Growth Patterns, International Finance and Human Development:

the experience of the last two decades

Giovanni Andrea Cornia
University of Florence

Apesar do conceito de desenvolvimento ter ganho uma aceitação crescente nos meios académicos e políticos, nos últimos 20 anos muitos indicadores no terreno têm vindo a revelar taxas de crescimento inferiores às dos anos 1960-1980, acentuando-se os desequilíbrios quer no interior dos países, quer entre eles. O crescimento tem beneficiado principalmente os grupos sociais de médio ou elevado rendimento e favorecido apenas algumas regiões e países, enquanto que os grupos sociais, os países e as áreas mais deprimidas não registam progressos assinaláveis. Estes resultados em alguns países parecem estar relacionados com a estagnação ou o declínio do rendimento familiar, a sua crescente volatilidade e desigual distribuição, bem como com a instabilidade do financiamento internacional ao desenvolvimento dos países pobres. Mas, em contrapartida, não existe qualquer prova de que o declínio no valor e distribuição da renda social seja o responsável por essa tendência.

While the concept of human development has gained considerable academic and political acceptance, most indicators in this field recorded during the last twenty years slower rates of improvement than over 1960-80, while exhibiting a marked divergence both between and within countries. Improvements mainly benefited the middle and high-income urban groups and favored some regions and countries while the disadvantaged areas, social groups and nations recorded limited or no improvements. These only partially satisfactory trends appear to be related in many countries to a stagnation or decline in household incomes, a rise in their volatility, their increasingly more unequal distribution and growing problems in the international financing of development in poor countries. There is no general evidence, in contrast, that a worsening in the amount and distribution of public social expenditure contributed to the above trends.

I. Broad factors affecting human development over the last two decades

That of «human development» is not a new concept, but is certainly one that has attracted considerable policy and research attention over the last one and half decade. It has also generated a lively political debate on the pattern and objectives of growth during the recent wave of globalisation and helped shifting the focus of national and international development policy away from the exclusive achievement of a higher GDP per capita and towards more relevant and understandable objectives such as a longer life expectancy, higher literacy and better nutrition. Perhaps the most telling indication of the new interest in human development are the frequent references of the President of the World Bank, Mr James Wolfensohn, to the fact that the scope of development is not to increase the rate of growth of GDP but to improve the living standards of the poor and to put a smile on their lips.

Despite the inevitable rhetoric's surrounding this new approach, the concept of human development is thus slowly gaining political currency in a number of countries and – equally important – within the international community. Two sets of factors, discussed hereafter, have likely facilitated the greater acceptance of such concept.

1. New measures of well-being

Traditionally, economists have measured «well-being» on the basis of GDP, income or consumption per capita, or on the basis of the number of people falling below a given poverty line. While useful and widely applied, this approach suffers from considerable theoretical and informational problems and can – particularly during periods of profound transformations – lead to inaccurate conclusions. First of all, GDP, income or consumption per capita ignore the distribution of these resources among the population, social groups and genders. As amply demonstrated by the experience of many countries during the 1960s and 1970s, a rise in GDP per capita is, by itself, no guarantee of improvements in human well-being. Secondly, GDP per capita does not include the goods and services produced outside the market sphere. Thirdly, many environmental, social and other costs incurred for the production of GDP are not usually accounted for in its measurement, thus inflating the actual measure of national well-being. Fourthly, several other factors such as assets, human capital, time, family structure and stability, the availability of social services and so on influence in a major way the well-being of people. Finally, contrary to an erroneous but common perception, income is not easily observable and measurable, especially during periods of rapid change and high inflation.

While these problems were recognized already long ago and while a number of alternative measures of well-being were elaborated already in the 1970s to take into account the inadequacies of GDP per capita, it was not until Professor Amartya Sen developed the «capabilities-based approach» (that was later operationalized through the Human Development Index, HDI) that a politically-useful and alternative measure of well-being came into being. HDI and similar indexes measure well-being on the basis of the ability of individuals to «function» i.e. to have a long and healthy life, of being well nourished, literate, safe, and so on. This approach emphasizes not so much the «means» (money, wealth, etc.), but the «ends» (quality and quantity of life), the achievement of which depends not only on control over monetary resources but also on many other factors.

