ("Fatal accident", 2014). Although there are contending assessments of the overall effect of the project (Miranda, 2019), large-scale soil erosion and consequent oil spills in the areas surrounding the dam and the collapse of the emblematic San Rafael waterfall, all of which had been foretold by detractors of the project, lend credence to their concerns (Paz Cardona, 2020).

More generally, the perception that infrastructure work was done in a hurry at the expense of quality —round-the-clock roadwork was not uncommon— also called into question the tradeoff between speed of implementation and the long-term impact of investments. The government's unwillingness to create stakeholder engagement processes on the basis of the urgency of these projects likewise raised legitimate concerns about the tradeoff between democratic engagement and speed of implementation. Nevertheless, the palpable improvement in the country's limited and decaying infrastructure —particularly roads— remained an important source of sustained political support for the administration.⁶⁹

In the telecommunications sector, the expansion of the fiber optic network was accompanied by the expansion of what could be called 'knowledge infrastructure' — means

⁶⁹ Correa left office in 2017 with an approval rating of 64% and at times reached 80% approval: <https://www.telesurtv.net/news/Rafael-Correa-culmina-mandato-en-Ecuador-con-62--de-aprobacion-20170517-0057.html>

of access to data and information — that went beyond physical investments. With the aim of increasing access to information, new regulations, like the so-called 'Anti-Monopoly Law' (*Ley Antimonopolios*, 2011) were introduced to curb the abuse of market power and anti-competitive practices of telecommunications companies. The domestic open software industry was also promoted through procurement and regulatory measures aimed at gradually displacing the products of transnationals, like Microsoft Office, and reducing transaction costs (Arauz, 2015, p.255). Correa even signed a decree establishing the compulsory use of free and open source software in the public institutions (though its exceptions were very widely used) (Forero, 2020, p.194). Furthermore, the reform of the intellectual property law (*Código Ingenios*, 2016, Art.4) declared 'knowledge' a 'public interest good' enabling greater use of the flexibilities in the WTO's TRIPS agreement to remove barriers to knowledge. Efforts to build up the domestic knowledge base for industrial development also included the expansion of public research institutes and the creation of two universities specialized in biological sciences (IKIAM) and technological research and development (YACHAY), respectively.

Part of the expansion of the country's knowledge infrastructure also included a proactive policy for human capital accumulation — more often referred to as 'human talent' among policy makers— which I examine below.

7.4.2 Human capital policies for industrial development: efforts at targeting in education and training policies

Section 7.3, evaluated Ecuador's investments in personal capabilities from the perspective of fulfilling work. In other words, it asked how Ecuador's policies helped people acquire capabilities to pursue a range of work opportunities they may have reason to value. Developing capabilities to pursue fulfilling work is an end in itself. However, in order to create work opportunities, countries must also target investment in personal capabilities that are instrumental to (a means of) developing strategically selected industries (collective productive capabilities). This requires us to examine investments in personal capabilities from the perspective of human capital. From this standpoint, Ecuador's policies yielded mixed results.

On the one hand, one can interpret the substantial financing of programs directed at expanding foundational capabilities (section 7.3 and chapter 6) as investments in human capital aimed at increasing systemic productivity. Studies suggest that, indeed, there are significant economic returns on investments in early childhood development, with returns on investment estimated at as much as \$8 on every \$1 invested in early childhood education (Cain Miller, 2017; Rolnick & Grunewald, 2003).

On the other hand, policies aimed at generating specialized human capital for the promotion of strategic industries suffered from a serious limitation: insufficiently focused targeting of resources. While it is true that resources for education and training were distributed proportionately according to the priorities of the national development plans, there was, strictly speaking, no real targeting because the development plans themselves 'targeted' almost every industry, at a high level of generality (Table 7.3).

Table 7.3 Targeted industrial sectors in the 2009 National Development Plan	
Sectors selected based on import-substitution potential	petrochemicals, bioenergy and biofuels, metalwork, biomedicine, pharmaceuticals, biochemistry, hardware and software*, environmental services
Sectors selected based on potential to generate employment and satisfy basic needs	construction (especially social housing), fresh and processed foods, artisanal fishing, community tourism, textiles and foot-ware
Source: Author, based on SENPLADES, 2009, p. 96	

As discussed in the previous section, the logic of targeting was also missing at the methodological level in the process of education planning.

For example, the Ministry of Planning and Development (SENPLADES) undertook a multi-year 'supply and demand' labor market analysis of the entire higher education system

and private sector needs to inform proportional distribution of resources in higher education disciplines and help universities tailor their programs more efficiently to market demands (Personal communication with higher education functionary, 2016). However, it conspicuously neglected to plan targeted education programs to prepare workers for strategic industries — once again, this was difficult to do, given that there was no real targeting on which such a methodology could have been based. Consequently, the measure may have been helpful for meeting present labor market demand, but thoroughly inappropriate for building the capabilities required for yet-to-be created industries.

In a similar vein, the Ministry of Technology (SENESCYT) attempted to respond to a supply shortage of technically skilled workers by creating a national system of technical and technological institutes. Modeled on the German dual system, the institutes were designed to work in partnership with the private sector, which would help design coursework and provide part-time traineeships. Despite significant funding, however, the project suffered delays and was not fully executed. Moreover, the project focused on liaising with *existing* firms to train workers for their particular needs, but did not project into the future by training workers for the creation new industries, aligned with the country's industrial strategy — likely because, as I discuss in the next section, efforts to create those industries were also limited, so work opportunities would have been constrained as well.

Other measures, like the ambitious international scholarship program⁷⁰, became increasingly 'focalized', particularly after resources became constrained after the 2014 oil shock, to concentrate resources on training for the sectors 'prioritized' for productive transformation, at the expense of fields like social sciences and humanities (SENESCYT functionaries, personal communication, 2014-2017). However, as discussed below, even at their most selective, the 'prioritized' sectors were so numerous and nebulously defined that the 'focalization' of resources was essentially meaningless.

The absence of truly focused investment might be easily forgiven if the industries in numerous 'targeted' sectors had grown, creating demand for the growing number of diversely qualified workers generated by the technical and higher education programs. However, as evidenced by the brain drain of students trained through the scholarship program (A. Arauz, personal communication, February 23, 2016), the administration fell short in creating demand

⁷⁰ Among other measures, the program guaranteed full scholarships to students accepted at the top 100 universities around the world.

