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**The Informational Basis of Local Economic  
Development According to the Capability Approach**

**(Comparing the Instrumental and the Capability-Based Approach to  
Local Economic Development)**

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# **The Informational Basis of Local Economic Development According to the Capability Approach**

## **Comparing the Instrumental and the Capability-Based Approach to Local Economic Development**

### **Abstract**

*The conventional goal of local economic development in the literature is to increase well-being or quality of life of local residents. However, it remains hidden what is the substantive meaning of well-being or quality of life. Besides, growth of income and employment are implicitly considered as the goals themselves in local economic strategies. We argue that the determination of the objective of local economic development should be based on the capability approach and be formulated as follows: the goal of local economic development is the widening of the capabilities of local residents. In our paper, we outline a normative evaluative framework based on the capability theory of Amartya Sen, which is able to help to design and evaluate local development projects both in developing and developed regions. In this paper we focus on the informational basis of this normative framework and compare it with the dominant view that we shall call the “instrumental approach”.*

*First, we claim that instead of implicit goals – like economic growth – local development strategies should start with making these goals explicit and define the valuable doings and beings for the community. These valuable functionings should be moulded through social deliberation. Therefore, the theories of deliberative democracy should be connected to the theory of local economic development.*

*Second, when planning and operationalizing development projects, the aspect of conversion factors should be taken into consideration. Development strategies should be aware of the well-interpreted fact that real income is only a mean to broaden our capabilities and not an end in itself. How local residents can convert their means into valuable functionings is affected by different conversion factors, like environment, physical abilities, social norms etc. These conversion factors should be incorporated into the informational basis of local economic development.*

*Third, the local level of development is especially appropriate to involve direct participation and incorporate lay knowledge beside expert knowledge. The theory of capability approach also emphasizes the importance of agency – the capability to represent my own aims and bring about change. Therefore the aspect of agency should also be part of the included information in the theoretical framework of local economic development. We illustrate our arguments with a case study about an irrigation-based community development project in Morocco.*

**Keywords:** *local economic development, capability approach, deliberation*

## 1. Introduction

In this paper, our aim is to examine and compare two approaches of local economic development (hereinafter LED). The first examined approach is the conventional or – as we shall call it – the “*instrumental approach*”. This view considers real income and employment as the ultimate goal of LED strategies, or according to the newest normative framework: competitiveness. The second examined view is based on the *capability approach* and its normative framework suggests the widening of local residents’ capabilities as the goal of LED. Under capabilities we understand the real opportunities of citizens as the Nobel-laureate Amartya Sen formulated it (Sen 1999, 1995).

The instrumental approach is widely discussed and has a dominant role in the literature of LED. At the same time, the capability approach has been widely acknowledged and extensively used in other fields of the literature concerning human development and well-being. In this paper, we compare the two approaches according to their informational basis. Informational basis according to Sen's formulation is the following:

“The ‘informational basis of a judgement’ identifies the information on which the judgement is directly dependent and – no less importantly – asserts that the truth and falsehood of any other type of information cannot directly influence the correctness of the judgement” (Sen 1995, p. 73).

Thus, we examine which set of information is included or excluded in the framework of the instrumental and the capability-based approach. First, we analyse, how these views formulate their goals and what consequences these goals have to the whole logic of LED. Second, we compare, which instruments or resources are involved in the theory of the instrumental and the capability-based framework and what do the theories state about the process of achieving the goals of LED. Third, we compare the different type of knowledge, which are used in these two approaches. Finally, we illustrate the differences and problems about the two approaches through a case study.

In our paper we conclude that the instrumental approach of LED suffers from several deficiencies in virtue of its informational basis and it should reflect on the results of other areas of social sciences and economics, like human development studies, ecological economics and political theory.

## 2. The goal of local economic development

Local economic development in a very general sense means deliberate intervention into the local economic processes in order to make residents better off (Bajmócy 2011). It seems to be a general view that that ultimate goal of LED is to enhance “quality of life” or “standard of living” (Swinburn et al. 2006; Pike, Rodriguez-Pose and Tomaney 2006). However the literature of the LED devotes surprisingly little attention to the clarification of this issue.