Thanks to this and other methodological improvements including a massive increase of statistical data on various aspects of well-being, the world in now better equipped to document, analyze and respond to the low levels of well-being prevailing in many developing countries. Other «realpolitik» factors have likely also plaid an important role in boosting the concern for human well-being and poverty in developing countries. Among them, the collapse of the Soviet Bloc and the end of the fear of nuclear holocaust, mounting worries about growing political instability in developing and transitional countries, the control of a rising tide of illegal migrants and mounting fear of the «negative externalities» of globalisation (drugs, AIDS, SARS, etc.).

Changes in these and other areas likely explain the recent blossoming of research on human development and poverty-related topics as well as the surge in attention to the issue of poverty reduction by a number of governments, the World Bank, IMF, United Nations and many social scientists. All these researchers and institutions rightly see the persistence of mass poverty and low human development not only as a major ethical and political problem but also as a serious threat to political stability and a brake on long term growth. This new awareness has triggered a few potentially important changes, including the adoption by the United Nations General Assembly of the Millennium Development Goals on the reduction of poverty, infant mortality, child malnutrition, illiteracy and so on, the creation of new World Bank and IMF financial facilities aimed at poverty reduction, and the preparation in several developing countries of Poverty Reduction Framework Papers that try to focus the attention of the national elites and the international community on the improvement of the living conditions of the poor. While it is too soon to assess the real impact of these changes, it goes by itself that they have the potential to start making a serious dent into the long lasting problems of poverty and inadequate human development.

2. Societal changes that ought to have facilitated human development

Growing attention to human development over the last decade and a half was accompanied by a number of profound systemic changes that – on the face of it – ought to have accelerated its rate of improvement and enhanced economic growth:

a) the «peace dividend»

The sudden collapse of the Soviet Bloc and the much welcome – if unanticipated – end of the Cold War released a «peace dividend» of at least 3-4 percent of GDP in the main countries part of NATO and the Warsaw Pact and in some of their allies in the developing world. Data provided by the Swedish International Peace Research Institute confirm that military expenditure declined perceptibly in the former USSR, the USA and several other countries in the 1990s, thus releasing resources that could have been used for improving human development in developing countries or to raise the transfer of financial resources from the industrialized to the developing countries in the form of loans or grants.

The benefits for human development generated by the «peace dividend» was however in part offset in several countries by a sharp rise in the number of local wars and complex humanitarian emergencies (that climbed from 25 per year in the early 1980s to 50-55 in the mid 1990s to decline slowly thereafter) that wrecked havoc on the poor, the environment and the existing economic and social infrastructure. The factors behind this rising number of conflicts include mounting polarisation among ethnic, religious or economic groups, a weakening of the state and fights over natural resources such as land or mineral rents. The smuggling of valuable commodities – such as diamonds and timber – has been a major private incentive to continue local wars and a way to finance it.

b) the «demographic gift»

In the early stages of development, a factor holding back human development is a growth of the population faster than that of the labour force. This entails a slow growth of GDP per capita as comparatively few workers have to generate incomes for many dependent children, (a situation graphically described as one in which there are «few arms and many mouths») and a strong pressure on public finances to provide a minimum of health, sanitation and education services to a rapidly rising child population. Owing to the rapid decline of their birth rate in the 1950s e 1960s, the Asian Tigers were among the first countries to benefit from a change in this situation, and from the 1970s through the 1990s they experienced a faster growth of the labour force than of the overall population. According to many, their «economic miracle» during this period (during which rose at GDP per capita 7-8 percent a year) was in part due to such «demographic gift».