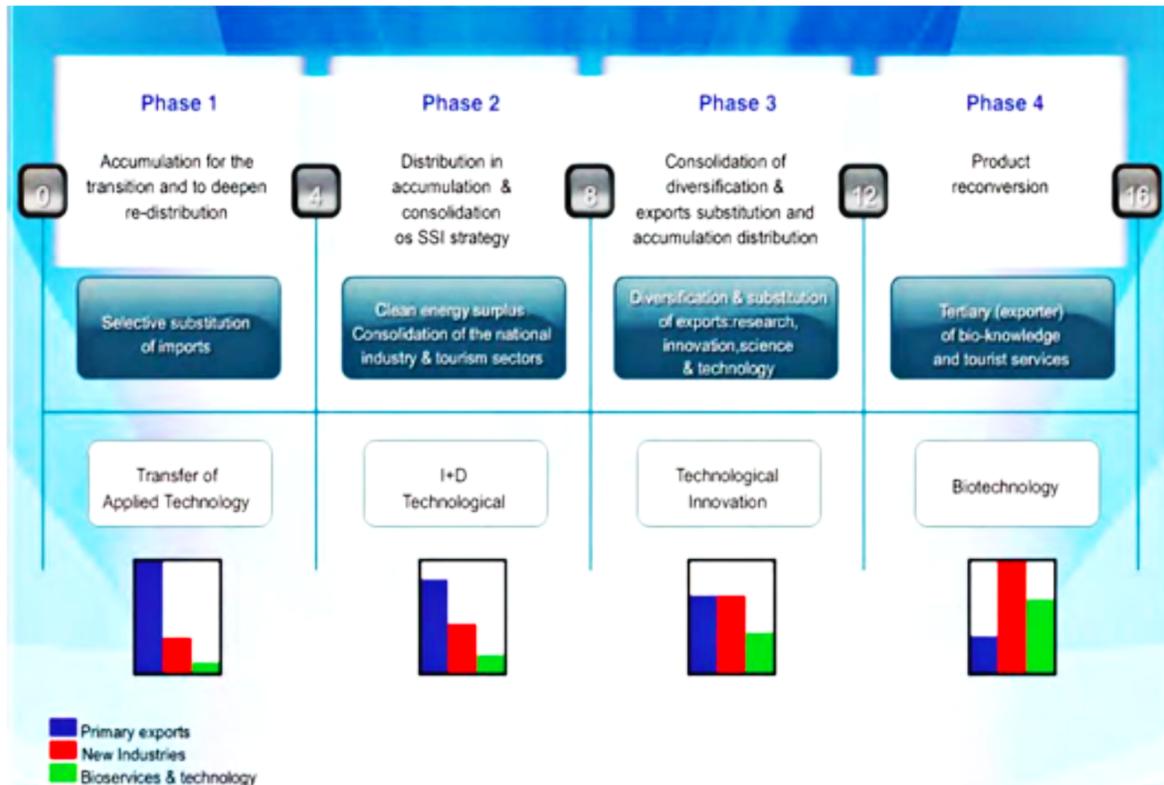
for the human capital it generated. This points to an overall weakness that stands in sharp contrast to the successful manpower planning processes of 20th century industrializers, like Japan and Korea (You & Chang, 1993).

7.4.3 Building industrial capabilities: industrial targeting, trade regulation, technology transfer and government procurement for productive transformation

Chapter 4 discussed an array of policies for industrial promotion that have been used throughout history by countries that successfully industrialized. It also discussed some guidelines that can be derived from these development experiences, which included the importance of highly focused industrial targeting. While Ecuador's industrial promotion efforts made use of many of the policy tools discussed in chapter 4, an effective vision for targeting—with a couple important exceptions— was conspicuously missing.

First of all, as noted above (Table 7.3), the institutions charged with targeting for industrial development did not succeed—apparently did not even set the goal— of selecting a manageable number of industrial sectors. At a high level of abstraction, in the beginning of the administration there was an ambitious vision for production transformation, perhaps best reflected in a widely-disseminated graphic introduced in the 2009 National Development Plan (Figure 7.1) which outlined four phases of industrial and technological development that culminated in a diversified economic structure, specialized in biotechnology and tourism services. However, the vision laid out by the Ministry of Planning does not appear to have significantly informed either the selection of targeted industries in the same development plan (Table 8.3) or attempts at targeting carried out by the institutions in charge of coordination and execution of production-sector policies.

Figure 7.1. "Phases in the strategy for sustainable, endogenous satisfaction of basic needs" in the 2009 National Development Plan



The Coordinating Ministry of Production, Employment and Competitiveness (MCPE), for example, relied on a 2009 study commissioned from the United States Agency for International Development (USAID), which selected ten broad sectors for industrial promotion that largely conformed to the country's comparative advantage and hardly included the manufacturing sector⁷¹.

⁷¹ The study comprised three phases, implemented from 2007-2008:

Phase I. was aimed at defining a broad list of potential sub-sectors through interviews, international studies, and local studies by government agencies. Three criteria were contemplated: (i) impact on employment; (ii) potential to generate foreign exchange; and (iii) short-term impacts. This phase yielded a list of twenty sub-sectors, which were then reduced in Phase II, using quantitative data on investment, production, exports, productivity of the sub-sector, employment and qualitative data, including consistency with the National Development Plan. The criteria contemplated in this phase were: (i) availability of information; (ii) competitive pattern of the sector (current and potential development of 'clusters'); (iii) comparative advantage, (iv) job creation; (v) generation of foreign exchange; (vi) participation in foreign trade. The analysis yielded three sets of sub-sectors: (i) "Star" Traditional Sub-sectors: food commercialisation, fish and products derived thereof, aquaculture, flowers,

Although the Ministry of Planning subsequently commissioned studies from Korea's Center for International Economic Studies (CIES) that recommended a list of far more specific industries divided into short, medium and long time-horizons (see Appendix III), this study does not appear to have been taken into account by the Office of the Vice President, which from 2013 created and led an Inter-Ministerial Committee for Productive Transformation (ICPT) charged with ramping up industrial policy—an acknowledgment by Correa that the process had so far yielded insufficient results. As late as 2016, the ICPT's targeting efforts, which relied mostly on technical inputs from the Coordinating Ministry of Production and the Ministry of Industries, within the executive, and studies from the Economic Commission for Latin America Latin America and the Caribbean (ECLAC),⁷² still comprised a long list of 25 prioritized sub-sectors and chains (Table 7.4) (MCPEC & MIPRO, 2016). With a list of sub-sectors and chains as numerous — and, in some cases, as general — as this, it is difficult to say that the ICPT carried out a real targeting exercise in the publicized planning process.

However, in practice, within the ICPT there appears to have been a *de facto* prioritization of ‘basic industries’⁷³ — shipyard, flat steel, pulp, aluminum, copper, petrochemicals — and a revised, more precise, list of ‘intermediate and final industries’ closely related to the basic industries (tubes (with and without seams), valves, transformers,

processed fruits and vegetables, forestry; (ii). “Star” Non-traditional products: software, metallurgy, consultancy services; (iii) Other recommendation: Tourism (MCPE, 2009).

⁷² The first step in the selection process involved the identification of thirteen sectors:

(1) Those selected in order to exploit existing comparative advantage in the agroindustrial sector, with the aim of building competitive advantages: products processed from (i) cacao and (ii) coffee, (iii) dairy and (vi) mariculture.

(2) Those selected to reduce external dependence on manufactures, through the promotion of basic industries: (v) petroleum derivatives, (vi) metallurgy, (vii) pharmaceuticals, (viii) rubber and plastic, (ix) forestry, cellulose and paper.

(3) Those selected to foment knowledge and innovation-intensive activities with high growth potential in the world economy: (x) tourism, (xi) software and ICTs, (xii) logistics and (xiii) environmental services (Calderón, 2016, p.128-129).

