

The capability approach as potential framework for critiquing negative externalities of production

“In the end, economics is not about wealth, it’s about the pursuit of happiness.”

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Faculty of Philosophy of the University of Rotterdam

Bachelor’s Thesis in Philosophy of a Specific Discipline

Main Study: Business Administration

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11-07-2021

Words: 9.989

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Introduction

Our society is increasingly occupied with growth and profit and has forgotten that acquiring wealth in itself is purposeless. Rather should it contribute to a better life. The pursuit of growth and profit has greatly confused our idea of what the economy should do. Moreover, problems like climate change and obesity require us to rethink our idea of economics and growth. Obesity, for example, has nearly tripled since 1975, yet having overweight has severely increased health risks. Although there are multiple factors in developing obesity, a major risk factor is an unhealthy diet. Fastfood companies partly contribute to this health problem, as their foods and beverages are often of low nutritional value. One could hence argue that obesity is a negative externality of fastfood companies, as negative externalities are unintended effects of a transaction on a third party. In this case it would be the taxpayer bearing the public health costs of, albeit preventable, obesity.

Our current idea of economics partly caused and fails to tackle problems such as obesity. Although there are multiple economic measurements, our focus on GDP is the most problematic. For the last centuries, economic growth has indeed been important in improving the quality of life and reduced, for example, poverty. Yet now economic measurements and economic based policies have been assigned too much importance. As a consequence of putting economic values at the centre of society, important constituents of a dignified life are pushed aside.

Moreover, a focus on economic opportunities decreases our ability to be aware of and thus adequately map negative externalities, which makes it difficult to held companies accountable. With the help of a counter-theory that gives growth a different purpose, we could, in light of this new goal, critique companies for the negative consequences of their manner of conducting business. I will therefore argue in this thesis the following hypothesis:

I will argue that the capability approach as argued for by Martha Nussbaum, if applied to modern business, provides a framework that allows substantiated critique of the negative externalities caused by companies.

The goal of this essay is to put forward a theory that gives a profound answer to what a good life is. The capability approach, as argued for by Martha Nussbaum, offers such a theoretical framework. Nussbaum namely believes her ten central capabilities are the essential constituents of a worthy life. The capabilities are opportunities or freedoms to act and choose (e.g. being healthy, being able to laugh). Furthermore, they are for each and every individual. For GDP products and actions are considered positive if they grow GDP. Whether that growth is, for example, sustainable, does not matter. This is precisely why a counter theory grounded in human values is needed, namely to provide a fundament that forces us to consider these flaws and create awareness. The capability approach argues that products and actions are just if they also respected the capabilities of individuals. Hence, requiring us to ask these kind of questions. Meaning it can, while being an ethical approach, take a stand towards economic actions or decisions. Furthermore, growth is always for the sake of something else. By clearly articulating that it is well-being that should improve, the capability approach can clarify to what growth should contribute to; instead of becoming wealthy, our purpose should be providing human possibilities to develop. Thus, it gives development a more profound interpretation.

Thinking from an ethical approach therefore allows economic measurements to be interpreted from a different perspective. This thesis makes a begin by critiquing negative externalities, which, for example, GDP ignores altogether since it is interested in an increase of growth. Applying a capability approach framework to negative externalities might be useful, since negative externalities negatively affect one's well-being and thereby going against the

aim of the capabilities. Also, because the capability approach articulates different constituents of well-being, it offers multiple starting points in order to relate negative externalities to capabilities. This could provide ground for a potential critique. The features of the capability approach make it thus adept in helping reduce the flaws of economic measurements by being the necessary ethical fundament from which to think about economic measurements. Using the capability approach, I can implore companies to think through the negative consequences of their products and actions and urge them to create meaningful sustainable values that improves the quality of life.

First, I explore our view on growth and its consequences. I will then show by means of the concept of negative externalities that this view is wanting. Thirdly I will propose and discuss possible objections against Nussbaum's version of the capability approach. Eventually I will relate the capability approach to negative externalities and see how the former can tackle the issues of the latter. I also discuss positive actions already taken. Lastly, I will end with a conclusion, the limitations (e.g. the difficulty of proving a causal link between capabilities and negative externalities), and further recommendations (e.g. how policy could contribute to reduce negative externalities).

1: The problem regarding our notion of growth and its effects

In this section I will explain our view of growth. First, I relate scarcity to growth and explain how growth became viewed as good proxy for development. Although I will show this is wanting by introducing the concept of negative externalities.

Economic growth is the percental change in a nation's Gross Domestic Product (GDP). GDP is calculated by adding up all the finished goods and services within a country.¹ The GDP of a nation therefore reflects the total market value of a nation's output. Any increase in a nation's GDP over a specific period of time is economic growth.

1.1: Scarcity

Economics starts from the assumption that resources are scarce and we, as consumers, consequently have limited choice.² However, as countries, mainly western, have increased their wealth and available goods the past century immensely, is scarcity still such a relevant aspect of human life? As mentioned in the introduction, obesity has tripled since 1975 and causes more deaths than malnutrition.³ Although not necessarily as vital as food, the world's GDP has exploded from \$3.42 trillion in 1900 to \$98.03 trillion in 2012.⁴ On the other hand, one could argue that poverty and a lack of food still exists for many. While this is true, economist Harry Johnson already said in 1960: 'we live in a rich society, which nevertheless in many respects insists on thinking and acting as if it were a poor society'.⁵ As society, we moved past the point in which scarcity was prevalent and there was a shortage of, for example, food for everybody. Nowadays, any existing scarcity of vital needs is the outcome of uneven distribution. If scarcity is considered in relation to our basic needs instead of our wants, our state, at least in the western world, is rather one of extreme abundance.

Our economy, which is based on consumerism,⁶ on the other hand encourages the continuous creation of wants. The quantity of new products and services in general, and how customers by means of ads and discounts etcetera are strongly persuaded to buy goods, supports this reasoning. Our consumeristic economy artificially maintains a state of scarcity and, since as consumers we are constantly trying to be convinced that we miss something, any escape seems out of reach.

However, this consumeristic economy, which can only continue existing because of this insatiable feeling of wanting things, is problematic. This economic system requires endless growth so as to make the constant creation of new 'scarce' products and services possible.⁷ To acquire goods, growth of supply is necessary for maintaining the availability of these goods. Consumers will buy these products, generating new demand, which in turn production will try to meet. As a result of consumption and production economic growth is created. Yet this notion

¹ Fernando, Jason, "Gross Domestic Product (GDP)," *Investopedia*, November 13, 2020.