With the exception of a few African countries, during the last decade, most developing countries, including large ones such as Bangladesh, India, Egypt and so on (Table 1), experienced a sharp deceleration in birth rates and thus found themselves in a situation in which their labour force grew more rapidly than the population, a situation that should have – *ceteris paribus* – affected favourably the rate of growth of GDP and human development. In simple economic terms, the «demographic gift» entails a rapid increase in the labour force that reduces the wage rate and consumer prices and – *ceteris paribus* – improves efficiency and competitiveness among national firms and between them and foreign firms.

Table 1
Average annual growth rate of the population and labour force in selected countries

	Growth rate of the population 1980-90 (p1)	1990-98 (p2)	Growth rate of the labour force 1980-90 (fl1)	1990-98 (fl2)	1980s fl1 - p1	1990s fl2 - p2
Congo	3,3	3,2	2,8	3,2	-0.4	0,0
Ethiopia	3,1	2,3	3,1	1,7	0,0	-0.6
Nigeria	3,1	2,9	2,8	2,9	-0.3	0,0
S. Africa	2,5	2,1	2,7	2,1	0,3	0,0
Indonesia	1,9	1,7	3,1	2,8	1,2	1.1
S. Corea	1,2	1,0	2,4	2,1	1,2	1,1
Philippines	2,6	2,3	2,9	2,9	0,3	0,6
Vietnam	2,1	1,8	2,7	1,8	0,6	0,0
Bangladesh	2,4	1,6	2,2	3,0	-0,2	1,3
India	2,1	1,8	1,7	2,4	-0.4	0,6
Pakistan	2,7	2,5	3,0	2,9	0,3	0,4
Egypt	2,5	2,0	2,5	2,7	0,0	0,7
Argentina	1,5	1,3	1,5	2,0	0,0	0,7

Source: Compilation by Leonardo Menchini on official data

c) the «market dividend»

While the socialist regimes performed acceptably in the first two decades of the post World War II period, the growth of GDP and living standards decelerated sharply in the 1970s in China and in the 1980s in the European Soviet Bloc. The stagnation was particularly pronounced in the socialist economies of Europe. This creeping crisis gradually intensified over time and reached unmanageable proportions towards the end of the 1980s. By 1989, the growth of output and consumption per capita had turned negative in practically all countries of the region, at which point a radical change of regime became unavoidable. In China, Vietnam, Laos, Cambodia, Mongolia, and five partially socialized African economies the transition to the market economy was less dramatic by was also stimulated by the loss of economic dynamism. Most analysts agree that – particularly in Europe – such loss of economic drive was due to the rigidity and lack of incentives of central planning, to its inability to generate new technological advances, and to its failure to reform itself along market lines.

In principle, therefore, the shift from a «stagnant central planning» to an «open and competitive market economy» was to provide a major stimulus to growth and resources for improving human development. In fact, however, the development benefits of such «market dividend» have not, or not yet, been realized in most of the economies in transition, especially those of the former Soviet Union. In contrast, important gains were realised in the Asian socialist economies. However, even in the successful cases of China and Vietnam, human development improved far less than material affluence. In China, for instance, GDP per capita has increased by a stunning 400 percent over the last quarter century but average life expectancy at birth has risen by a modest 2-3 years.

d) the «democracy dividend»

The last decade and a half has also witness a massive drive towards the promotion of democratic institutions, values and practices in countries that in the past adopted forms of social organisations inspired by democratic centralism or traditional clanic rule or that were characterized by outright military or civilian dictatorship. The drive towards democracy was accompanied by the promotion of a (relatively) free press and other institutions such as free trade unions and NGOs that – in principle – help facilitate economic development, the creation of efficient markets, an equitable social pact, good governance, respect of minority rights and so on. Thus, the «democratic dividend» should have contributed in some way to the achievement of higher levels of human development, both directly (e.g. permitting greater individual freedom) and through an improvement in the economy.