The selection of sectors in the 2015 ‘National Strategy for the Change of the Productive Matrix’ (Office of the Vice President, 2015) more or less directly corresponds to these thirteen sectors. In subsequent revisions, the list of prioritized production chains in the agroindustrial sector was expanded, metalworking chains were further specified, the forestry chain was revised, textiles were added, and tourism and software/ICTs were removed (though the latter could still be considered under the new category of ‘knowledge-intensive services’). As of late 2016, three categories of industries, comprising 25 sub-sectors and chains were prioritized for industrial promotion (Table 7.4).

⁷³ The basic industries were selected because: (i) They generate productive linkages with the extractive sector (metal and non-metal mining, oil and forestry), (ii) They stimulate new industries, benefitting, for example, the metallurgy, packaging, forestry, naval and fishing industries, (iii) They have high potential for import substitution. The trade balance for the steel, aluminum and chemical industries was about -\$1.2 billion per year on average 2000-2015 (MCPEC & MIPRO, 2016).

cables, and pumps). Strategies for the development of these eleven sub-sectors and products gained momentum in the last two years of the administration through several projects.

Table 7.4. Ecuador’s prioritized industries (2016)	
Agroindustry	Dairy chain, processed cacao chain, processed fish chain, processed coffee chain, palm chain, fruits and vegetables chain, bioenergy and bio-inputs chain, meats chain
Intermediate and final industries	Textiles, wood products and furniture, fine chemicals, metal and capital goods (agricultural equipment, transformers, boilers, pumps and valves, tubes - seamless and with seams, cables, white goods), paper, plastic and rubber, construction materials, vehicles for the transportation of persons, pharmaceuticals
Production-support services	Logistics and transport, knowledge-intensive services
Basic industries (“industrializing industries”)	Shipbuilding, flat steel, pulp, aluminum, copper, petrochemicals
Source: Author, based on MCPEC & MIPRO, 2016	

First, a ‘Basic Industries Strategy’ (MICSE, 2015) was built through business case studies, identification of required raw materials, pre-feasibility and basic engineering studies and a mapping of potential investors.⁷⁴ However, given the late start in the construction of this strategy, implementation was truncated.

More impactfully, in the last two years of the Correa administration, Ecuador's Ministry of Planning and Development zoned in on one of the few industrial policy tools still largely unrestricted by WTO agreements —government procurement⁷⁵— to re-conceive the role of the National Procurement Service, transforming it from a mostly administrative entity

⁷⁴ This was heavily based on inputs from international business and engineering consulting firms (see Appendix IV)

⁷⁵ The WTO agreement on procurement agreement has not been signed by many developing countries, and developed countries, like the U.S. with its 'Buy American' program, use procurement as an industrial policy tool to foster domestic industries.

into an instrument of industrial policy. The ‘Strategy for Government Procurement for the Transformation of the Productive Matrix’⁷⁶ with two components. First, a mid- and long-term ‘Strategy for National Procurement’ (MICSE, 2015), conceived largely as a targeted import-substitution strategy to reduce the \$1.7 billion annual bill of SOE imports of capital goods.⁷⁷ Secondly, a short-term strategy named IngeniaTEC was conceived to immediately leverage public procurement power to boost existing industrial capacities and curtail capital outflows—an objective of particular importance after the oil shock. The project created a catalog for innovation and industrial development with a list of forty-three products that accounted for \$370 million in annual procurement imports, selected based on procurement amount, frequency of purchases, feasibility of technological disaggregation,⁷⁸ feasibility of technological assimilation and correspondence to the sectors prioritized for productive transformation. Of these 43 products, 27 were selected for the first IngeniaTEC contest (Appendix V), launched in October 2016. National companies whose projects obtained an endorsement from a higher education institution competed for a five-year contract to supply one of the selected products to the public sector (SENESCYT, MCCTH & SERCOP, 2015). In its first year, the program was slated to substitute \$80 million in imports of medical instruments and elevators alone (*El Comercio*, 2016).

Though the administration's efforts at industrial promotion through government procurement were the best example of a targeted and proactive industrial strategy, they were also limited in ambition to import substitution—export promotion was not a prominent part of the strategy—and began too late to gain momentum before the change in administration. This left the programs fatally vulnerable to pressures from the European Union, which—among other measures—hired a law firm in Ecuador to make the case for inconsistency between the procurement programs (including the procurement law and reforms to the

⁷⁶ Earlier in the administration, the government had exploited the flexibilities around procurement to develop a more general regulatory framework for government procurement (LOSNC, 2008, Arts. 6, 23, 25.1, 25.2) that required all goods and services purchased by the public institutions to be of national origin or, where national products were not available, for the institutions to give priority to imported products whose suppliers were either willing to incorporate local content or to transfer technological know-how or intellectual property rights, to domestic producers. However, execution and enforcement of so broad a mandate proved difficult.

⁷⁷ SOEs accounted for about 40% of the consumption of capital goods in the country. By 2017, five selected products (tubes (with and without seams), valves, transformers, cables, pumps) were been chosen on the basis of their import-substitution and export potential and various Ministries were working with local producers and looking to create joint ventures with foreign companies to make these products locally (see Appendix V).

⁷⁸ In this context, 'technological disaggregation' refers to the feasibility of producing components of a given product locally.

intellectual property law) and the trade agreement signed between the two parties in 2016 (Functionaries of the Ecuadorian Institute of Intellectual Property, personal communication, 2016).

Cognizant of the importance of procurement as a policy tool, Ecuador had sought to preserve procurement flexibilities during trade negotiations, but in the end, as the European Commission reported to the European Parliament, “[in] terms of the text on government procurement, which provides for [...] non-discrimination, Ecuador agreed to drop all proposals for commitments” (European Commission, 2014). The FTA's rules on “non-discrimination”, to which the Commission refers, effectively proscribe giving preferential treatment to national products and services and even to foreign products and services that incorporate local content; they also proscribe applying technological transfer and local content requirements to foreign providers. Though the FTA language on this point is abstruse, when disentangled, it is clear, categorical and worth examining: Article 175.7 establishes that neither signatory Party “shall seek, take account of, impose or enforce offsets.” “Offsets”, in turn, include “any condition or undertaking that encourages local development or improves balance-of-payments accounts of a Party, such as the use of domestic content, the licensing of technology, investment, counter-trade, and similar actions or requirements” (Art. 172). In addition to this general proscription, the Procurement Title also includes various specific proscriptions for greater clarity.⁷⁹ Though these articles may seem redundant, they are carefully crafted to ensure that, when it comes to EU providers, procurement can in no way be used as a device for “[encouraging] local development” (Art. 172).