² Skidelsky, Robert & Edward Skidelsky, *How much is enough?* (London: Penguin Group, 2012), 11.

³ Rome, Belén Delgado, "Obesity worse problem than hunger with 2 billion overweight worldwide", *Agencia EFE*, June 12, 2019.

⁴ "World GDP over the last two millennia", Our World in Data.

⁵ Skidelsky and Skidelsky, *How much is enough?*, 12.

⁶ Hayes, Adam, "Consumerism," *Investopedia*, March 18, 2021

The idea that increasing consumption of goods and services is desirable and happiness depends on obtaining those goods and services.

⁷ Skidelsky & Skidelsky, *How much is enough?*, 183.

of economy has no other clear end goal other than just economic growth itself, which thus is a vicious circle. The system depends on a logic of this never-ending growth, since it is driven by the constant production of new forms of artificial scarcity.⁸ If not, the system collapses. The consumeristic economy, however, is also far from sustainable and is unable to address pressing problems like negative externalities.

Still it seems as if there is a strong underlying belief that the pursuit of growth will eventually yield something. How this belief came to be and to what growth supposedly leads, is subject of the next section.

1.2: Our view of growth

The trickle-down theory, of which Reagan and Thatcher are its most well-known advocates, assumes that liberating markets have a positive effect on economic growth.⁹ Although the profits of growth are at first earned by the wealthy, the poor benefit (trickle down) as well in the form of jobs or other opportunities. Parts of this theory are still used by politicians like Donald Trump or Mark Rutte. The Trump administration, for example, overhauled the tax system in 2017 and reduced the corporate tax from 35 percent to 21 percent.¹⁰ As consequence of freeing companies from tax obligations, more money would be invested in job opportunities and hence it would be beneficial for ordinary workers. They even argued that it would lead to a 4.000 dollar raise for the average household. Yet this tax-liberalization was mostly profitable for big companies and wealthy people.¹¹ In 2018 Mark Rutte has defended in a similar manner the abolishing of dividend laws, which supposedly would create employment opportunities.¹² Again, it was unclear whether this would actually be the case and whether it was not only of benefit to multinationals, mainly Shell and Unilever. Eventually, because of a public outcry, it was not pushed through.

The supporters of this theory thus believe that eventually everybody reaps the benefits of economic growth and as society we so move forwards. Of course, the level of and rise in wealth of a nation have proven to be important contributors in reducing poverty, decreasing criminality or a rising wealthy middle class.¹³ The Industrial Revolution has indeed shown that growth can make progress possible or can contribute to a better life. The explosion of growth in the late 19th and beginning of the 20th century caused an ever-growing list and availability of goods. Economies boomed, and countries became richer and richer. This made it, at least in the western nations, possible to lift millions out of extreme poverty and provided for many the basic necessities of life, like enough food. Consequently, and because of, partly due to economic growth, improvements in health, there was an unprecedented rate of population growth. More potential consumers and workers in turn created in turn more room economic growth. Since there was more money to invest in new technologies, growth also made it possible to invent in all kinds of goods that lightened the burden of life, such as a lamp. Because

⁸ Hickel, Jason, "Degrowth: a theory of radical abundance," *Real-world Economics Review*, no. 87 (2019): 62.

⁹ Arndt, Heinz, "The "Trickle-Down" Myth," *Economic Development and Cultural Change* 32, no.1 (October, 1983): 1.

¹⁰ Drucker, Jesse & Jim Tankersley, "How Big Companies Won New Tax Breaks From the Trump Administration," *The New York Times*, April 2, 2021.

¹¹ Iacurci, Greg, "Trump cut taxes for the rich. Biden wants to raise them," *CNBC*, January 27, 2021.

¹² "Rutte noemt afschaffen dividendbelasting 'bizarre maatregel'," *NU.nl*, August, 20. 2018.

¹³ Pinker, Steven, "*Enlightenment Now. The Case for Reason, Science, Humanism, and Progress*," (New York: Penguin, 2018) 81-103.

of the realized economic growth and following opportunities and innovations, one could conclude that the Industrialisation led to development. Although that observation is true, the Industrialisation was not only a positive and progressive event. Such a view namely neglects the disruptive effects the Industrialisation had on society. Moreover, working conditions were dangerous and the salary low.

This example underlines that economic growth *can* contribute to improving lives, as was precisely done when lifting millions out of poverty. There is, however, also literature arguing that it is possible to reduce economic activity while maintaining well-being.¹⁴ This movement, known as ‘degrowth economics.’ argues that, given integrated policy reforms, well-being can even be improved without growth. ‘Just’ a progressive distribution of existing income is required. Undeniably true, economic growth or a nation’s total welfare can be a good *indication* of a country’s quality of life, but it does not *represent* its overall state of development. Growth always a means to something, a resource to be used. Nor does it, as proponents of the trickle-down theory like Trump and Rutte believe, thus automatically lead to prosperity by ‘just letting the economy do its thing’. It is not an end in itself, yet this important emphasis is lost in trickle-down theory. Without asking growth of what growth is left purposely, and it seems as if economic growth, thus increasing wealth, has precisely been elevated into its own goal. Elements of this tendency can also be found when looking at, for example, the exploitation of the American Dream. Besides most people having nowadays an unrealistic ambition or chance of achieving it, it also bases success only on money.¹⁵ Also, Sywert van Lienden’s controversial facemask deal is just one of many examples of the current generation’s get-rich-quick attitude.¹⁶ Apart from being extremely volatile and hence risky, the rise in popularity of cryptovaluta and the astronomical amounts earned by some is another example.

As economic measurement, GDP embodies this thinking by representing only the amount of a nation’s wealth. Of course, this is not the only economic measurement and politicians do use others, like the GINI-index which measures income inequality.¹⁷ In line with the trickle-down theory, however, politicians fear that a decrease in GDP means a decrease in well-being. Whilst GDP has risen in, for example, the US since the early 1970s, happiness levels have remained unchanged.¹⁸ Thus, the quality of life is not only defined by how rich someone’s nation is. Our society in which it increasingly seems as if everything is for sale, believes that by becoming rich a good life will automatically be reached. The value of life should not be expressed in monetary terms, but in a more profound way. Otherwise is a complex philosophical question reduced to an economic number.

It is true, GDP is easy to measure, but it is based on an average and hence neglects how wealth is distributed. Whilst an increasing GDP might suggest otherwise, the benefits of increased wealth also often do not reach the poor. This is exactly what Thomas Piketty argued in *Capital in the Twenty-First Century* and Trump’s tax reform plan has shown. The fruits of economic growth are most often picked by a handful wealthy elites.

Justifying actions by arguing that it supposedly has positive effects on GDP, as Trump has and Rutte does, exactly underlines what I believe to be wrong in today’s society. Representing money, wealth, goods or their distribution, economic measurements, of which GDP is the most problematic, are put at the centre of society but do not articulate the actual opportunities people should have when living their lives to the fullest.

¹⁴ Hickel, “Degrowth: a theory of radical abundance,” 57.

¹⁵ Collins, Emily, “Exploiting the American Dream,” *The Guardian*, University of California, San Diego, January 18, 2016.

¹⁶ “Sywert van Lienden verdiende flink aan import van mondkapjes,” NOS.nl, May 25, 2021.

¹⁷ “Gini index of income in 2015 vs 1990,” Our World in Data.

¹⁸ Hickel, “Degrowth: a theory of radical abundance,” 58.

Concluding, viewing growth as good proxy of the development of a nation is the result of a lack of realization that growth is of instrumental value. They are thus not equal to each other. Growth has always been, albeit the intensity differed, pursued, yet our current extreme pursuit of growth has some far-reaching consequences. These will be discussed in the next section.

1.3: The consequences of our view of growth

By associating growth with development, our view on growth has been one-sided, namely on the positive side. This might be because development has positive connotations and hence growth is also assumed to be desirable. Our attitude is therefore directed towards what can be achieved, not to what will be lost. Such a positive attitude towards growth, however, blinds us or steers us away from potential negative problems growth could cause. Consequently, some fundamental questions regarding the value of growth are not asked. What is, for example, the value of growth when it leads to pollution of the air, degradation of the land and overfishing of the waters? And when there are limits to growth, since endless growth is far from sustainable.¹⁹ The value of economic growth is often overestimated, which of course is problematic. Our perceived value of growth is different than the more realistic value.

Being one of the above discussed overlooked negative consequences, it is important to emphasise that our view of growth decreases the ability to imagine the effect of growth on people and animals. This is the result of zero-sum thinking, which will be elaborated on later in this section. Whether on a national or personal level, growth and profit have a social impact. Yet nowadays it seems as if the former has become more important than the latter. A slaughterhouse in Belgium, for example, earned revenue whilst abusing their animals.²⁰ Due to the unhealthy focus on profit and growth, the social impact of growth on people and animals is pushed to background and hence partly left out in determining the value of growth. As a consequence, climate change and societal problems could worsen, because the (negative) consequences of growth on society are considered insufficiently.

After the Industrialisation, trade unions were eventually established, which protected the rights of workers and improved their working conditions. When the economy, however, experienced a recession during the 1970s, it was widely believed and argued for by Thatcher and Reagan that markets should be freed from their restraints.²¹ Consequently, institutions (e.g. trade unions) or laws (e.g. protecting forests and animals) were seen as a burden instead of valuable. Opening up markets would mean more possibly ways to make money, which would translate itself into an increase in GDP. It, however, also underlines that GDP cannot say anything about potential effects on society. It is only interested in social events if it causes a rising or declining GDP. Again, showing that to have social consideration, a counter theory is needed. The consequences of this liberalization also provide support for this reasoning.

The liberalization of markets caused the economy to become more and more viewed as a zero-sum game in which your gain is my loss. As a result of this individualistic attitude towards the economy our moral compass is pushed into grey area and we merely think of others in terms of what they are of benefit to ourselves. Encouraged to act competitively, the other often is not considered of equal value or his or her intrinsic value is not taken into account. A

¹⁹ Meadows, Donella, Jorgen Randers and Dennis Meadows, *Limits to Growth* (Vermont: Chelsea Green Publishing Company, 2004), 8.

²⁰ “Varkensvlees uit ‘horrorslachthuis’ ook in Nederlandse slagerijen,” NOS.nl, March 23, 2017.

²¹ Vries de, Bert, *Ontspoord Kapitalisme* (Amsterdam: Prometheus, 2020), 50.

competitive individualistic attitude hence allows for an easier justification of certain actions that are in fact rather harmful to others. Of course, using people for your own gain is inevitable, yet there is a difference to what extent and with what intention. As former minister of Social Affairs and Employment, Bert de Vries argued in *Ontspoord Kapitalisme*: “Een belangrijke voorwaarde om succesvol te zijn was ook dat multinationals zich vergaand neutraal opstelden tegenover de politieke en maatschappelijke cultuur van de landen waar zij actief waren.²² In, for example, the tea industry, a fall of tea prices has put pressure on the sector.²³ The working conditions of plantation workers are poor and sometimes they even lack basic facilities such as housing. The conditions of these workers can be partly argued as, albeit unknowingly, a negative externality of consumers, because of wanting to pay a cheap stable price. The amoral business culture of the companies controlling the tea industry, however, also is problematic. Companies leave it to governments to propose new laws or policies regarding working conditions. Rather than improving the working conditions actively themselves. Of course, the falling tea prices have, in this case, made it more difficult to have a healthy balance between using workers for companies’ interests while giving them some sort of benefits in return. Zero-sum thinking, however, contributes to the rising of an unhealthy balance, because it prevents from thinking through the effect of actions on others.

I believe that this lack of imagining the effect on other people and the following banking-example is the result of a misunderstanding of what economy essentially is. Although having good intentions, economists like Milton Friedman and Friedrich Hayek fiercely advocated for free-market capitalism, the pursuit of self-interest and no government intervention. Rich capitalists were just the ‘winners of the game’ and not the lucky outcome of an unfair system. They could justify and, because of their wealth and thus their power and resources, enhance and solidify their own position. The system itself thus also gradually evolved into an extremely individualistic competitive system. The ‘game’ will not change if we ‘let the economy do its thing’.

However, economy is derived from the Ancient Greek words *oikos* and *nomos*, respectively house and rules.²⁴ For establishing the rules of the house people are needed and some sort of agreement between them on what is right and wrong. Economy is thus not an individual, but a collective endeavour. Thus, if applied to business it is about what is morally allowed and justified when conducting business, hence about what an ‘ethical business’ is. Separating the effect of the conduction of business on people from the action itself is in light of this view of the economy impossible. Rather interests are closely interwoven and we are brotherly bound to reach a reciprocal beneficial agreement. Furthermore, fending off negative externalities becomes harder, because it results in injustice for, although not directly involved in the deal, a third party. It might be helpful to first explain what negative externalities are and then relate them to the dominant view of growth.

1.4: What are negative externalities?

An externality arises if a transaction between a producer(s) and consumer(s) has an effect on a third party.²⁵ There are positive or negative externalities. The former being a benefit, the latter

²² Vries de, *Ontspoord Kapitalisme*, 113.

²³ Wal van der, Sanne, “Sustainability Issues in the Tea Sector: A Comparative Analysis of Six Leading Producing Countries,” *Stichting Onderzoek Multinationale Ondernemingen*, June 1, 2008, 41.

²⁴ “Economy (n).” Online Etymology Dictionary accessed April 1, 2021,

²⁵ Kenton, Will, “Externality,” *Investopedia*, October 26, 2020.

a cost. A negative externality, for example, could arise if someone stands next to a smoker and inhales this person's toxic fume, which is dangerous for his or her own health.

Externalities arise out of consumption or production, thus either out of actions of individuals or companies. Consequently, there are four kinds of externalities. I will in accordance with my thesis only focus on negative production externalities.

Yet despite their omnipresence, market prices rarely take into account negative effects on third parties.²⁶ A higher cost would result in a higher price. In turn causing less demand and thus a lower profit. As a result, companies generally do not have the incentive to internalize a negative effect in the market price, which therefore does not resemble the actual cost of production. This is problematic as the cost is now, often, paid by a party other than the one producing it or choosing to consume that specific production. Industrial activities, for example, lead to pollution of the air.²⁷ Humans can get serious health problems if exposed to polluted air. The well-being of people exposed to this pollution so bears the cost.

Although probably unavoidable, negative externalities can be reduced or partly prevented from arising. Our view of growth namely also paralyses our ability to critique companies for their negative externalities. Companies serve the customer and if customers want things done differently through a critique, companies have to change in order to keep on existing. This could reduce negative externalities. To know what is needed to bring about this change, I will first enquire into how the discussed view of growth contributes to this problem.

1.5: Growth and negative externalities

Our view of growth as problem-solver holds us back from paying attention to potential negative consequences, like negative externalities, and hence does not provide companies the framework to think through these undesirable consequences. As society, we therefore lack the thinking-framework that considers in depth these negative externalities. Our view of growth is thus too narrow and does not allow for the kind of analyses needed for mapping negative production externalities. To know the real value of growth, a wider attitude when evaluating growth is needed.

Furthermore, companies are under increasing pressure of shareholders to demonstrate short-term results and postpone actions like investments, which might have a negative impact on short-term results.²⁸ Our view of growth is thus too short-sided.²⁹ Fast growth and profit, thus short-term gains, is preferred over long-term value creation. Negative externalities on the other hand mostly unveil themselves over a longer period of time and require actions, if to reduce them, that have a negative impact on short-term results. Regarding the negative externality of obesity for example, someone will not get obese by buying one Big Mac menu, but the profit of this sale will be directly added to MacDonald's revenue. By having a short-time horizon, companies do not consider problems that might occur in the future. They are too preoccupied by expanding and growing their businesses in the present and are reluctant to long-term change it as it might offset their shareholders. A broader view is thus also required when evaluating growth.

²⁶ Hausman, Daniel, "When Jack and Jill make a Deal," *Social Philosophy and Policy* 9, no.1 (1992): 91-113.

²⁷ Journal of Pollution Effects & Control, "Industrial Pollution," *Longdom*.

²⁸ Andringa, Marcel et al, "Short-term profit or long-term value creation? Investment with a focus on the long term," *Beleggingsprofessionals Journaal*, 2015.

²⁹ I consider this more of a development in economy in general and not as consequence of our dominant view of growth. Yet I do think it hinders us in mapping negative externalities.

Moreover, the fact that negative externalities often form a cost for a party not involved and the focus is mostly on what something is of benefit or cost to ourselves, intuitively feels incompatible. Markets indeed tend to erode moral standards, because prices make it is easier to distance yourself from the effects of your transaction.³⁰ In markets, the effect of growth and its social effects hence tend to be separated. We so fail to see how negative externalities affect other people and any responsibility to act is not felt. Consequently, there is no inclination to ‘solve’ negative externalities. Therefore, growth should be evaluated more holistically and considered to how it might affect others.

Concluding, currently our view of growth of growth and profit prevents us from critiquing negative externalities of companies. If a theory is to be able to address this problem, it should give another goal than just realizing growth. This would enable us to interpret the effect of negative externalities from a different starting point and more thoroughly. It should also provide a different time-horizon, so that negative externalities can be adequately mapped. Lastly, it should give a different conception of how to respectfully treat each other, as our current individualistic notion is exploitative and does not regard every person of equal value.

Hitherto, I discussed how our view of growth is too obsessed with profit and growth, its consequences and related that to negative externalities of companies. To tackle the problems discussed a counter-theory is needed. The next section is devoted to proposing the capability approach of Martha Nussbaum. With the help of her ten central capabilities, it might offer the fundament needed from which to revise our idea of growth and thus be the counter-theory sought. In section 3, I will then apply this thinking to negative externalities. First, I will explain the capability approach, its ideas and principles.

³⁰ Falk, Armin & Nora Szech, “Morals and Markets,” *Science*, no.340 (2013): 5.

2: Capability approach as argued for by Martha Nussbaum

This section will explain the capability approach as argued for by Martha Nussbaum. I will discuss the approach in general, its main ideas, ten central capabilities and objections against the capability approach. This section thus is about understanding the capability approach and the capabilities. From now on I will refer to the capability approach as CA.

2.1: Capability approach in general

The CA can be defined as “an approach to comparative quality-of-life assessment and to theorizing about basic social justice.”³¹ Its aim hence is not explaining, for example, well-being or poverty, but providing a framework by which to evaluate or conceptualize these phenomena.³² The CA holds that to assess the quality of life one ought to ask: “What is each person able to do and to be”.³³ It emphasizes each person and hence grants a special place to individuals. Considering everyone of equal respect and regard, it aims at providing *each* individual with the freedom to enjoy a decent life. This shows the CA’s belief that each person has intrinsic value. A clear postulation of this principle is valuable, since, as shown in section 1.3, this principle can erode in market interactions.

At the core of the CA thus lies human well-being. To live a life worthy of living people should have capabilities, which are opportunities to choose and act. The notion of opportunity is important, since it expresses the need to be able to act upon certain freedoms. Freedoms can be formally articulated, like the freedom to be treated equal, but is this worth when we are not actually treated equal? MeToo and BLM have again shown that formal freedoms are indeed not self-evident. Moreover, opportunity or ability to do something implies choice. Therefore, the CA values freedom as well. Someone either or either not chooses to act upon certain opportunities. Capabilities are thus not coercive.

‘Functionings’ in turn are the active realizations of these capabilities and are the beings and doings of the active achievements of the capabilities.³⁴ For example someone choosing to fast and someone starving have the same functioning, but not the same capability. Both are *being* malnourished, yet the former willingly made the choice to stop eating himself. This example also underlines another important feature of the capabilities. They do not only reside inside a person, but are also created by personal abilities and the social, political and economic environment.³⁵ The last three are the ‘combined capabilities’ and should be distinguished from someone’s personal characteristics (e.g. intellectual capacities or skills of movement), which are called the ‘internal capabilities’. These internal capabilities are not innate capabilities, as they are created in and developed through interaction with the social, political and economic environment. Therefore, this distinction between combined and internal capabilities is not sharp. However, Nussbaum makes this distinction to demonstrate that any decent society has

³¹ Nussbaum, Martha, *Creating Capabilities* (Cambridge: Harvard University Press, 2013), 18.

³² Robeyns, Ingrid, “The Capability Approach: a theoretical survey,” *Journal of Human Development* 6, no.1 (2005): 94.

³³ Nussbaum, *Creating Capabilities*, 18.

³⁴ Robeyns, Ingrid, *Wellbeing, Freedom and Social Justice: The Capability Approach Re-Examined* (Cambridge: OpenBook Publishers, 2017): 38.

³⁵ Nussbaum, *Creating Capabilities*, 20. Government instability could, for example, lead to inadequate food distribution

two tasks.³⁶ On the one hand, it should produce internal capabilities, like educating people so that they can form opinions about political matters. On the other hand, it should provide the environment in which to express free speech and to think critically. It namely could occur that someone has an internal capability, yet cannot act accordingly due to a lack of combined capabilities. This thus should be avoided.

In making a capabilities' list, Nussbaum parts from Amartya Sen. Sen refrained from making a list, as he used capabilities as mere forms of comparison.³⁷ According to him, every capability represents some sort of freedom. He believes freedom is a social general good and each capability is therefore a relevant one. If certain capabilities need to be prioritized, every group itself should decide which capabilities to select.³⁸ He thus does not commit himself to any particular explicit list of capabilities. Nussbaum, however, argued that if we are to say anything about social justice, a list is needed. Otherwise there is no point from which to critique the potential lack of any of the capabilities linked to social justice. Therefore, she made an explicit list of capabilities. Furthermore, Nussbaum argued that if politicians are to deliver the capabilities, they need to know to what people should be entitled or they do not know what they actually should deliver. A list is hence needed if to give the CA a political purpose.³⁹ This makes Nussbaum's version more relevant for this thesis, since, in case of Sen's version, I would not have had a central list that provided starting points. Consequently, it would be far more difficult to relate negative externalities to capabilities. The ten central capabilities also provide a solid basis that allows for looking at negative externalities from different angles.

Lastly, there are two functions of a central list of capabilities. On the one hand, it serves as comparative framework to compare the availability of each capabilities, to see the difference between them or how nations in between are doing. It is also a normative framework. The formulated ten capabilities namely take, according to Nussbaum, a central fundamental place within lives and thus contain a value-claim. They are a normative conception of what constitutes a good life. Which ten capabilities Nussbaum believes should be included in this framework, is part of the next section.

2.2: The ten central capabilities

Nussbaum uses the notion of human dignity and a life worthy of it to decide which capabilities deserve more attention.⁴⁰ Certainly, the meaning of vague words such as 'dignity' or 'quality of life', is a highly subjective question making concretely defining it difficult. Although undeniable true, Nussbaum argues that there are some basic opportunities to which all people are morally entitled and form the foundation on which one can choose what kind of life to live. Therefore, Nussbaum tried to articulate what people reasonably value in life. Consequently, answering what constitutes a minimal dignified life. According to Nussbaum her ten capabilities focus "on the protection of areas of freedom so central that their removal makes a life not worthy of human dignity".⁴¹ Any life worthy of human dignity thus requires these ten capabilities:⁴²

³⁶ Nussbaum, *Creating Capabilities*, 21.

³⁷ Nussbaum, *Creating Capabilities*, 70.

³⁸ Robeyns, Ingrid & Morton Fibieger Byskov, "The Capability Approach," *Stanford Encyclopaedia of Philosophy* (December 2020): Selecting and aggregating of capabilities?

³⁹ Nussbaum, *Creating Capabilities*, 109.

⁴⁰ Nussbaum, *Creating Capabilities*, 29.

⁴¹ Nussbaum, *Creating Capabilities*, 31.

⁴² Nussbaum, *Creating Capabilities*, 33 & 34.

1. life
2. bodily health
3. bodily integrity
4. senses, imagination and thought
5. emotions
6. practical reason
7. affiliation
8. other species
9. play
10. control over one's environment

Since every person is an end in themselves, Nussbaum argues that everyone is morally entitled to those capabilities. Moreover, the capabilities belong to individuals and the goal is to produce these ten capabilities for every person. The aim of having multiple capabilities is to capture the human diversity.⁴³ They underline the plurality of areas people associate with a worthy life and a decent well-being in general. Nussbaum's articulated capabilities aim at providing the opportunity to improve one's physical health, but also one's mental as well as one's surroundings (capability of other species).

However, each capability is important on its own and is different in quality, not quantity. "All are distinctive, and all need to be secured and protected in distinctive ways".⁴⁴ On the one hand, this is admirable, as it emphasises the comprehensive conception of well-being and its different outcomes. On the other hand, it also poses problems for measuring the capabilities. Nussbaum acknowledges this and its consequences for this thesis will be discussed in the next section.

"A minimally just society will endeavour to nurture and support" these ten central capabilities, if we are to pursue a dignified and minimally flourishing life.⁴⁵ Minimal, since these ten capabilities are the most fundamental freedoms people need to live at least a dignified life. But as Sen emphasised, a capability is valuable in itself. Nussbaum ascribes governments the urgent task of delivering and securing the capabilities. Since the capabilities are heterogenous, government cannot fulfil one capability at the expense of others. They should rather strive for getting "their citizens above an ample (specified) threshold of capability, in all ten of those areas."⁴⁶ Governments should therefore create the environment in which its citizens can reach achieved functionings. If governments want to offer its citizens a life full of opportunities, they should thus strive for offering more than just these ten capabilities.

A society focusing on economic measurements, like GDP, fails to nurture and support these ten capabilities. They indeed can improve or bring into existence the opportunities the ten capabilities represent. But their first and foremost focus is measuring economic activities and therefore they are primarily concerned with economic phenomena. The Gini-index, for example, can make income inequality tangible. Yet it cannot grasp the feeling of despair and shame of people of low-incomes. If we imagine a minimally just society, it should thus be preoccupied with humans and their possibilities to develop. Human prosperity requires hence not, as I have argued in section 1, a focus on measurements such as GDP. Rather it should have at its core a set of values that gives guidance in what ways people can develop themselves. Since the CA is an ethical approach, thinking from an CA framework could lead to different

⁴³ Robeyns, Ingrid & Morton Fibieger Byskov, "The Capability Approach," *Stanford Encyclopaedia of Philosophy* (December 2020): Acknowledging human diversity and agency.

⁴⁴ Nussbaum, *Creating Capabilities*, 35.

⁴⁵ Nussbaum, *Creating Capabilities*, 28 & 33.

⁴⁶ Nussbaum, *Creating Capabilities*, 36.

ideas about the use of economic growth as well as a shift of focus to other areas of a worthy life. Income inequality, for example, could be made understandable by linking to the capability of play while combining it with data of a nation's Gini-coefficient. Still rightfully so there are objections against the CA and the capabilities, which will be discussed in the next section.

2.3: Objections against the capability approach

One could argue that universal value judgements cannot be made. Rather it depends on the beliefs of a community. Consequently, an universal conception of the good life is impossible. This view is known as communitarianism.⁴⁷ Nussbaum acknowledges that a community and local traditions shape one's belief and life. She argues, however, that her list of central capabilities is 'thick' but 'vague'. It offers a specific conception of a good life, but does not mandate how one ought to live one's life.⁴⁸ Her list is also formulated in a general way and its translation to implementation is to be done at a local level. Thus, existing local differences are respected. If someone chooses to fast out of religious motives, Nussbaum respects that choice. If it is, however, due to a lack of food, she argues it is incompatible with our intuitive idea of a dignified life. Everyone is morally entitled to enough food, because the lurking possibility of death is not worthy to live. Also, if someone wants to live the life he or she wants to lead, that person needs the ten central capabilities to make that a possibility. For if someone does not have, for example, the freedom to plan one's own life, he or she never has the opportunity to even choose one option over the other. Thus, if someone wants to be part of community, someone should have that opportunity, just as someone chooses to be a hermit. Therefore, the ten central capabilities are universal in the sense that they apply to each and every person. Yet leave room for acting freely in accordance with the beliefs of someone's community.

Building on the universal-objection above, a lot of debating has been about the choice of the capabilities themselves.⁴⁹ Nussbaum, however, refrains from calling it a capability *theory*, but rather calls it an *approach*. This distinction is important as her specific list of capabilities is thus not finite, but open for revision. Nussbaum admitted that "this one (her list) is set forth to be criticized, rebutted, engaged: people can ponder it and, if they find it persuasive, accept it. The list is open-ended and subject to ongoing revision and rethinking."⁵⁰ She would therefore even encourage debates about the relevance of capabilities. Moreover, the selection of relevant capabilities also depends on the purpose for which the CA will be used. Sen, for example, refrained from proposing a list, because he did not necessarily have a particular goal for the capabilities. He values the capabilities in themselves. Nussbaum however, composed a list to articulate which capabilities people need if we are to say anything about social justice in general. If, for example, she chose to address a more specific issue like poverty, her list would have been different. In addressing issues of poverty, other capabilities are relevant and thus an analysis of poverty would probably result in a different list. For example, a more resource-based one, instead of one also focussing on capabilities like other species. All in all, relevant capabilities vary. Critically engaging in discussion and debates about them are valuable, which could lead to a better formulation and selection of the capabilities.

⁴⁷ Kleist, Chad, "Global Ethics: Capabilities Approach," *Internet Encyclopaedia of Philosophy*.
<https://iep.utm.edu/ge-capab/#SH2b>

⁴⁸ Chad, "Global Ethics: Capabilities Approach".

⁴⁹ Robeyns, Ingrid, "The Capability Approach in Practice," *The Journal of Political Philosophy* 14, no.3 (2006): 355.

⁵⁰ Nussbaum, *Creating Capabilities*, 108.

Another point of critique is how to measure the capabilities and thus whether the approach has operational practicality.⁵¹ This is probably the most important objection, since it threatens its implementation. Not having an instrument by which to measure the capabilities makes it difficult to conclude whether implemented policy had any effect. Furthermore, if there is a method of measurement but it is wanting, the measured capability gives an inaccurate description. This could lead to wrong conclusions about the state of the capability. Certainly, measuring the capabilities is not easy and the expected effect of providing the capabilities can be made plausible through reasoning. Some capabilities, however, can be measured by looking at their functioning. For the capability of bodily health one can look at, for example, the number of obese persons within a country. Leading to a conclusion about how many people are *being overweight*. Thus, whether the freedom to enjoy good health, seen from a weight-perspective, actually exists. This can be done through multiple different perspectives all linked to good health and one can form a fairly good opinion about the capability of bodily health.

With the capability of practical reason⁵², however, is it harder to look at such functionings, because the capability itself is more complex and a bit vaguer. Nussbaum argues that these capabilities do not require a quantitative scale, but a qualitative. “If we thought that a numerical scale would have been helpful in cases involving the freedom of speech, we would probably have used one.”⁵³ I do not fully agree with Nussbaum, as already such a scale exists. By looking at whether journalism is completely or partly blocked, the World Press Freedom Index ranks nations by evaluating the press freedom within countries.⁵⁴ The hard part of measuring those capabilities is also the lack of available data, which could also be the result of precisely thinking that a different scale is not required. If more qualitatively rich data, as the World Press Freedom Index is doing since 2002 with respect to press freedom, becomes available, it is easier to make solid conclusions regarding the quality and availability of the capabilities. Data is, on the other hand, usually aggregated. Changing the unit of analysis from the individual to a group level.⁵⁵ Although probably inevitable, it is problematic. When data is aggregated, this emphasis of the CA is lost. Moreover, aggregating data also brings to light the problem of weighing the capabilities.

The problem of weighing the capabilities, and hence giving them some sort of ranking, is that it would undermine the importance each capability has on its own. Another consequence may be that governments could deliver the capabilities based upon this ranking, which Nussbaum explicitly has said is wrong. Although it is important to know weighing is thus an issue, it is not of further relevance for this thesis to elaborate on.

Concluding, the CA aims at providing everybody with the opportunity to enjoy a decent life and its articulated capabilities are the essential constituents to be able to live that life. The next section will show how the capabilities enable us to critique the negative externalities of companies. Also, I will elaborate on how the possible objections against the CA, in particular the problem of measurability, will pose problems for the eventual conclusion of this thesis.

⁵¹ Alkire, Sabina, “Why the Capability Approach,” *Journal of Human Development* 6, no.1 (2005): 125.

⁵² “Being able to from a conception of the good and to engage in critical reflection about the planning of one’s life.”

⁵³ Nussbaum, *Creating Capabilities*, 62.

⁵⁴ Reporters Without Borders. “World Press Freedom Index.”

⁵⁵ Robeyns, “The Capability Approach in Practice,” 357.

3: Capability approach and negative externalities

In this section I relate the CA to negative externalities by investigating their potential incompatibility. This will prove if there is a ground for a critique and whether the CA can indeed interpret negative externalities from a different angle. Lastly, I will discuss positive movements.

3.1: Are negative externalities and capabilities incompatible?

Negative externalities, being a cost, are considered to cause social welfare losses. Although often used as synonyms, well-being offers a broader conception of the good life as opposed to welfare.⁵⁶ If negative externalities reduce social welfare, it would follow that they also reduce well-being. The conception of social welfare namely is included in those of well-being. Since the capabilities are fundamental to a worthy well-being and negative externalities have an indirect or direct negative effect on social welfare, negative externalities therefore negatively affect the CA's articulated version of well-being. This reasoning is an argument for the claim of incompatibility.

Certainly, a negative externality does not affect each and every individual, but if at least one is, it would already be incompatible with the value the CA ascribes to the individual. The capabilities are for each and every person. Any decrease for any person is unacceptable. On the other hand, one could justify negative externalities by arguing that although they might reduce the capabilities of some, they can improve the capabilities of many. Producing cement, for example, enables people to live in houses, but also leads to pollution. Nussbaum, however, would argue this is also unacceptable, since the CA considers each person as an end in themselves. Clearly, using someone to improve the opportunities of others does not meet that criterium. This postulation precisely makes it a promising approach to critique negative externalities, as they will always somehow affect people or animals.

Negative externalities can affect people in many different ways. The capabilities cover multiple areas of well-being and hence also provide many starting points to interpret the effect of a negative externality on a capability. Thus, also many different ways of arriving at an argument in favour of their incompatibility. Industrial activities, for example, pollute the air.⁵⁷ This negatively affects the capability of other species, bodily health and life. Another example being the loud noise of heavy industry. However, someone walking past might rather feel irritated than really affected in his well-being. On the other hand, someone living close by would eventually, over a longer period of time, be affected by the loud noise. Long exposure to loud noise causes sleep disturbance or cardiovascular disease.⁵⁸ Seen in this broader perspective, this negative externality becomes incompatible with the capability of bodily health.

This last example thus underlines a potential problem regarding the incompatibility claim, namely the broad scope of negative externalities. Since externalities being often unintended, it could mean there are many unforeseen consequences of conducting business. Of course, it depends on the negative externality, which capability is affected and to what extent. Yet sometimes it is a bit far-fetched to conclude that someone's well-being is affected, like the

⁵⁶ Maximo, Mário, "The difference between welfare and wellbeing and how objective concept of a good life can be," *International Conference Economic Philosophy* (1987): 3.

⁵⁷ *Journal of Pollution Effects & Control*, "Industrial Pollution," *Longdom*.

⁵⁸ "Burden of disease from environmental noise- Quantification of healthy life years lost in Europe," World Health Organization.

example of someone walking past loud noise. Moreover, negative externalities caused in, for example, South-America (e.g. burning down forests), can affect people in the Netherlands (e.g. rising sea-level due to climate change). This shows the complexity of some negative externalities and the increased difficulty of relating them to capabilities. In turn posing problems for generalizing the incompatibility claim. The example of loud noise, however, also shows that the persistence of loud noise, and thus of a bad mood, eventually affects one's well-being through the capability of bodily health. The difference in time-frame thus is the decisive factor in judging whether the negative externality of loud noise affects well-being. This goes for the South-America example as well. Besides directly affecting the living area of animals and thus the capability of other species, it will also affect the well-being of, in this case, Dutch citizens the coming decades. One therefore could argue that the more the effect on capabilities is indirect, a longer time-horizon is required to be incompatible with a capability. Indirect effects namely usually reveal themselves over a longer period of time. Otherwise it would be a direct noticeable effect that also has a direct noticeable impact on well-being. Well-being offers the opportunity to think through what a negative externality would do to someone's well-being over a longer period of time, since it is not bound to a specific fixed time. The state of someone's well-being varies over time and the effect of negative externalities on well-being hence can be reviewed from many different points in time. Negative externalities, which at first cannot be linked to the capabilities, might in the future be incompatible with them after all.

On the other hand, the issue of measurability does pose a serious problem for the incompatibility claim. The effect of some negative externalities namely is often hard to quantify and the complexity of some makes this even more problematic. If, however, the effect of a negative externality on a capability cannot be measured, then how can we conclude whether they are incompatible? What might offer a solution is distinguishing between correlation and causation. By reasoning a correlation between a negative externality and capability can be made plausible. Fastfood, for example, is often high in sugar, which research has found to be linked to gaining excessive weight. Fastfood thus can contribute to developing obesity. Yet proving that fastfood companies are a decisive cause of the rise in obesity is much harder, if not impossible. Many factors are involved in becoming obese (e.g. lifestyle or expensive prices of healthy food). In this case, it thus is difficult to establish a causal relation between the negative externality and the capability of bodily health. Although it is sometimes difficult to clearly see all the causal links (again think of the South-America example), definite evidence is of course preferred. It strengthens correlation claims made. Therefore, further research should always try to elevate it to the level of causation, which is done with the externality of loud noise and pollution. Still, there remains the problem of how to measure some capabilities, since Nussbaum refrains from measuring some on a numerical scale, even if one exists. Consequently, raising the question whether for such capabilities it is even possible to provide causal data. Incompatibility, because of the strong nature of its claim, requires causation. If Nussbaum's view is followed, then some capabilities cannot provide causal evidence and then this criterion cannot be met. This remains a strong objection against the argument of incompatibility. Further research into this problem is beyond the scope of this thesis and my abilities.

Concluding, in reality the measurement issues of negative externalities and the capabilities are problematic for the proof of causation and hence the claim that they are in real-life incompatible. On the other hand, the problem of the broad scope of negative externalities can be solved. Well-being provides the needed time horizon from which to evaluate whether in the future they will be incompatible after all. As negative externalities negatively affect well-being either of an individual or of multiple, this goes against the capabilities' aim, which is to improve well-being of all individuals. From a theoretical point of view there are thus arguments

that allow for a substantiated critique of negative externalities of companies. In real-life there are, however, already examples addressing the problems I raised, which next section is about.

3.2: Positive movements

I am aware this thesis has an idealistic undertone. But there are also good examples of companies that already try to minimize their negative externalities, like Patagonia founded by Yvon Chouinard. In 1970 Patagonia had become the number one supplier of climbing hardware in the United States.⁵⁹ Hard steel pitons, however, created cracks and disfigured the rock. According to Chouinard, the alteration and degradation of the rocks made the next climber's experience less natural. This can be argued as a negative externality of producing hard steel pitons and can be linked to the capability of play. Even being the mainstay of his business, Chouinard decided to move to aluminium chocks that did not disfigure the rock.⁶⁰ This example underlines that, although idealistic, averting negative externalities is not impossible.

Of course, not every company tries to prevent or solve negative externalities as thoroughly as Patagonia does. Society itself thus also increasingly puts pressure on companies to take their responsibility. Recently Shell was issued a verdict that it should be more ambitious in reducing its CO₂-emission.⁶¹ This was a ground-breaking verdict and shows the growing interest in how companies negatively affect well-being. And more importantly how we, as society, can hold them accountable via law. It is expected more of the same law-suits will follow.

Another interesting development is within the political field. Throughout this thesis I have argued against economic measurements, mainly against GDP, as good representations of development. However, there are also a variety of indexes offering a different measurement of development and thus arrive at different conclusion about the state of development of nations. They are useful for policymaking and policy incentives for business and governments. The Human Development Index (HDI) was created for this purpose and emphasizes that a nation's development should not be assessed based upon economic growth alone.⁶² HDI focuses on key dimensions of human development, like living a long and healthy life. The Sustainable Development Index (SDI) in turn updates de HDI by recognizing that human development should respect the planetary boundaries and therefore corrects it by dividing it by a nation's ecological overshoot.⁶³ It show the increasing shift of focus when assessing the development of a country.

All in all, in reality there are thus situations in which it is hard to determine whether capabilities and negative externalities are incompatible. In theory, however, I argued that they can be considered incompatible. I ended with discussing positive movements. The next and last section will be the conclusion, limitations and recommendations.

⁵⁹ Chouinard, Yvon, *Let my people go surfing* (New York: Penguin Books, 2016), 26.

⁶⁰ Chouinard, *Let my people go surfing*, 26.

⁶¹ Tamminga, Menno, "Statenloze multinationals zijn minder ongrijpbaar dan ze leken," *NRC*, May 29, 2021, 4-5.

⁶² United Nations Development Programme, "Human Development Reports."

⁶³ Sustainable Development Index, "Home."

Conclusion

This thesis started by arguing that scarcity of vital needs the outcome of uneven distribution is. Although maintaining an insatiable feeling of scarcity keeps our consumeristic economy growing, it leads to a vicious circle in which the only goal is economic growth itself. Growth has indeed been important in making development possible, but it does not equal it. Growth is of for the sake of something and thus of instrumental value. Our current obsession with wealth, of which pursuing a higher GDP could be argued as the outcome, has two consequences. First, equalling growth to development does not consider its potential bad consequences. Second, it leads to a lack of imagining the effect of growth on people and animals. I also argued that the prevalence of short-term thinking is a problem. All in all, those three problems make us unable to map and evaluate negative externalities. To critique negative externalities of companies, I therefore argued that a different conception of development grounded in human values is needed. This enables us to look differently at actions of companies and potentially provides the fundament that allows for a substantiated critique.

Consequently, I proposed the Martha Nussbaum version of the capability approach, which aims to improve well-being by articulating ten central capabilities of fundamental importance for a worthy well-being. Moreover, it also postulates that every person is an end in themselves. Actions that affect people thus should be well thought through, as to prevent people from being used merely as resources. CA hence actively encourages businesses to imagine the effect of growth on others. A focus on well-being also allows for a close consideration on how things might develop over time and how it affects well-being in the future.

Before I could argue that the CA proves to be able to offer critique, I had to establish the negative externalities and the capabilities are incompatible. Since capabilities aim to improve the well-being of all individuals and negative externalities have a direct or indirect negative impact on the well-being of some or multiple individuals, I argued that theoretically seen there are reasons to consider them incompatible. In reality, however, the problem of measurability of both is a serious problem for their incompatibility. It namely complicates finding proof of causation, which any incompatibility claim requires. Therefore, only the theoretical point of view provides the arguments needed for a potential critique of negative externalities of companies. This thus answers my thesis question: the CA provides a framework in which to theorize about how to critique, substantiated by the capabilities, companies for their negative externalities. The CA's fundament of capabilities can help tackle the flaws economic measurements ignore, like negative externalities. Grounded in ethical values, the CA forces economic actions to be looked at from multiple different perspectives. In turn giving direction and bending the creation of growth towards a wider interpretation of prosperity.

This conclusion could be considered a bit idealistic, because whether in practice companies would apply this theoretical thinking is uncertain. I showed, however, that there are real-life examples that already do, for example Patagonia. Furthermore, within the legal and political there is also a shift of focus.

As the problem of measurability prevents this conclusion from applying to real-life, this could be a good topic of further research. Moreover, since governments are responsible for providing the capabilities, it can be interesting to investigate how they can pressure companies to consider their negative externalities, for example proposing policies like differentially taxing.

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