The empirical evidence in this area is, however, mixed mainly because it is quite difficult to measure the extent and effective degree of democracy of a given country, as holding regularly elections and formally allowing freedom of association are in itself no guarantee that a real «democracy dividend» can be enjoyed. For instance, human development has improved in the new «strong democracies» of Central Europe and South Korea, but not in the new «weak democracies» dominated by the oligarchs (as in Russia) or by political parties constituted along ethnic lines (as in Rwanda and Burundi), or in countries where political democracy was introduced in a context of a highly un-democratic distribution of resources (as in most of Latin America).

e) «the ITC revolution»

The last twenty years were also characterized by the third industrial revolution i.e. the «Information and Tele-Communication (ITC) revolution». As on occasion of the two prior industrial revolutions due to the introduction of the steam and combustion engine, the adoption of the ITC technology has been estimated to accelerated the growth of GDP by around one percent a year in those countries were have such technology had been introduced on a sufficiently broad scale. While the effective rate of improvement due to the «ITC revolution» depends on concrete country situations, here too one would have expected – ex ante – a broad acceleration in the production of material wealth and the provision of greater resources for human development. It must be noted also that such new technology not only raises output through industry-specific effects that reduce information and telecommunication costs, but that it also facilitates an overall circulation of information from the more advanced countries of the North to the less developed ones of the South.

Trends in human development over the last two decades

With growing political attention being focused on human development by governments and the international organisations – including United Nations, World Bank and IMF – and with the favourable changes mentioned above, one would have reasonably expected an acceleration in the rate of improvement of human development, and in particular in those key indicators such as the rate of infant and maternal mortality, the illiteracy rate, and the poverty rate (i.e. the proportion of people living with less than one US dollar a day) that gauge closely the overall changes taking place in human conditions.

These expectations were however only partially realized. Indeed, while over 1980-2000, many aggregate indicators of human development continued the favourable trend initiated in the 1950s, 1960s and 1970s, the rate of improvement of such indicators was slower, confined to fewer components of well-being and less equitably distributed than that recorded over the prior thirty years. The literature indeed points to:

1. A slowdown in the rate of improvement in key indicators of human development

The average rate of decline of the Infant Mortality Rate (IMR, Table 2) and Under-5 Mortality Rate (U5MR, not shown) slowed down perceptibly in the 1990s in relation to the prior three decades. In East Asia and the European economies in transition, the pace of decline was the slowest in four decades. In many African countries affected by war, economic stagnation and the AIDS epidemics, IMR and U5MR rose by up to 40 percent, as suggested by recent Unicef-sponsored MICS surveys. Likewise, 15 of the 27 countries of the former European Soviet bloc had in 1994 higher IMRs than in 1990, though since then progress was re-established in most of them.

In Latin America, MENA and South Asia, the rapid gains of the 1980s, slowed down in the 1990s. The gains of the 1980s were in part attributable to social policies emphasizing the rapid expansion of low-cost, public-health programmes such as immunization, but the slow down of the 1990s cannot generally be attributed to a symmetric weakening of social programs and social expenditure. Indeed, the data on public expenditure on health indicate that – on average – government efforts in this area remained broadly constant (Sub-Saharan Africa and Eastern Europe may be an exception). Rather, the slowdown was due – with few exceptions – to slow growth in family incomes, greater inequality, rising income volatility (see later) and a rise in the number of local conflicts and humanitarian emergencies. Mainstreaming further reductions in IMR will require therefore focusing not only on social spending but also on improving the level and stability of family incomes and an overall enhancement in the political climate.

A slow down over the last two decades in the rate of health improvement – a key component of human development – over the last two decades is confirmed by a study of Cornia et al (2003) who tested empirically the relation between life expectancy at birth (LEB) on the one side and GDP per capita and income inequality on the other on the basis of quinquennial data for the «Golden Age Era» (1960-1980) and the

Table 2
Average regional annual percentage rates* of decline in IMR, 1960-99

	1960-70	1970-80	1980-90	1990-99
World	-2.6	-2.0	-2.7	-1.3
High income	-3.9	-5.3	-3.8	-4.0
Low & middle income	-2.8	-2.1	-2.8	-1.3
E.Europe/Cent. Asia	.	.	-3.9	-3.1
East Asia/Pacific	-4.8	-3.4	-3.2	-1.5
Latin America/ Carri	-2.2	-3.2	-3.8	-3.5
Middle East/N.Africa	-2.1	-3.4	-4.5	-3.4
South Asia	-1.6	-1.5	-3.1	-1.8
Sub-Saharan Africa	-1.8	-1.7	-1.3	0.8

Source: Cornia & Menchini (2002) based on the World Development Indicators 2000. The WDI are adjusted infrequently and are less able to capture trend reversals or slowdowns than national time series or surveys. Corrections based on MICS were carried out only for SSA.
* Regional IMRs are compounded and weighted by population size.

«Globalisation Era» (1985-2000). The study found that the constant term of the regression was higher in the second period, probably reflecting the improvement in health technology and the spread of health information. However, it also found that the negative coefficient of the Gini index (measuring the impact of income inequality) was greater for 1985-2000 than for 1960-80, suggesting that the impact of inequality on health rose in intensity, perhaps because of the increased weight of «undeserved income inequality» due to rent-seeking and opportunistic enrichment that flourished with the rise of financial rents, insider privatisation and the award of generous stock options to top managers. Conversely, the positive coefficient of GDP per capita became smaller during the Globalisation Era, indicating that an additional increase in GDP per capita had – on average – a lesser effect on health than in the past, possibly because the «quality of GDP» deteriorated possibly because of a rise in its volatility and informality.

These results are sample specific and need to be tested on a broader sample, but are statistically significant and fairly robust. They were used to simulate the health impact of the slowdown in GDP growth, rise in inequality and changes in regression parameters recorded during the Globalisation Era (see later). The simulation shows that – while life expectancy was in 2000 higher than in 1980 in most countries – it was respectively 2.06 and 1.42 years lower in low income and middle-income countries in relation to the case in which GDP growth, income inequality, health technology and the regression parameters had remained the same as during the Golden Era.

2. Smaller gains in child nutrition

With the exception of Latin America, the incidence of malnutrition among children of 0-59 months of age declined less in the 1990s than in the 1980s or 1970s (Table 3). The situation is most worrying in the Middle East and North Africa (MENA) and in Sub-Saharan Africa (SSA) – where the absolute number of underweight children actually rose in the 1990s. A host of local studies confirms that child malnutrition remains an unresolved problem, including in middle-income countries of Latin America and South East Asia.

Table 3
Trends in the malnutrition rate among child of 0-59 months of age), 1970-95

Regions	Percentage of underweight children				Average annual change in prevalence		
	1970	1980	1990	1995	1970-80	1980-90	1990-95
East Asia	39.5	30.0	23.5	22.9	-2.71	-2.41	-0.52
Latin America	21.0	12.2	11.4	9.5	-5.29	-0.68	-3.58
MENA	20.7.	17.2	15.1*	14.6	-1.84	-2.57*	-0.003*
South Asia	72.3	63.7	53.4	49.3	-1.26	-1.75	-1.59
SSA	35.0	28.9	28.8	31.1	-1.90	-0.03	1.68
All Regions	46.5	37.8	32.3	31.0	-2.05	-1.56	-0.82

Source: Smith & Haddad (2000). * Refers to 1980-85 and 1985-1995

Child nutrition is sensitive to changes in health status, adult time allocated to childcare and the level, stability and distribution of family incomes – i.e. variables that have shown unfavourable trends over the last two decades in over 80 developing and transitional countries. For instance, the stagnation or decline in the last 10-15 years in the incomes of agricultural labourers in India despite an acceleration in GDP growth may be a factor in the slow decline in child malnutrition in South Asia.

Growing economic instability may also have been a factor since sharp short-term declines in family income – whose frequency intensified in parallel with the spread of financial crises – can cause long-term stunting in very young children. World Bank studies of the impact of the Mexican and Thai financial crises of the 1990s show, for instance, that even after the recovery took place, child malnutrition remained high as some children suffered irreversible damages during these crises.