During trade negotiations, the EU also threatened to withdraw from the agreement unless Ecuador agreed to exonerate European countries from an array of product quality

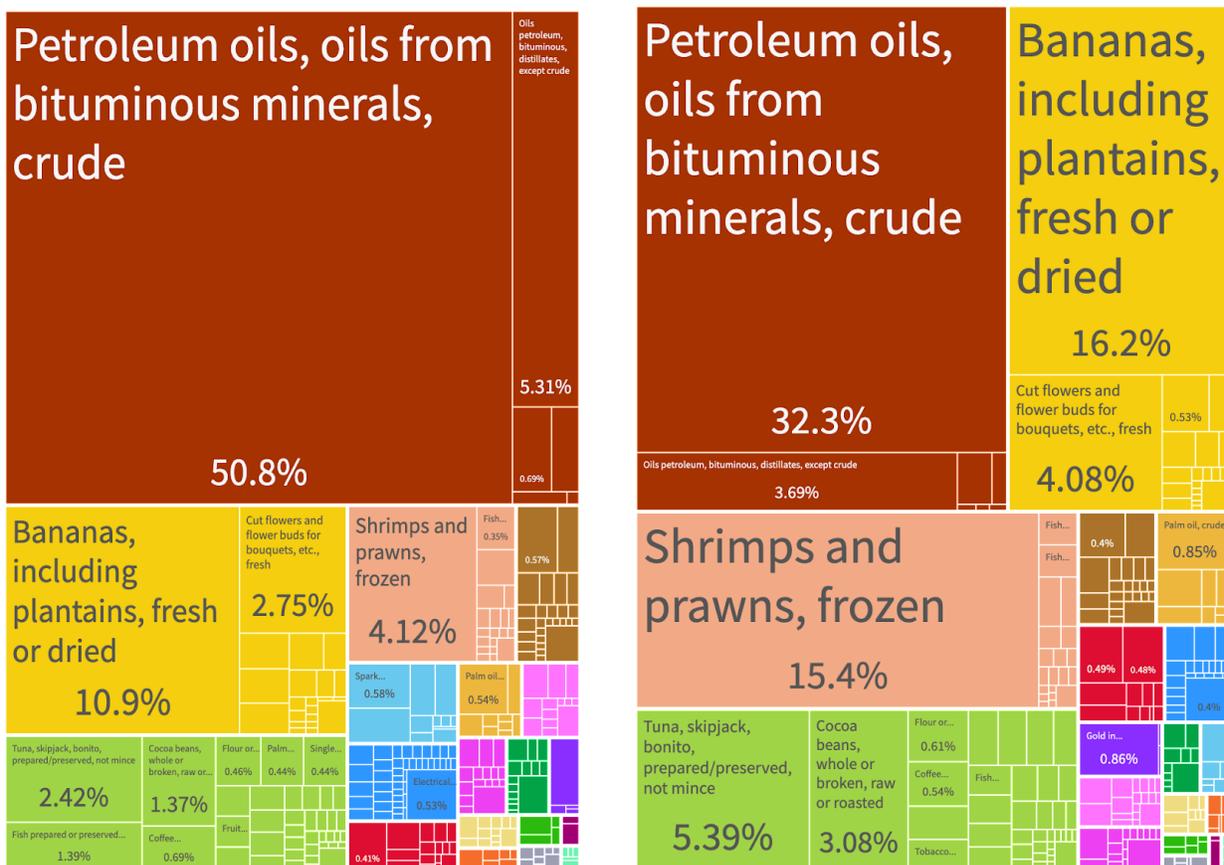
⁷⁹ Art. 175.2 (b) : the Parties cannot “discriminate against a locally established supplier on the basis that the goods or services offered by that supplier for a particular procurement are goods or services of another Party.” This stipulation makes it impossible to discriminate in favor of providers that incorporate local content, as this would imply a discrimination against those that do not; Art. 178: “[a] procuring entity shall limit any conditions for participation in a procurement to those that are essential to ensure that a supplier has the legal and financial capacities and the commercial and technical abilities to undertake the relevant procurement.” (i.e., the State cannot establish conditions for participation that would require local content or technology transfer commitments, as these would not be legal, financial or technical conditions; Art. 181: “[a] procuring entity shall not prepare, adopt or apply any technical specification or prescribe any conformity assessment procedure with the purpose or the effect of creating unnecessary obstacles to international trade.” Art. 181 also prohibits technical specifications that require a “specific origin.” This makes it impossible to give preference to Ecuadorian or foreign providers that incorporate local content, as this would be tantamount to requiring a “specific origin” and would constitute an “unnecessary obstacle to trade.”

standards that had been effectively used to reduce a wide range of imports and induced import-substitution in some agricultural and industrial sectors (COMEX, 2013; SENPLADES, 2014b). It bears noting that quality standard regulations are widely used by developed countries to this day as non-tariff trade barriers, including the EU, which is well known for its use of stringent phytosanitary requirements (Chang, Hauge & Irfan, 2016, p.138).

Though restrictions of this nature limited the range of policy tools at Ecuador's disposal, however, this does not excuse the fact that the administration's first serious effort at industrial promotion —its procurement strategy— did not begin until its final years. The general vision for 'productive transformation' was present in the administration's plans from the beginning, but the absence of concrete 'shovel-ready' transformative measures was not easily overcome. Palma (2011, p.3) has argued that "neo-liberalism conquered Latin America, including many in its left-wing intelligentsia, as completely as the Inquisition conquered Spain [and this] process has been so successful that it has actually 'closed the imagination' to conceptualizing alternatives." Ecuador, it would appear, was hardly an exception to this phenomenon — one of the key policy pitfalls discussed in Chapter 4.

In the absence of a proactive industrial policy, it is not surprising that, after a decade of reform, the country's commodity-dependent pattern of specialization did not change substantially (Figure 7.2), leaving the Ecuadorian economy vulnerable to a sudden contraction as a result of the oil crisis. Though the government deployed creative and ambitious macroeconomic measures to weather the crisis (Chapter 6), minimizing the extent of social spending cuts, as discussed in Chapter 6, the government's overall ability to sustain investment in human development was nonetheless curtailed.

Figure 7.2 Ecuador's export specialization pattern, 2007 and 2017 (left to right)



7.5 Conclusions

Our analysis of Ecuador's industrial policies during the 2007-2017 period show mixed results.

On the one hand, the Correa administration's economic policies laid a solid foundation for both social and industrial investment: the government's expansion of financing capabilities (Chapter 6) enabled important investments in personal and collective productive capabilities needed for fulfilling work and productivity growth.

On the other hand, while investments in infrastructure and foundational personal capabilities were substantial, they were not complemented by ambitious measures for targeted industrial promotion until the last few years of the administration and, even these measures (namely the procurement strategy) paled in comparison to the scale and ambition of

the measures used by successful industrializers in the 20th century (Chapter 4) — never mind the kind of sharp and swift guerilla-like tactics developing countries need to deploy to navigate the ever-growing power asymmetries between them and industrialized countries.

Although there appears to have been a recognition that the country's industrial strategy was failing, as evidenced by Correa's creation of the ICPT in 2013 under the leadership of the Office of the Vice President, the administration did not treat industrial promotion with the urgency applied to measures like infrastructure development and the expansion of health, education and cash transfers. In other words, despite its monumental effort at generating financing capabilities and for all its rhetoric about 'productive transformation', the Correa administration's vision for industrial policy appears to have been shaped by a *zeitgeist* that still sees development policy as little more than a collection of measures for 'getting along with a little assistance.'

This overall light-touch, unfocused approach to production sector policy prevented the country from achieving a level of diversification that could have provided a buffer against the crash of oil and commodities prices. While the economic turmoil that ensued after the crash would not deal a fatal political blow to Correa and his party, it did erode its ability to sustain further investments in infrastructure and production, as well as in social sector spending that had proved to be instrumental in expanding human development along its crucial dimensions.

Thus, the ineffectiveness of the Correa administration's industrial policy truncated a process of expansion of human development that could have become sustainable had the imaginations of policy makers been able to escape the ideational constraints of both, orthodox economic prescriptions and standard human development discourse.

Appendix 7.1 Center for International Economic Studies (CIES) recommended a list of specific industries divided into short-, medium- and long- time-horizons

Table 7.5 CIES selection of prioritized sectors by time horizon		
Time horizon	Sector	Subsectors
Short-term	Fresh and processed food products	Grain mill products, animal/vegetable oils and fats, dairy products, other food products
	(Apparel and footwear)	(Wearing apparel, except fur apparel) (Dressing & dyeing processing fur)
	(Wood products)	(Pulp, paper and paperboard)
Medium-term	Processed metal products	Tanks, reservoirs, metal containers, basic iron and steel, other general purpose machinery
	Petro-chemical	Plastic and synthetic rubber
	Bio-chemical	Fertilizers and nitrogen compounds; Soap cleaning and cosmetic preparations
Long-term	Technology (Hardware)	TV/Radio transmitters, line comm. apparatus; other electrical equipment not elsewhere classified (n.e.c.)
	Motors and motor vehicles	Motor vehicles
	Biomedicine	Pharmaceuticals, medical chemicals and chemical products
Source: CIES, 2012		

Appendix 7.2 Summary of Progress of ‘Strategy for National Procurement’ (2015), authored by the Coordinating Ministry of Strategic Sectors of Ecuador, with input from Bain & Co.

This document summarizes the progress made toward the implementation of the Strategy for National Procurement through Government Procurement until 2015.

The methodology for the selection of these sectors had four phases:

1. Consumption analysis: Ecuador’s current and estimated future consumption.
2. Import/export analysis: Examines production potential and export/import ‘references’
3. Government procurement: How much of total demand is accounted for by the public sector?
4. Strategy: What’s the development plan? What is the immediate impact on the local economy?

Based on these considerations six products are prioritized for the procurement strategy: seamless tubes, tubes with seams, cables, transformers, valves and pumps. Rationale for selection of these products and prospects by 2025:

1. Seamless tubes: These tubes use DRI and scrap metal as inputs (all these products use inputs from the prioritized basic industries). Ecuador satisfies local demand for seamless tubes completely with imports. It’s estimated that Ecuador could reduce its imports by 75% and become an exporter by substituting imports in SOE procurement.
2. Tubes with seams: These use flat steel as an input. Ecuador is almost self-sufficient in this product, yet SOE procurement is 100% imported. It is estimated that total imports could be substituted by about 60%.
3. Valves: These use flat steel as an input. 90% of valves are imported and demand for these products continues to grow. 98% of SOE procurement is imported. It is estimated that Ecuador could reduce its imports by about 34% and duplicate its exports.
4. Transformers: These use flat steel as an input. Domestic demand is 50% imported; 97% of SOE procurement is imported. Imports could be decreased by about 20% and exports could be increased by about 30%.

5. Cables: These use copper, aluminum and polymers (that could be manufactured locally after the Refinería del Pacífico is finished) as inputs. Ecuador produces cables, but 70% of domestic demand is satisfied by imports. SOE procurement is 74% imported. This could be substantially reduced (to about 28%).
6. Pumps: These use flat steel as an input. 70% of bombs are imported. 98% of SOE procurement is imported. It is estimated that Ecuador could decrease imports by \$400 million and increase exports by \$100 million.

Appendix 7.3 IngeniaTEC - Electronic catalog for innovation and technological development

Authored by the Secretariat of Higher Education, Science and Technology (SENESCYT), the Coordinating Ministry of Knowledge and Human Talent (MCCTH) and the Government Procurement Service (SERCOP), 2015.⁸⁰

Summary: This initiative constituted a first step toward import substitution through public procurement. The first contest was launched in 2016. National companies (whose projects had obtained an endorsed from a higher education institution) competed for a 5-year contract to supply different products to the public sector. The main objectives of Ingeniatec are (i) To contribute to Ecuadorian productive transformation; (ii) To achieve import substitution of those products for which the country has already the productive capacity; (ii) To avoid capital outflow (ii) To save \$370 million through the import substitution of 43 products. The criteria used for selecting the products were:

Criteria	Weight
Procurement amount	(0.40)
Frequency of purchase	(0.20)
Feasibility of technological disaggregation	(0.20)
Feasibility of technological assimilation	(0.05)
Industry or sector prioritized by the country	(0.15)

⁸⁰ For greater detail on methodology, see the documents linked here: <https://www.educacionsuperior.gob.ec/ingeniatec-un-concurso-que-permite-a-los-empresarios-impulsar-la-creacion-tecnologica-nacional/>

27 products were chosen for the first contest, which took place in October, 2016. The selection criteria for providers were the following:

Parameter	Weight (points)
Design evaluation	5
Production, quality management or environmental certificates	10
Value added of the prototype	10
Optimal level of productive linkages for serial production	10
Incorporated Ecuadorian value added (VAE) in a 5-year horizon	10
Minimum present investment effort required for a production increase of 50%, 100% and 200% with the same VAE of the prototype	25
Minimum investment, in the fifth year, required for a production increase in a 50%, 100% and 200% with increased Ecuadorian Value Added	25
Total	100

The chosen providers were granted a market reserve contract through a framework agreement.

Sectors selected for first IngeniaTEC contest in 2016:

Phototherapy lamps, Standing valves, Transformer with voltage above 5 MVA, Digital multimeters, Sterilisers, Blanking bypass plugs, Phonendoscopes, Tractors, Elevator, Blender valves, Digital scales, Sorting machines and threshers, Hospital beds, Jet pumps, Printers, Biometric clocks, Flash drives, Bridge plug cups (for sealing), Printer toner, Water purifiers, Intensive care cribs, Other 13 products for oil production, IP (Internet Protocol) Telephones, Air compressors, Generators, Stop lights, Glucose meters (SENESCYT, MCCTH & SERCOP, 2015).

Chapter 8.

Conclusions

In this dissertation, I have sought to accomplish two objectives —one conceptual and one empirical.

At the conceptual level (Part I), I have sought to bring together two intellectual traditions that are often seen as antagonistic: on the one hand, classical development theory with its focus on structural transformation as the central concern of development and, on the other hand, the humanist development tradition, which asserts the centrality of human wellbeing as the ultimate objective of policy interventions. Combining the normative gaze of the human development approach with classical development theory's insights about the centrality of industrial policy as tool for achieving sustained per capita growth, I built a framework for evaluating economic policies in general (Part I) — and Ecuador's economic policies in particular (Part II, Chapter 5) — in terms of their direct and indirect contributions to human wellbeing.

At the empirical level (Part II), I have applied the hybrid framework developed in Part I —which I have called a 'systemic humanist' framework— to analyze and evaluate Ecuador's economic reforms during the Correa administration, spanning the decade between 2007 and 2017, in terms of their contributions to human development. This analysis allowed me to answer the two questions that guided my research: (i) to what extent did Ecuador's policies (2007-2017) enhance or undermine human development; and (ii) to what extent did the outcomes of Ecuador's policies (2007-2017) corroborate or challenge contending theories about the kinds of economic policies required to enhance human development?

I present my conclusions below.

8.1. To what extent did Ecuador's economic policies (2007-2017) enhance or undermine development?

The analysis developed in the preceding chapters has identified manifold successes and failures in the economic policies of the Correa administration. Nevertheless, it is possible to conclude that, with some notable exceptions, Ecuador's economic policies over the course of

the Correa administration were largely conducive to enhancing human development. Moreover, many of the policies that most effectively contributed to the expansion of human development were those that most markedly broke with the policy regime of Ecuador's Washington Consensus period (1982-2006). At the same time, the government's industrial policies notably fell short of the speed, precision and scale required to achieve the structural change the country would have needed to achieve sustained growth and overcome its dependence on commodity exports and consequent vulnerability to the economic instability stemming from the boom and bust cycles of commodity markets.

The Correa administration's successful economic reforms

Among the Correa administration's successful policy reforms, macroeconomic and regulatory measures stand out for their outsized contributions to human development (Chapter 6). These measures allowed the government to raise and reallocate capital toward public investments in areas that directly and indirectly enhanced human capabilities.

Certain measures stood out for their contributions to the reallocation of capital toward public investments (Chapter 6, Section 6.2.1). Notably, a **strategic debt default** implemented in response to a citizen audit of the public debt cleared the way for Ecuador to default on \$3.2 billion —about a third of its foreign debt— on the grounds of illegitimacy. This bold departure from Washington Consensus era policies enabled a dramatic decrease the share of public revenues allocated to the debt service in favor of an expansion of the revenue allocated toward the repayment of 'the social debt' through investment in an array of social programs such that, for the first time in many years, spending on social programs surpassed the debt service (Chapter 6, Section 6.2.1). A similar move to reallocate capital was facilitated by the **reclamation of oil revenues**— specifically, the tax hikes on windfall profits from 50% to 99% and the limitation of foreign companies to service provision contracts, under which payments could only be made if certain conditions were ensured: a 'sovereignty margin' for the state (25% of gross revenues); distribution of 3% of profits to oil sector workers; and 12% of profits for local development.⁸¹ The administration's **progressive tax reforms** and improvements in enforcement focused on wealthy tax dodgers likewise followed an agenda

⁸¹ Art. 16 and Art. 94 of Hydrocarbon Law (*Ley de Hidrocarburos*, 2010)

of redistribution and capital reallocation that enabled the government to reduce its dependence on oil revenues (Chapter 6, Section 6.2.1).

A second set of successful economic reforms focused on efforts to democratize the financial system and expand public banking and strategic public investment capabilities. These reforms included: (i) the **elimination of central bank autonomy**, which transformed the Central Bank of Ecuador into a tool for the implementation of a broader monetary policy mandate than the narrow inflation-focused monetary policy of Washington Consensus. That mandate included, among other things⁸², the "steering of liquidity toward the investment required for the country's development" (Art. 302 of the 2008 Constitution); (ii) the **expansion of the volume of credit and the number of public banks**, and (iii) the transfer of public investment authority from the Ministry of Finance to the newly re-established Ministry of Planning and Development (*Secretaría Nacional de Planificación y Desarrollo - SENPLADES*), whose Vice Ministry for Public Investment was charged with **aligning investment priorities with the National Development Plan** — priorities that were construed as a means of operationalizing the constitutional "rights of *Buen Vivir*"⁸³ (Chapter 6, Section 6.2.2).

Some of the Correa administration's boldest economic policies were geared at **sustaining investment through hard times and limiting capital outflows**. These policies included short term measures in response to the 2008 crisis and the fall in oil prices, such as strong fiscal stimuli, the deployment of balance of payments safeguards and the pioneering of 'quantitative easing for the people', as well as longer term measures to keep capital within the local economy, such as capital outflow taxes, domestic liquidity requirements and the withdrawal from bilateral investment treaties that privileged the 'rights' of foreign investors at the expense of local development (Chapter 6, Sections 6.2.3 and 6.2.4)

In addition to modifying the country's regulatory environment in a way that was more conducive to development in the long term, this collection of economic reforms enabled the

⁸² Article 302. Monetary, credit, foreign exchange and financial policies shall have the following objectives:

1. To provide the necessary means of payment for the economic system to operate efficiently; 2. To establish overall cash flow levels that guarantee adequate financial security margins; 3. To steer excess liquidity towards the investment required for the development of the country; 4. To promote levels and linkages between lending and borrowing interest rates that boost national saving and the financing of productive activities, aimed at upholding the firmness of prices and monetary equilibrium preventing balance of payments deficits, in line with the objective of economic buoyancy as enshrined in the Constitution.

⁸³ Generally translated as 'rights to good living'— effectively a proxy for 'wellbeing.'

Ecuadorian government to make substantial immediate **investments in the expansion of human capabilities**. As discussed in detail in Chapter 6, these investments included large-scale expansions in the free, public provision of health and education infrastructure and social services, as well as programs aimed at increasing the purchasing power of the country's most vulnerable people. The latter included cash transfers, increases in the minimum wage, regulatory incentives for employers to pay a higher, 'fair' wage, and increased accessibility to the social security system. The government also deployed creative regulatory measures to increase the purchasing power of the public sector by lowering costs through initiatives like the pooled procurement of drugs and intellectual property reforms that facilitated the import of generics (Chapter 6, Section 6.3).

This collection of economic reforms and investments in human capabilities were reflected in some marked improvements *vis-à-vis* the Washington Consensus period (Chapter 6) — namely higher per capita economic growth accompanied by reductions in poverty (and, to a lesser extent, inequality). The Gini coefficient declined from .54 in 2007 to .45 in 2017. Poverty (based on the national poverty line) declined from 36.7% in 2007 to 21.5% in 2017, and the proportion of people living on less than \$3.2 a day⁸⁴ declined from 19.4% to 9.8% (World Bank, 2022d) (Figure 6.5). The flip side of these reductions was an increase in purchasing power of ordinary citizens. Average nominal monthly wages rose from \$198 in 2007 to \$450 in 2017 (Banco Central del Ecuador, 2022), while, from 2007 to 2012 alone, the percent of the basic market basket covered by the average family income rose from 67.1% to 91.5% (SENPLADES, 2013, p.57). Despite these overall positive outcomes, however, the Correa administration's economic reforms were also marked by important shortcomings from which several lessons can be derived.

Failures and shortcomings in the Correa administration's economic reforms

The failures and shortcomings of the Correa administration's economic policies can largely be grouped into three categories: (i) **procedural shortcomings** related to flawed stakeholder engagement; (ii) **limitations on the scale of policy interventions** due to insufficient consensus and externally imposed constraints on policy space; and (iii) **failures of strategic**

⁸⁴ Based on 2011 purchasing power parity.

vision related to the timing, resource-allocation and overall and prioritization of policy objectives.

Procedural shortcomings

Chapters 4 and 5 discussed the importance of following democratic processes for policy design and implementation, both as a matter of principle and as a matter of political strategy. In many instances, the Correa administration undermined the effectiveness of its economic policies by failing to adequately engage and respond to relevant stakeholders in the design and implementation of its policies.

In the expansion of its energy infrastructure, for example, the administration failed to take into account the concerns of stakeholders about the human health and ecosystemic impacts of large scale projects such as the Coca-Codo Sinclair Hydropower dam, which faced opposition due to concerns over insufficient environmental safeguards, quality of execution and worker safety. Although there are contending assessments of the overall effect of the project (Miranda, 2019), large-scale soil erosion and consequent oil spills in the areas surrounding the dam and the collapse of the emblematic San Rafael waterfall—all of which had been foretold by detractors of the project—have lent credence to stakeholder concerns (Chapter 7). Similarly, in the education sector, the administration's wage reform for teachers came with strings attached that failed to address the concerns of the teacher's union, leading to overall ambiguous impacts on both their incomes and working conditions. Efforts to optimize higher education spending by minimizing drop-out rates led to the elimination of exam-free access to public universities over the objections of student groups which resented the constraint of their ability to freely pursue their preferred academic programs (Chapter 6). Chapters 6 and 7 include various other examples of similar shortcomings in the government's ability to effectively engage stakeholders.

More generally, although the government made strides toward reconstituting state planning capabilities, the extent to which it succeeded in engaging relevant stakeholders in the planning process was limited. The decision to call a constitutional assembly at the beginning of the administration provided an opportunity for a broad array of stakeholders to participate in a political 'reset' that redefined many high-level principles and common objectives as well as concrete policies (*e.g.* the re-nationalization of strategic sectors)

(Chapter 5). However, the government had difficulties translating a participatory approach to planning processes beyond the constitutional assembly. The mechanisms it established to enable citizen participation in decisions about investment allocation allowed little beyond rubber-stamping the government's investment plans, which meant that, effectively, the degree to which investment priorities were aligned with Constitutional objectives or multi-year development plans depended largely on government authorities and decision-makers from the executive branch (*e.g.*, the ministers of production, finance, economic policy, and planning and development) (Chapter 6).

These shortcomings demonstrate that positive economic policy reforms, like the creation and the allocation of new resources for social investment, are not guaranteed to enhance the capabilities of the people they intend to support. In other words, they are necessary, but not sufficient for enhancing development. In addition to their deleterious impacts on the effectiveness of policies, at the political level procedural shortcomings of this nature contributed to a sense that the administration was unwilling to listen and respond to stakeholder concerns, undermining its legitimacy.

Consensus, policy space and limitations on the scale of policy interventions

While procedural shortcomings such as those described above may have been surmountable by adopting a more open attitude toward stakeholder engagement, other policy shortcomings were the result of factors that the administration had less power to change.

For example, some of the more ambitious efforts at redistributive tax reform were thwarted, somewhat counterintuitively, by public opposition. This was perhaps most conspicuous when the Correa administration attempted to introduce higher inheritance taxes in 2015, stirring protests, led by the country's elites, but also supported by the middle class — even though at the time only 3 out of 1,000 Ecuadorians received an inheritance larger than \$50,000 and only five Ecuadorians out of the entire population of 16 million inherited more than a million between 2010 and 2014 (Sosa, 2015; Meseguer, 2015). Public opposition was, thus, partly responsible for the fact that, despite the government's substantial efforts at expanding public financing capabilities, the country's potential to expand the tax burden for further public investment and redistribution was not fully exploited.⁸⁵

⁸⁵ See Jimenez (2015) and Roca (2009) for an evaluation of the gap between the real and potential tax burden.

Similarly, many of the administration's efforts at rolling back Washington Consensus era regulations that constrained local development were met with resistance from powerful external agents —namely the United States and the European Union— which leveraged their outsized influence on Ecuador's economy to deter the government's efforts. This dynamic was salient in the administration's attempts to reform trade, investment and intellectual property policies, such as the use of compulsory licenses to lower drug costs (Chapter 6), the use of performance requirements for technological transfer, the denunciation of all Bilateral Investment Treaties, and the use of product quality standards to support import substitution (Chapter 7). In all these cases, the government gave in at least to some extent to extortionary tactics from the U.S. and the E.U., which threatened to curtail access to their markets in order to ensure compliance with their demands (Chapter 7). Nevertheless, in spite of delays caused by these external pressures, the government did succeed in denouncing and withdrawing from all Bilateral Investment Treaties by the end of its term, while preserving market access for Ecuador's exports, suggesting that it is not impossible to withstand external pressures.

Failures of strategic vision

One of the most consequential failures of the Correa administration was its inability to implement a swift, focused industrial policy.

As shown in Chapter 4, industrial policy —which can be understood as a structural solution to multidimensional poverty— is of particular importance to commodity-dependent countries like Ecuador, whose production structure renders them vulnerable to the vicissitudes of commodity markets and (more importantly) limit their long-term potential for productivity growth. As discussed in Chapters 6 and 7, during the ten-year period of the Correa administration, Ecuador experienced the consequences of its commodity dependence when the price of oil suddenly collapsed in 2014, threatening its capacity to sustain the public investment and social spending that had enabled the significant —albeit uneven— improvements in human development discussed in Chapter 6. Although the government did manage to deploy creative macroeconomic measures to dampen the effects of the collapse in oil prices, it nonetheless experienced a contraction in social and capital spending that hindered its upward development trajectory (Chapter 6).

This experience does not, in and of itself, necessarily point to a failed strategy of productive diversification —after all, ten years is a short time to achieve radical economic transformation and Ecuador's economy did show some signs of change in the right direction (*e.g.*, the manufacturing sector was the biggest contributor to growth from 2007 to 2017 (Table 6.2). However, a close look at the evolution of the government's industrial policy does reveal a series of missed opportunities and failures of strategy that curtailed its ability to deliver a 'productive transformation' agenda of the scale it had offered and which it desperately needed in order to achieve long-term improvements in economic and human development.

As shown in Chapter 7, while the administration's efforts to improve 'systemic productivity' through investments in infrastructure and personal capabilities were substantial, they were not complemented by measures for targeted industrial promotion until the last few years of the administration and even these measures —namely an effort to leverage public procurement to support local manufacturers— paled in comparison to the scale and ambition of the measures used by successful industrializers in the 20th century (Chapter 4).

The government appears to have been aware that its industrial strategy was not appropriately prioritized during its first term, as evidenced by the creation of an Inter-Institutional Committee for Productive Transformation under the leadership of the Office of the Vice President in 2013, but this intervention came late— six years after the administration came to power— and following numerous failed attempts to 'prioritize' strategic industries on paper without taking concrete steps to promote them or even to select a sufficiently specific and manageable number of industries to allow for a real 'prioritization.'

In other words, the administration did not treat industrial promotion with the urgency it applied to policies like infrastructure development, the expansion of health, education and social services and palliative measures like cash transfers, which were prioritized from the beginning. While it may have made sense to prioritize such measures over industrial policy under tight budgetary constraints, this does not appear to have been the reason, considering the ample resources devoted to reconstituting state planning and investment capabilities and the fact that 'low-hanging fruit' industrial policy tools like procurement policy would not have required significant additional resources but rather a reallocation of the procurement budget toward local products. While early implementation of such measures could have set in motion and entrenched a long-term process of industrial development throughout the ten-year

administration, the slow, late implementation of meaningful industrial policy measures meant that, at the end of its tenure, the Correa administration handed over an incipient, vulnerable industrial policy that was easily eviscerated.

8.2 To what extent did the outcomes of Ecuador's economic policies (2007-2017) corroborate or challenge contending theories about the kinds of economic policies required to enhance development?

Ecuador's development experience during the 2007-2017 period provides at least two lessons about the relative utility of different policy paradigms.

First, as discussed above, the Correa administration's economic policies were largely an effort to reverse the reforms of the preceding Washington Consensus period and were clearly associated with better development outcomes than the policies of that period, which included not only slow growth and high poverty, but also a devastating economic crisis triggered by financial deregulation (Chapters 5 and 6). This experience lends credence to the thesis—broadly shared by other the governments of the 'Pink Tide'—that the policy package of public sector attrition, deregulation, privatization, and trade and financial liberalization that swept across Latin America (and beyond) in the last decades of the 20th century (and in the early 21st century in some cases) was, to say the least, a less than optimal policy paradigm if judged by its ability to deliver improvements in economic or human development.

Quite to the contrary, Ecuador's experience suggests that the shortcomings of the Correa administration's economic policies were tied to its inability to sufficiently *overcome* the influence of the economic prescriptions of the Washington Consensus. Specifically, the administration's light-touch, unfocused approach to industrial policy prevented the country from achieving a level of diversification that could have provided a buffer against the crash of oil and commodities prices and stimulated long-term development of higher-value added productive capabilities. Consequently, the public investment measures that helped bring about human capability expansions were undermined by the crash in commodity prices in 2014, which shrank the capacity for public investment in the oil-dependent economy (Chapters 6 and 7).

Thus, the ineffectiveness of the Correa administration's industrial policy truncated a process of expansion of human development that could have become sustainable had the

imaginings of policy makers been able to escape the ideational constraints of both, orthodox economic prescriptions and standard human development discourse, which either directly undermine or neglect industrial policy, respectively (Chapters 2 and 3). Ecuador's experience illustrates the weight of a broader ideological context in which industrial policy has been systematically marginalized —an environment dominated by neoclassical economic theory and its policy recommendations, which in the case of Ecuador included a bias toward the expansion of commodity-exports at the expense of industrial development, largely seen as a counterproductive departure from the country's comparative advantage.

Far from lending credence to neoclassical policy prescriptions, the administration's inability to finance sustained capability-expanding policies underscores the importance of decreasing commodity-dependence and developing an industrial base, both as a means of increasing economic resilience in the face of external shocks (to which commodity-exporters are especially vulnerable) and as a means of increasing the income-generating capacity of the domestic economy. Ecuador's experience supports the idea that, from a development standpoint, commodity dependence can be understood as a structural constraint on the sustained expansion of human capabilities and its reduction should therefore be seen as a policy priority for human development.

Overall, Ecuador's experience highlights the risks of seeing development policy as little more than a collection of measures for 'getting along with a little assistance' and underscores the need for developing countries to take more proactive structural measures in order to achieve sustained improvements in economic and human development. It shows that, while instruments like cash transfers can help people cope with poverty, and while 'social' policy solutions, such as the expansion of health and education services, can contribute to overcoming poverty by building personal and collective capabilities, these solutions are not sufficient because (i) investments in human capabilities do not necessarily translate into increased income if there is insufficient demand for their productive capabilities (*i.e.*, work opportunities); and (ii) sustained investments in policies like cash transfers and health and education services is untenable if countries lack the productive base (the collective productive capabilities) to sustainably generate the necessary income for such investments.

Future attempts at implementing long-term development strategies in Ecuador must include a more focused and proactive industrial policy that not only applies the policy lessons that can be gleaned from the the 20th century's successful industrializers (Chapter 4), but also

continuously comes up with the kind of sharp and swift guerilla-like tactics developing countries increasingly need to deploy in order to navigate the ever-growing power asymmetries between them and industrialized countries (Chapter 7).

8.3 Implications for future research

This project has three key implications for future research on the relationship between economic policies and human development.

Ecuador's experience highlights both the need for structural change to sustain the expansion of human development and some of the key obstacles to structural change: namely limited strategic policy vision and geopolitical pressures. Though, as discussed above, the case of Ecuador provides instructive lessons on how to creatively navigate geopolitical pressures and limited policy space, it offers little guidance on how to implement swift and effective industrial policy. Analyses of successful 20th century industrializers (Chapter 4) can serve to inform industrial strategy today, but given the substantial evolution of the global economy in recent decades, further systematic research is needed to understand whether and how other countries have deployed effective industrial policy in a 21st century context. Such research also needs to make sense of the implications for developing countries of the very recent rapid growth of industrial policy among global superpowers like the United States⁸⁶

The second key implication of this research regards the need for further engagement between human development scholars and scholars of structural change with the aim of exploring and developing creative answers to the question of what constitutes an industrial policy for human development. The impetus to explore this question is already evident in recent work within the HDC scholarship, such as Bueno (2022) and McGranahan (2020), who explore the questions of what constitutes 'capabilities-expanding' labor and human development-aligned forms of ownership and management structures in the workplace. Human development scholars can further pursue this line of inquiry by helping to conceptualize and analyze what (collective and individual) human capabilities may be required to transform production processes themselves and what types of production—what kinds of technologies, products and services— may be needed in different contexts to achieve

⁸⁶ See, for example, Tucker, T. (2022). Everything is Climate Now: New Directions for Industrial Policy from Biden's Supply Chain Reports. Roosevelt Institute.

structural transformation and economic resilience, while providing opportunities fulfilling, 'capabilities-expanding' work.

Finally, by building on Bueno's (2022) work on democratic economic governance and the substantial HDC scholarship on the importance of participation and democratic process (see Chapter 4 and 5), scholars can contribute valuable insights for policy design by mapping and examining successful and unsuccessful experiments of democratic governance in both economic policy and various types of economic institutions (from central banks and public banks to firms and cooperatives). As discussed above, Ecuador's experience suggests that failure to meaningfully engage stakeholders in policy design and implementation undermined the legitimacy of parts of its economic strategy and even hindered the effectiveness of some of its policies. Further research on the impacts of democratic governance and accountability on policy uptake and impact could yield important insights, not only for policy design, but also for our understanding of the politics and political economy of development processes more broadly.

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Interviews and personal communication

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