On the top of this, the use of the concepts about the ultimate goal of LED is quite fuzzy. In several cases “quality of life”, “standard of living”, “welfare” or “well-being” seems to be synonyms. However in the broader literature of economics these concepts are used for quite different purposes. Welfare is unambiguously connected to concepts such as utility or income (Williams and Sen 1982; Hausman and McPherson 1997). “Quality of life” usually refers to the perceived “happiness” or “satisfaction” of people (Sen 1993). “Well-being” embraces aspects far beyond pecuniary sources, and is often linked to the capability approach of Amartya Sen (Sen 1995, 1999).

In the last few decades, the focus of regional and local growth and development theories has shifted. Along with the concepts of growth and space, the underlying normative assumptions have changed as well (Capello 2009). Today, this normative framework is primarily the “regional competitiveness”: the ability of the region to achieve and sustain a role in the international division of labour. The starting point is thus territorial competition generated by globalization (Cox 1995; Begg 1999; Lever 1999; Chesire 2003; Lengyel 2004). Under these circumstances, regions strive to implement processes that generate competitive advantage. Within this framework the higher level of per capita income (growth) is not the single, but undoubtedly one of the main criteria of a desirable situation.

The clarification of the ultimate objective and its correlation with economic performance seems to be outside the scope of LED. However, the implicit message seems to be quite clear: whatever is “quality of life” it positively correlates with growth (or competitiveness). And this opens the terrain for concentrating on the instruments (means) instead of the objectives. *This is why we call this approach “instrumental”*. However, we must emphasize that the approach is instrumental only in the sense of the capability approach.

And this view is not at all unaccustomed in economic thinking. In fact this is quite understandable if someone accepts the dominant traditions of welfare economics, which build on utilitarianism. Within this body of theorizing income is often understood as (an imperfect) proxy for preference satisfaction, which imply, that an increased amount of income

necessarily makes people better off. Another important characteristic of the approach is the aggregation of the individual welfare gains and losses, “sum-ranking” as Sen (1999) calls it. This imply that even if there are residents whose position worsened, they could be compensated by the “winners”, so it is fully acceptable to examine per capita (average) changes<sup>1</sup>. In this view growth in itself is the evidence that residents are better off, since the increase of per capita incomes mean that wins outweighed losses.

So the common “instrumental” view of local economic development focuses on the means of welfare, because it presupposes an inevitable positive link between the instrument and welfare. This presumption is implicitly based on the utilitarian traditions of economics, which, in turn have been heavily criticised recently (by the capability approach for instance).

However, we think that there is another way than the instrumental view to underpin the theory of LED. We claim that instead of focusing on the instruments of development, we can give a substantive meaning to the notion of “quality of life” or “well-being”. In this case, we state that the goal of LED should be the following: widening the capabilities of local residents.

The capability approach is one of the most discussed concepts of the last two decades in social sciences and policy-making. It was elaborated by Amartya Sen, who was followed by several theorists. The capability approach is used in many different areas of social sciences and policy-making; it has had an enormous effect on what we think about well-being, human development, poverty and social justice in science.

To introduce the capability approach in brief, we start with the two core notions of functionings and capabilities. “Functioning represent parts of the state of a person – in particular the various things that he or she manages to do or be in leading a life” (Sen 1993, 31). As a matter of fact, functionings mean such doings and beings that are valued by the agents. Functionings can be very simple things, like being well-nourished, being healthy or being able to read and write. But it can also denote more complex phenomena, like being graduated, taking part in the life of the community, having self-respect, appearing in public without shame and so on.

“The capability of a person reflects the alternative combinations of functionings the person can achieve, and from which he or she can choose one collection” (Sen 1993, 31). Therefore the capability means all the alternative lifestyles what a person can live; in other words: the capabilities of a person show what a person can *actually* do or be. Accordingly,

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<sup>1</sup> In other words gains and losses can be compared, and the common denominator is money.

capabilities represent the actual opportunities or freedoms in life, from which the person can choose the valuable ones for her.

There is a relationship between functionings and capabilities: capabilities are valued in the space of functionings, therefore functionings are important parts of capabilities. In the capability approach, the well-being is determined by our capabilities to achieve our valuable functionings. Hence, the goal of a development process (such as the LED) is defined in this approach as the widening of capabilities. We believe that the capability approach provides more adequate space for establishing a LED theory than the instrumental approach.

First of all, LED theories accept the increase of income and employment as an implicit goal; in other words they focus on the instruments of the development. However, in other areas of the discipline of economics, like environmental economics, or ecological economics, the ultimate goal of income growth is questioned from several social or/and environmental reasons. In spite of the extensive critiques of growth, economic theorizing on LED seems to be reluctant to incorporate them. Therefore it seems to be reasonable to re-think the formulation of the goals of LED by building on the results of other disciplines, and take a closer look on the relationship between the real goals (well-being) and its instruments.

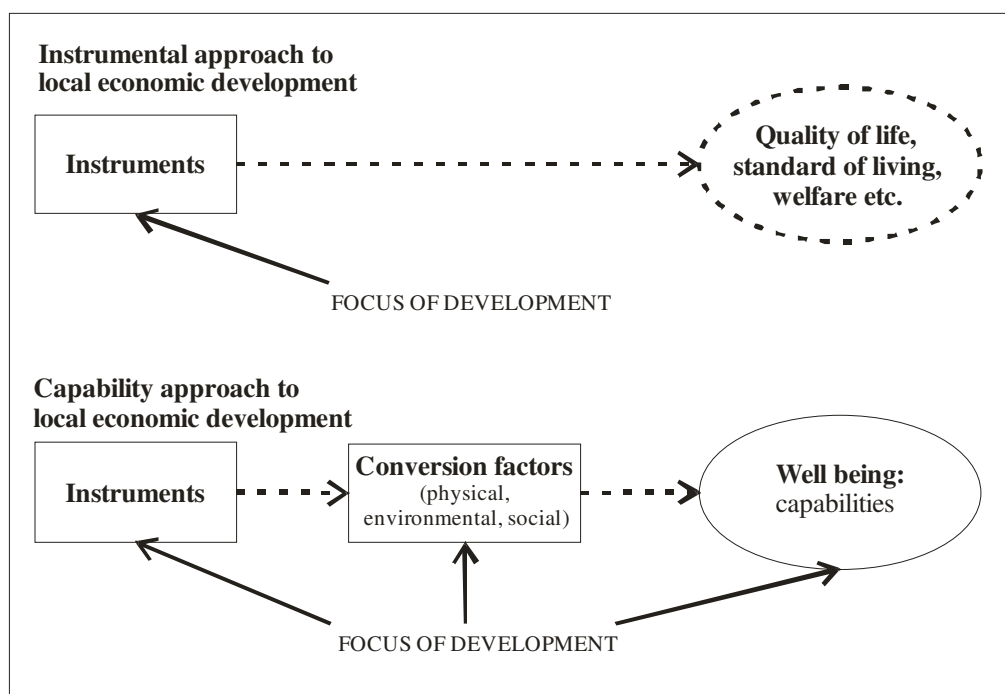
Second, in contrast to the utilitarianism-based income growth as development goal, there are many other well-being or development theories in the literature of welfare-economics, like the theory of primary goods (Rawls 1971, 1982), theory of resources (Dworkin 2000) and the different versions of capability approach (Sen 1999; Nussbaum 2011). However, these have hardly shaped the economic theorizing on Led so far. The literature of LED and the literature of human well-being do not reflect on each other, despite of the several possible points of connection (e.g. what is the ultimate goal of a development process, what means or resources are needed to achieve better quality of life of the citizens). Our aim with this paper is to establish this connection and build in the results of other areas of social sciences (especially the capability approach) into the theory of LED.

Third, one of the reasons that may justify our (re)formulation is the following: in the literature of the capability approach and human development there are several case studies about local development projects based on the capability approach. However, these results are not integrated in a unified concept or evaluative framework. One of our aim is to build on the results and edification of these case studies, when establish the core notions of the theory of LED based on the capability approach.

As a consequence, if we formulate the goal of LED as the widening of capabilities of local residents, than we can give a substantive meaning to the goal of LED and build a theory

around that. So the main difference between an instrumental approach and the capability based LED is the following: the former focuses on the instruments – like income, competitiveness – of development, but the latter one focuses on the ultimate goal of development: widening people’s capabilities, and by doing so also on the means and people’s ability to convert these means into valuable doings and beings. We demonstrate the basic differences between the two approaches in *Figure 1*.

*Figure 1.* The differences in the focus of the instrumental and the capability approach to local economic development



Source: own construction

### 3. The instruments of local economic development

While the objectives of the instrumental approach are implicitly income growth and employment, in the capability approach income is means to achieve the important functionings of local residents. The capability approach draws attention to the fact that between our goals and resources there are *conversion factors*, which determine how we can convert our resources into our goals. These conversion factors can be personal dissimilarities like age, gender, physical state; or environmental factors, like pollution, climate, geographical



traits; and social institutions in the broad sense, like social security, customs of dressing, behaviour and roles of gender (Sen 1995, 1999).

Therefore the capability based LED involves in its informational base not just the amount of income in the hands of the local residents, but the conversion factors also, which determine how the citizens can use their means. Let's see the following example: a citizen can achieve different functionings with the same amount of income if the environmental factors are different in the region. In the first case the air is polluted with dust, which causes asthma. In the second case the air is clean. In the first region, the inhabitants have to spend money on filtration systems or inhalators and medication to handle the symptoms of asthma. As a consequence, they have less money to spend on other goals and aims than the others, who live in a clean environment. In the second case, the functioning of being healthy (or at least being free from asthma) is easier to achieve than in the first case.

At this point of our argumentation another claim reveals itself, why it seems necessary to connect the theory of LED and the capability approach. These conversion factors occur typically at local level (like air pollution of a city in the previous example), therefore this is the stage, where they can be identified and taken into consideration. From a macro level of evaluation it would be much harder to identify these factors.

This logic can show us the connection between strictly economic aspects and social and environmental aspects. In particular, social and environmental aspects of a development are connected to the economic aspects in virtue of being impending or promoting factor in the process of using means to achieve different functionings. As a consequence, the economic development process cannot be separated strictly from other (social or environmental) development processes as the literature of instrumental approaches implicitly suggests.

Another difference between the instrumental and capability based approaches is the type of resource used in the development projects. According to the logic of instrumental approaches the income growth and employment is achieved with high competitiveness of the region (Capello 2009). Next, the competitiveness of the region is based on the competitive advantages of local enterprises (Bajmócy 2011). Thus, the instruments of high quality of life in the theory of the instrumental approaches are income, employment, economic competitiveness and competitive advantages. In spite of this, it is known from the literature of the capability approach that there are regions, where the local residents could widen their capabilities without doing well in the economic competition (Alkire et al. 2008). However we do not want to argue that the logic of instrumental based approaches is incorrect. But we would like to point out that the goal of widening capabilities cannot be achieved only by

economic competitiveness; we need a broader perspective than that. Sen also argues in a number of his works that focusing on economic growth gives only little information about the well-being of a region (Sen 1979, 1993, 1995, 1999), therefore the informational basis of the instrumental based or utilitarian based approaches is much narrower than that of a capability based perspective.

Thus the instrumental approach excludes information from the evaluation of policies, which could be important in the capability based approach. For instance: information about social justice, equity, environment, social institutions, which could affect how local residents can use their resources in order to achieve important goals and leading a valuable life.

The next dissimilarity between the two approaches comes from the process about how to determine the goals of LED. The instrumental approach accepts the aim of income growth and employment (and competitiveness) as unquestioned goals. It is supported by the whole underlying assumption about positive economics, which says that these goals are value neutral. However there appeared strong criticisms in the literature that the utilitarian based measure of welfare, or income as a proxy for well-being is not value neutral (Hausman and McPherson 1997, Sen 1999).

On the contrary, the capability based approach does not determine strictly, what is the goal of LED. It is its well established advantage compared to any other theory of well-being that the capability approach makes this value-laden nature of LED explicit and leaves the exact goal of LED undetermined in the theory. With other words, Sen and most of the other capability theorists argue that the first step of a capability based development should be the determination of socially valuable functionings (doings and beings) and make triage between them. As a consequence, the capability approach does not have an implicitly accepted goal, but has valuable functionings chosen by the community itself. While the instrumental approach excludes information about the functionings valued by the community; the capability approach builds on them. In case of the capability based LED, the selection of valuable functionings by the community is the first step of the development process and one of the most crucial part of the informational basis.

In the literature of the capability approach there are two kinds of assumptions about how should the community choose the valuable functionings. Sen himself claims that – whatever these functionings are – they should be determined by some kind of social deliberative process (Sen 1999). In contrast, other theorists of the capability approach state that a more or less objective list can be determined theoretically. This list contains the most important functionings, which are valuable generally in every community. According to

Nussbaum, the following functionings are universally important and should be part of the constitution of any community: life, bodily health, body integrity, senses, imagination and thought, emotions, practical reason, affiliation, other species, play, control over one's environment (Nussbaum 2011). She states that this list should be a baseline for any policy-maker when they choose the valuable functionings for the community.

We argue that in the theory of LED the functionings should be based on social deliberation because the local level is the space, where deliberative participation can occur most effectively (Crocker 2007). Sen himself leaves open the question, what is the appropriate way of social deliberation (Sen 1999, 2009). This is the point, where the theory of capability approach connects to the theory of deliberative democracy. As Sen states, democracy – as far as we understand it as deliberative participation – is not dependent on culture (Sen 1999), it is universal, therefore some kind of democratic process should determine the valuable functionings for the society. We agree with Crocker that the tools of deliberative democracy can find the appropriate ways of social deliberation; this area is undiscovered in the literature (Crocker 2003).

In the theory of the capability approach, a certain capability has a highlighted importance: *agency*, which is the freedom that a person is free to further his or her own goals (whatever goals they regard as important). Agency means that the person has the actual freedom to act and bring to change (Sen 1999) in the life of the community. Therefore the actual possibility to take part in the decision-making procedures of a region is an important part of the well-being of local residents. Another reason, which justifies the reformulation of LED according to the capability approach, is that the best possibility for citizens to take part in the decision-making and deliberative processes is at the local level. People can easier bring about change in their own community and environment. Therefore the opportunities of participation, values stated as a result of social deliberation are important parts of LED and not just as means to collect information, but as valuable functionings in themselves (Pataki 2004, Crocker 2007).

In conclusion, there is a difference between the instrumental view and the capability based LED in how the theories handle the instruments of development. The former approach focuses exclusively on the instruments like income and competitiveness, but the latter also considers other means and opportunities, like rights, deliberation, participation – and conversion factors, how citizens are able to convert these means into their goals.

#### 4. Knowledge types in local economic development

According to the standard view all deliberate public interventions are characterized by the divide of “scientific” and “political”. Experts provide “valid” (and value-neutral) knowledge on the possible “states of the world” (an accurate picture on the present situation and the possible futures). Then in the political arena delegates build on these proposals, consider values and interests (the collective will) and make decisions (Callon et al. 2011). This framework is also considered to be true for local economic development, at least in standard cases.

Within this framework there are experts (specialists) and laypersons with regard to the production of “valid” knowledge. And there are delegates (representatives) and citizens (stakeholders) in connection with the construction of the collective will. However these two dimensions are not fully independent. In deed economic theorizing about “welfare” or “well-being” is an important factor that crosses these borders.

While *the instrumental approach* is interested in the content of (supposedly value-neutral) expert proposals, it also has an implicit answer of how collective will should be “created”. And it would be unrealistic to think that this does not influence the occurrences of the political arena (Foucault 1978; Funtowitz and Ravetz 1993). However, the instrumental approach “washes its hands”.

Within this approach – on the basis of utilitarian presumption – it can be decided theoretically if a situation is better for the community on the whole or worse than another. What is more, this can be done by an external observer. Therefore expert proposals may provide a basis for informed decisions that does not only comprise the knowledge on the “possible states of the worlds”, but also an accurate evaluation on the effects of the given alternatives on collective “welfare”.

Certainly they sustain the possibility that in the political arena eventually sub-optimal decisions may occur, but that is exactly because of the interest and values that may narrow-mindedly overwrite the public good. So what really matters for this stream of theorizing is the *expert knowledge* on the “possible states of the world”.

While the content of expert proposal (the *informing* of policy making) is of primary interest, there is a tradition within the LED to analyse the occurrences of the political arena (the *forming* of policy making). This is a terrain not primarily for economists, but rather for regional scientists with their roots in political science or sociology.

Here there are several advocates of public (citizen) participation (Arnstein 1969; Dryzek 2000; Maier 2001). Alongside the “representative versus participatory” democracy dichotomy it is argued that the exclusive role of delegates must be revised, the participation of citizens may be advantageous for a number of reasons (e.g. transparency, increased public acceptance of decisions, resolved conflicts, community formation) (Cooke 2000; OECD 2001; Pataki 2004). The arguments also embrace the potential role of citizens to accept or decline expert proposals, or to complement them with new aspects of “well-being”. While the exclusive role of experts to inform policy decisions is largely challenged, the fundamental divide between “expert” and “lay” subsists.

While the dominating approach is basically “instrumental” in LED, we can conclude that it is the expert knowledge that has the priority during the planning, implementing and evaluating of local development interventions. This is complemented with the potentially beneficial participation of citizens (perhaps laypersons) in the process. But the basic distinction between the *informing* and *forming* of policy-making is sustained.

Within the *capability approach* this characteristic distinction can be overcome. It is clear and explicit in this case that expert proposals are necessarily *not* value-neutral. It is also made clear that they are unable to inform policy-making in such a way it is depicted above. In the capability approach it is explicit that values are at stake, and that the welfare gains and losses cannot be compared by an external observer on purely theoretical basis.

On the top of this the collective will is not aggregated but composed. Sen (1999) argues that one must get acquainted to others’ point of view in open public debates to be able to construct his or her own opinion. During this process not only problems and solutions emerge, but also identities are formed, groups may be constructed and the political arena might be reshaped (Callon et al. 2011).

The construction of the opinion of the public good, the incorporation of these ideas into expert work and to feedback this to policy is unambiguously a process that crosses the traditional borders of “scientific” and “political”. A LED that builds on the capability approach the knowledge of the “expert” and “lay” and the “delegate” and “citizen” are all important. Furthermore these distinctions are of minor importance (however cannot be fully neglected); since the knowledge required to inform policy making is generated together by experts and laypersons. The collective will is constructed by delegates and citizens. And the two processes are largely intertwined.

## **5. An illustrative case study (lessons from Morocco)**

With the following case study we would like to illustrate how the ignorance of conversion factors, like political pre-conditions and existing power relations and ignorance of lay knowledge can undermine the success of a LED project.

Our case study is the World Bank's Irrigation Based Community Development Program in Morocco, which is part of the "2020 Rural Development Strategy". The first phase of this program is described and examined in detail in the article of Pellissery and Bergh (2007); we only highlight the most important points.

This LED project was held in 1997. The goals of the project were the following: poverty reduction, creating investment opportunities, improving social capital and participation with improving irrigation canals in the area of a rural municipality. In the name of citizen's participation the Ministry of Agriculture imposed the creation of Water User Associations around the irrigation perimeters to discuss and supervise the development project.

Why the local residents did not have the actual opportunity to take part in these associations? First of all, the most important pre-conditions for political participations did not exist in the area: 80% of the population of the municipality were illiterate, they did not have the most basic education and literacy levels to take part in political decision making procedures. In addition, even many of the elected councillors did not know their rights and obligations in decision-making processes. The original village associations were very weak in terms of human and financial resources. Instead of raising awareness for citizen's rights and facilitate investment opportunities, they were mainly concerned with providing drinking-water to the inhabitants who had to walk miles a day to wells. Thus, the situation leaves more room to the central government and the ministry to influence local affairs and development projects.

As a consequence, the members of these Water User Associations turned out to be councillors and political party members, businessmen, who had business interest in the canals but not local citizens. Within these circumstances, the project turned out to be a highly centralized process. The project consultants spent only a few days on the field to determine the targeted areas and the provincial governor intervened to choose the perimeters that would be developed. The development plans were developed by technical assistance consultants, who did not seek out local technical staff members. As a result there was a high distrust towards the project among the local residents and the goal of increasing social capital and

establishing participatory methods failed (Pellissery and Bergh 2007). According to the webpage of the World Bank, the project was moderately satisfactory<sup>2</sup>, because it reduced poverty, but failed to build social capital and reach key stakeholders in the area.

## 6. Summary

In our paper, we compared two types of LED: the instrumental approach and the capability-based approach. We argued that in the instrumental approach the goal of LED remains vague in the sense that the notion of “quality of life” is undefined. Instead of giving exact definition of well-being or quality of life; the instrumental approach focuses on the instruments, like income or competitiveness of development.

On the contrary, the capability based approach defines the goal of LED as the widening of local residents’ capabilities (actual opportunities). In this framework, the first step is to identify the socially valuable functionings – to wit valuable doings and beings – which are important to the community. The suggested method to identify these functionings is some kind of social deliberation, deliberative participation, where the process of deliberation and participation has its own value in itself.

Another main difference between the two approaches of LED is the type of knowledge involved in the decision-making procedures. Instrumental approach typically uses expert knowledge, but the capability based approach involves laic knowledge and lay people into the social deliberative process. Consequently, the instrumental approach excludes information from its normative or evaluative framework, which is relevant for a capability based LED theory.

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<sup>2</sup> <http://documents.worldbank.org/curated/en/2009/06/10975086/morocco-irrigation-based-community-development-project>

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