3. Increasing relative distance in well-being between countries and regions

The 1980s and 1990s were also characterised by a rise in the relative distance in levels of human development among regions, countries and social groups. The first two effects are illustrated in Table 4 by the rise in the coefficient of variation (CV), an index that measures the relative distance of regional IMRs from the world mean, and the average relative distance of national IMRs from their regional average. These data suggest that over 1980-98 the gains in IMR were distributed in an increasingly more skewed way between «winners» and «losers».

The countries with the highest IMRs (Sub-Saharan Africa and South Asia) recorded slower proportional improvements than regions with better initial IMRs, a fact that led to a divergence in IMR levels among regions (last line of Table 4). Indeed, the intra-regional differences in IMR rose remarkably as shown by the rise in the coefficient of variation from 0.74 to 0.89 between 1980 and 1998. This divergence would be even more marked if more realistic IMR data from Eastern Europe and Africa were factored in. In turn, increasing intra-regional divergence in IMRs appears to correlate closely with the increased divergence in economic performance among regions and with the intensity of local conflicts and new pandemics.

Table 4
Trends in IMR by main regions and in the coefficient of variation (CV) within and between regions, 1980,1990 and 1998

	1980		1990		1998		% Decline
	Average*	CV	Average*	CV	Average*	CV	1980-98
E. & S.E.Asia(25) **	49	0.91	36	0.94	29	0.98	-41
European Union (15)	12	0.36	8	0.17	5	0.22	-59
EE and FSU (27)	30	0.43	20	0.48	15	0.44	-50
Latin America (32)	50	0.59	34	0.57	27	0.58	-46
MENA (20)	67	0.55	44	0.73	34	0.88	-49
North America (2)	11	0.14	8	0.23	6	0.20	-46
South Asia (7)	117	0.38	89	0.50	72	0.60	-39
Sub-Saharan Afr.(45)	118	0.29	102	0.34	92	0.30	-22
All regions	57	0.74	43	0.83	35	0.89	-48

Source: Cornia & Menchini (2002) based on World Development Indicators 2000.
* Unweighted. ** n. of countries in each region.

A similar pattern of divergence is observed within all developing regions except Latin America, a finding that reinforces the viewpoint that recent gains in IMR have varied substantially across countries part of the same region. The sharpest divergence is apparent in South Asia and MENA.

4. An unbalanced distribution of the gains in human development within countries

The average national gains in well-being recorded within each nation have been distributed in about half of the cases analysed in an increasingly polarised manner among socials groups, and in particular among various groups of children (male/female, urban/rural, rich/poor, born to educated/illiterate mothers, etc.). Analysis of the limited DHS-based data on changes in the within-country distribution of well-being shows that there are as many cases of divergence as of convergence, with convergence being most common in education and divergence most common in the field of health. In particular:

– most indicators of school enrolment indicate that there has been convergence among different social groups. The primary and secondary enrolment rates of boys versus girls converge – for instance – in the majority of countries, as an expansion of education was more likely to benefit girls than boys, while its stagnation or decline penalised girls more than boys.

– in contrast, for most DHS-based indicators of child health, the improvements occurred at vastly different rates. In Latin America, the ratio of rural-urban IMR widened in five out of six countries analyzed (Table 5) as gains appear to have been concentrated in the urban sector. A detailed analysis of the distribution of gains in child health in Peru carried out by UNICEF Lima confirms that gains in IMR were much higher in a few urban areas, including in low-income neighbourhoods, than in rural areas.

Likewise, the ratio between the IMR of children born to mothers with higher education and those born to mothers with primary education or less worsened due to a slower improvement for the latter group (Cornia and Menchini 2002).

Table 5
IMR and rural/urban IMR ratio in selected countries

Country	Mid-late-80s		Early-90s		Mid-late 90s	
	IMR	R/U Ratio	IMR	R/U Ratio	IMR	R/U Ratio
Bolivia	91	1.36	65	1.35	67	1.98
Brazil	75	2.10	79	1.68	41	2.13
Colombia	36	1.11	…	…	33	1.23
Perou	94	1.98	54	2.14	47	2.08
Guatemala	89	1.34	53	1.66	51	0.82
Dominican R	70	1.00	33	0.87	51	1.56

Source: Cornia & