Local economic development based on the capability approach

Theses of doctoral dissertation

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1. Introduction

Everybody knows local economic development projects, where result are strongly questionable. For instance: quickly built, but empty business centres or new irrigation systems destroyed by the local community. There are local economic development processes, which results are contradictory: shopping mall drains the demand of local retailers in downtown or an industrial park doesn’t create new jobs.

Starting from these well-known phenomena, in my dissertation I would like to answer questions such as, how can a local economic development project be evaluated, why do some projects go wrong, and what can the stakeholders do in order to make these projects successful?

In my dissertation, I start with the theory of local economic development. According to the World Bank: “[t]he purpose of local economic development (LED) is to build up the economic capacity of a local area to improve its economic future and the quality of life for all” (Swinburn et al. 2006, 11). According to the competitiveness based strategy of local economic development, the goal of local economic development is to increase quality of life, mean of local economic development is competitiveness, base of local economic development is strengthen the competitive advantages of local companies (Bajmócy 2011).

This competitiveness based approach has several weaknesses. First, it does not say anything about what is quality of life or well-being for local inhabitants, although another sub-discipline of economics – welfare economics – analyse these notions in detail. Second, the competitiveness based approach assumes linear positive relationship between growth real-income (or lately performance in global competition) and well-being although the ecological economics strongly questions this relationship.

In order to overcome these weaknesses, in my dissertation, I give a substantive definition of well-being and try to build up the strategy of local economic development based on this definition. The concept well-being chosen by me is the capability approach developed by Amartya Sen. According to this approach, human well-being consists of people’s real opportunities (Sen 1999).

Next, I establish an analytical framework based on the capability approach. With the help of this framework, the success of local economic development projects can be evaluated and those social, economic and environmental factors can be identified which are influencing the process of a local economic development project.
Novelty values of my dissertation are the following:

(1) Capability approach has hardly any Hungarian literature therefore the literature review about it is a niche in Hungary. The Hungarian terminology of the capability approach is inaccurate in many cases, cumbersome or even misleading. Therefore in my dissertation, I try to make clear the most important notions and to introduce comprehensible Hungarian terminology.

(2) As I mentioned: the literature of the competitiveness-based local economic development does not reflect the results of other sub-disciplines of economics about human well-being. Thus, it is a new result that I synchronize the two different streams of literature.

(3) In my dissertation, I analyse development projects from low-income countries from the perspective of the capability approach. However these case studies use the terms of the capability approach, apply partially different methods and do not take into consideration each other’s results. For that reason, the meta-study of these case studies can have relevance for local decision-making. As far as I know, this kind of meta-study has never been made on development projects from low-income countries.

(4) In the literature of the capability approach, there are several analyses of low-income countries. But – as far as I know – nobody applied the capability approach to evaluate local economic development projects in countries with higher income. Hence, the analytical framework in my dissertation and the empirical application of it can be considered as a new result.
2. Structure of my dissertation and research methods

My dissertation consists of four bigger parts. The titles are the following: “Introduction to the capability approach”, “Theory of local economic development”, “Analytical framework based on the capability approach” and “Evaluation of case studies”.

2.1. Introduction to the capability approach

In my dissertation, after the introduction I provide a literature review about the capability approach. First, I clarify the central notions of the topic, such as functionings and capabilities (Sen 1999). The term “functionings” refer to those doings and beings, which are valued by an individual. Valuable doings and beings are for instance: being educated, being well-nourished, doing exercise or listening to music. The term “capability” refers to the real opportunity to achieve certain doings or beings. For instance: the real opportunity to be educated or the real opportunity to do exercise.

In the case of bicycling: the individual’s capability of bicycling is added up by several factors. For instance: owning a bicycle, bicycle roads or the knowledge how to ride a bicycle. In this example, the capability approach calls “means” the bicycle and the bicycle-roads, calls “conversion factors” the knowledge of bicycle-riding which ensures the real opportunity of riding a bicycle.

After defining the most important notions, I examine the role of the capability approach in the current literature especially in welfare economics. I compare the capability approach to other theories of well-being: utilitarianism, resources, primary goods and basic needs. I argue that the capability approach is the most adequate theory to conceptualize human well-being.

I examine the applications of the capability approach in detail. Because the capability approach is a rather flexible framework, the applications can be manifold and far-reaching. In the literature, it is used to measure different countries’ and regions’ well-being, to evaluate development projects in low-income countries, to analyse the reasons behind poverty, to evaluate the effects of different technologies on peoples’ lives, to estimate the situation of people with disabilities, evaluate gender differences, social norms and economic policy.

In the second part of this chapter, I argue that the capability approach is not a value-neutral theory, but it is committed to certain values. Individual freedom has special importance in the concept therefore the capability approach is classified as part of the stream of liberal political theory. At the same time, the capability approach is dedicated to the values
of equality and democracy. Thus, the opportunity to be actively involved in decision-making mechanisms, which affect the individual’s life, has special importance in the capability approach.

2.2. Theory of local economic development

In this chapter, I analyse the different theories of local economic development. The chapter consists of four parts.

In the first part, I summarize the current literature of local economic development. I clarify the central notions of local economic development, like local level, sub-regions and competitiveness. I introduce the competitiveness-based literature of local economic development. According to this: the goal of local economic development is to increase the quality of life of local inhabitants, the mean of local economic development is performing well in global competition, and the base of local economic development is to strengthen the competitive advantages of the region. Besides, I analyse the different models of competitiveness, the economic base model, the model of innovation systems and the import-substitution theory.

In the second part, I point out the difficulty of the competitiveness-based concept of local economic development. I start with expounding the already known critiques in the literature. The most important argument is the following: the competitiveness-based models are not able to ensure material quality of life measured by income. After that I claim my own argument: in the theory of local economic development prescriptive and descriptive elements are mixed. I argue that in order to overcome the weaknesses of the competitiveness-based models of local economic development, normative base is needed for a local economic development model.

In the third part, I expose a possible normative local economic development model. The goal of this strategy can be defined as follows: broaden the capabilities of local inhabitants. The model consists of three successive steps. (1) Choosing valued functionings with the help of deliberative participation. (2) Ex ante evaluation of means. (3) Ex post evaluation of means.

In the fourth part, I compare the competitiveness-based and the capability-based local economic development strategy according to the following aspects. What is the goal of local economic development? What is in the centre of evaluation? What is the role of income in local economic development? What roles are social and environmental aspects playing? And:
what is the informational base of local economic development? The results of the comparison can be seen in Table 1.

**Table 1. Comparison of competitiveness-based and the capability-based local economic development**

<table>
<thead>
<tr>
<th>Aspect</th>
<th>Competitiveness-based local economic development</th>
<th>Capability-based local economic development</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goal of local economic development</td>
<td>Quality of life (implicitly real income and employment).</td>
<td>Broadening of capabilities.</td>
</tr>
<tr>
<td>Centre of evaluation</td>
<td>Real income, competitive advantages (means).</td>
<td>What can local inhabitants do with their means available? (means + conversion factors + capabilities)</td>
</tr>
<tr>
<td>Role of income in development</td>
<td>Implicitly real income is the goal of development, which increase local inhabitants’ quality of life.</td>
<td>Real income is one mean from many others to achieve valuable functionings. Utilization of real income is influenced by different conversion factors.</td>
</tr>
<tr>
<td>Informational base of local economic development</td>
<td>Objective, hard information.</td>
<td>Subjective, soft information too, which is possessed by local inhabitants.</td>
</tr>
<tr>
<td>Social and environmental aspects</td>
<td>Social and environmental aspects have complementary or subsidiary role.</td>
<td>Social and environmental factors are integrated into the strategy or evaluation.</td>
</tr>
</tbody>
</table>

*Source: Author.*

2.3. **Analytical framework based on the capability approach**

In this chapter, I establish an analytical framework based on the argumentation before. With the help of this analytical framework, local economic development projects can be evaluated. The analytical framework is based – besides Sen’s work –mostly on Frediani’s and Biggeri’s publications (Frediani 2007; Biggeri and Ferrannini 2014; Hartono 2012). The analytical framework consists of the following parts (Figure 1.).
In the capability approach, the development process means broadening of capabilities. In other words, the community is in the better situation the more real opportunities are available for them and from which they can choose a set. This is the base of the evalulative framework.

The development process can be examined from two perspectives: from the opportunity aspect of development and from the process aspect of development (Robeyns 2005). In the opportunity aspect of development, the opportunities made possible or made impossible by the development are examined.

The opportunity aspect consists of four parts. First, I identify the means of development, which can help to broaden capabilities. They can be like: irrigation systems, roads, shopping malls etc. Second, I categorize the capabilities made available by the given mean. For instance: agricultural production, traveling, shopping etc. This has a relevance because the process of developing a mean does not have necessarily the intended effects only, it can have other capability enhancing effects also. Third, I examine the conversion factors, which are influencing the utilization of the project. They can be like: lack of necessary skills, social norms, which prevent some groups from utilizing certain means. For instance: the lack of knowledge about the usage of irrigation systems can influence the appropriate usage of the means. Fourth, I identify the opportunity-gap of the development, namely the missing, but valued capabilities. For instance: the disappeared opportunities or such opportunities, which could be expected but wasn’t achieved. The third and the fourth aspect have special
importance because it focuses the attention to the factors, where decision-making can – de facto – interfere into the process in order to facilitate development.

In the process aspect of development, I examine how the process of development has happened. According to the capability approach, in the process of development, not just the what to develop matters, but the who and how also (Kuklys 2005).

The process part of my framework has two aspect. First, the agency aspect. The question about who and how can have the real opportunity to take part in decision making about the given development process. Second, the values made explicit during the development process: what kind of values were reflected in the discourse about the development. Values are important because they determine what kind of functionings are considered important by local inhabitants. According to Sen, these values need to be discussed by public scrutiny (Sen 1995).

Based on this analytical framework, first, I examine the case studies of local economic development projects in a meta-analysis. Together, I find 19 case studies, which are about development projects in low-income countries conducted by United Nations or the World Bank suitable for analysis.

My meta-analysis shows: most of the projects can be characterised with some kind of “project-logic”. The point of this project-logic is that it concentrates mainly on creating hard infrastructure and expects the income growth from that. Project-logic treats the beneficiaries of the project as patients, who’s only task is to utilize the available means and infrastructure.

The project-logic has several weaknesses. Does not take into consideration the unintended effects of a development project, undervalues the complexity of social situations, cannot reveal hidden social relations, therefore sometimes it just support already existing social inequalities in the community and homogenize the groups taking part in the development. In the latter part of my dissertation I claim: project-logic is typical not just in low-income countries but also in high-income countries financed by private or public funds.

In the last part of this chapter, I modify the analytical framework in order to be appropriate to use I in my own empirical research. The most important change in the framework is about the process aspect of development. I analyse the agency aspect of development with the help of the so-called power-cube (Gaventa 2006). I need this tool because with the dimensions of the power-cube, I can make detailed analysis about what kind of opportunities the individuals have in development processes.

The process aspect of my analytical framework is presented with the help of one dimension of the power-cube. The notion “spaces of power” refers to those opportunities and
channels, where citizens can influence the decisions about their lives. For instance: the so-called participatory budgeting involves citizens into the process of preparing the budget of a given city (Pataki 2004).

The concept of power-cube contains three different kind of spaces: closed spaces, invited spaces and claimed spaces (Cornwall 2002). On closed spaces we understand that decisions are made by a set of actors behind closed doors, without any pretence of broadening the boundaries for inclusion. For instance: the city council can be this kind of group. Many civil society efforts focus on opening up such spaces through greater public involvement, transparency or accountability. On invited spaces are those into which people (as users, citizens or beneficiaries) are invited to participate by various kinds of authorities, be they government, supranational agencies or non-governmental organisations. Invited spaces has some kind of institutionalized form, such like a retail forum. Claimed spaces are claimed by less powerful actors from or against the power holders, or created more autonomously by them. Typical examples are when people with similar thinking join forces in order to achieve a common goal. These spaces range from ones created by social movements and community associations, to those simply involving natural places where people gather to debate, discuss and resist, outside of the institutionalised policy arenas.

2.4. Evaluation of case studies

In this chapter I write about the results of my empirical research. Based on the above mentioned analytical framework, I examined three different local economic development projects in Szeged: renewal of the marketplace in Mars square, which was funded by the council and the European Union; building of the spa Napfényfürdő Aquapolis, which is partly financed by the city council and partly by private investors; and the building of the shopping mall Árkád, totally funded by private investors.

My empirical study is based on inductive and abductive research methods (Blaikie 2000; King et al. 1994). I choose these kinds of research methods because the goal my research was primarily exploring and understanding. My inquiry aims at understanding the social reality in the interpretations of individuals. Therefore my research does not test hypotheses, but tries to understand stakeholders’ interpretations and draws conclusions from that. The case studies were analysed with the help of local documents (reports, court orders, corporate documents), local and national media and semi-structured in-depth interviews. Together, I conducted 31 interviews with civil activists, users, experts and local politicians.

Results of the opportunity aspect of my analytical framework can be seen in Table 2.
Table 2 Opportunity aspect of case studies

<table>
<thead>
<tr>
<th></th>
<th>Shopping mall</th>
<th>Spa</th>
<th>Marketplace</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Conversion factors</strong></td>
<td>Income, Lack of regulations and an unified concept of the cityscape.</td>
<td>Income, Lack of regulations and an unified concept of the cityscape.</td>
<td>Income, Regulations about primary producers, Bus station, Being familiar with regulations, Complicated development process</td>
</tr>
</tbody>
</table>

Source: Author

The results of the process aspect of my research can be seen in Table 3.

Table 3 Process aspect of case studies

<table>
<thead>
<tr>
<th></th>
<th>Shopping mall</th>
<th>Spa</th>
<th>Marketplace</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Closed</strong></td>
<td>City council, Investors</td>
<td>City council, Investors</td>
<td>City council, Head of the project-company, Regional authorities</td>
</tr>
<tr>
<td><strong>Invited</strong></td>
<td>Architects, Designers, Local media</td>
<td>Architects, Designers, Real estate experts, Water management experts</td>
<td>Co-workers of the local government, Architects, designers, Merchants</td>
</tr>
<tr>
<td><strong>Claimed</strong></td>
<td>Civil collaboration for the hemp-spinning factory building, Petition of the retailers in downtown.</td>
<td>Signature collecting by a local NGO, Official prosecution, NGO’s protests and press conferences.</td>
<td>Civil suits of the kiosks /stalls owners, Signature collection by a local NGO.</td>
</tr>
</tbody>
</table>

Source: Author
3. Conclusions and theses

The most important results of my dissertation is summarized in five theses. From the five theses, the first is theoretical and the others are empirical.

_Thesis 1:_ The informational base of conventional local economic development models is narrower than the normative model of local economic development.

On informational base I understand the information, according to which the decision-makers make decisions about local resources. In my dissertation, I argue that the informational base of conventional, competitiveness-based local economic development is narrow. This means that decision-makers ignore information in decision-making, which could be relevant in evaluating the effects on well-being of local citizens.

I see the reasons behind this the following way: the competitiveness-based models assume unconditional positive relationship between real-income and well-being of the region. But, with this assumption, the theory ignores information about how people can convert real-income into well-being. These ignored information can be about different social institutions, environmental factors, social norms, relational differences and inequalities.

The other reason that the informational base of competitiveness-based models is narrow is connected to the notion of well-being. If we define the well-being of a region based on the theory of primary goods, or capability approach, and not on utilitarian base then it becomes clear: the utilitarian approach ignores such information, like peoples values, basic human rights, deliberative democracy, participation etc. I state that the established and unquestioned utilitarian theory is the reason of the narrow informational base of decision-making.

My third reason comes from the result of my meta-analysis. Most of the case-studies can be specified by the already mentioned project-logic. These development projects aimed at income generation and provision of means for inhabitants. They don’t examine how these people can use their means and how they can achieve valuable functionings in a given social context.

If we base the strategy of local economic development into normative framework – as I have done it in my dissertation –, it has several advantages. First, dilemmas about values became visible. The conventional local economic development, which emphasizes real-income and employment, is shown value-neutral but it isn’t. It has its own values but it
remains hidden and un questioned. If the establishment of local economic development starts with making values explicit, then it can be avoided to support projects, which result is not even important. For instance: in a framework, which concentrates on income-generation, the modern spa-complex is favoured because it attracts income into the region with tourism. But in a framework, which starts with determining values, it can be revealed that the renewal of the infrastructure of the free beach is more important than the modern spa-complex for the local community.

The other advantage of the normative well-being conception is the following: if the notion of well-being is well-defined, then the right informational base can be derived for local decision-making. The local economic development based on the capability approach needs for instance the knowledge of local inhabitants both about the values of the community and about the conversion factors which hinders the utilization of means.

The third advantage of the capability based local economic development is that the social and environmental considerations can be built in into the model and evaluation and they don’t play only a complementary role as in the conventional models. My arguments about the first thesis are explicated in the second, third and fourth chapter of my dissertation.

Thesis 2: The examined local economic development projects both make available and abolish certain opportunities at the same time.

This statement is true for all of my examined local economic development projects. In the case of the shopping mall: shopping between modern conditions became available, but with destroying the hemp-spinning factory, thus the opportunity to preserve old industrial buildings disappeared. In the case of the spa: swimming and relaxing became available, but it destroyed the opportunity to use the free beach called Partfürdő because the wells of Partfürdő were apported into the project-company of the new spa. The renewal of the marketplace in Mars square made available the opportunity of shopping between modern and hygienic circumstances but destroyed the real „sense of a marketplace”, which contains chimney cake, grilled meat, eggs, parsley and flowers sold by retired old people, and confidential relationship between producer and buyer.

In all of the three cases, opportunities were disappearing for all members of the community independently of considering these opportunities valuable or not. Obviously, these disappeared opportunities are unintended effects of development and turn up as side-effects of
the process. It is typical in all cases that the destroyed opportunities were realized only after the project was finished and substitution or compensation was not emerged in the discourse of the decision-makers.

_Thesis 3:_ The utilization of means was influenced typically by income-level of local inhabitants, missing unified concept of the cityscape and the impenetrable processes of administration in case of all the three examined case studies.

Interviews and local documents revealed that lack of income, lack of unified cityscape and impenetrable administrative processes were playing the roles of conversion factors. In the case of the shopping mall, the buyers and retailers with lower income were crowded out because they don’t have the necessary income to pay the prices or the rent. Similar is the case about the spa: prices are too high for an average family in Szeged. After the renewal, the rent went high in the marketplace and not all of the sellers could pay them anymore.

The evaluation of the three case studies revealed the dysfunctionality of the means and I find that the investments don’t fit into the cityscape and the urban planning lacks any conception.

The impenetrable administrative processes were important conversion factors. Uncountable number of plans, complicated legal situations and other administrative processes were hindering the transparency of the development processes. Income-level of individuals, impenetrable administrative processes excluded certain social groups from utilizing the shopping mall, the spa or the marketplace. Thus, not everyone had the equal opportunity to use these or to take part in the decision-making processes. Therefore I think, that these influencing factors strengthen the already existing social imbalances in this city.

_Thesis 4:_ In the case of the examined local economic development project, the decisions were made in closed and hidden spaces.

According to interviews and local documents the major economic development decisions were made in closed and hidden spaces. It means that the most important resource-allocating decisions were made by a small, closed group. These groups are typically investors, leaders of the project-company and local political leaders. Based on reports by the city council, the most important decisions were born in hidden spaces and not visible spaces. Thus, the major
decisions are not formed through visible channels (city council, commission meeting) of decision-makers. Decisions are highly influenced by actors, who are determining the options from which the local decision-makers choose. As a consequence, the real alternatives in decision-making are those, which are provided by experts for city council. For instance: the fellow workers of the Development Office determined the frame of the decisions about the marketplace, or the colleagues of the city council specified the settlement agreement with the investor of the shopping mall. Based on the reports of the city council, there is hardly any debate about these decisions during city council meetings.

The citizens’ involvement into decision-making is one-sided: it is only about providing information on retail forums or through different PR actions of decision-makers. In invited spaces, experts (like architects, water management experts, real estate experts or retailers) have influence but lay-persons or civil activists hardly have any impacts on decisions.

**Thesis 5:** The civil activities connected to the examined local economic development projects happened in claimed and hidden spaces and can be characterised by belated reaction.

There were civil actions in connection with all three local economic development project. In the case of the shopping mall, the Védegylet, the Cityscape Protection Association, the local retailers in downtown, in the case of the spa, the Ligetfűrđö NGO, the Civil Forum of Szeged, the Védegylet and in the case of the marketplace, a group of retailers in the marketplace and the Védegylet made steps in order to influence decision-making. The most important activities were the following: collecting signatures, petitions, demonstrations, court complaint, open letters. These civil groups could achieve to take part in the discourse of local decision-making, but mostly they were not between the invited players.

In all of the three cases, the civil activism was belated: the citizens drawn attention to opportunity-gaps of the development processes, but usually too late, when there wasn’t anything to do anymore. For instance: the Cityscape Protection Association started to be active when the building of the hemp-spinning factory was already under destruction or the NGO-s made the demonstrations against the spa, when the cooperation agreement between the city and the investors were already signed.
During my research, I did not have the opportunity to examine what kind of factors (for instance: lack of information, weak advocacy skills, lack of civil attitudes, social norms) cause this phenomenon, but certainly that was the general character of these processes.
4. References


5. The author’s publications about the topic

Journal article


Book section:


Conference proceedings:


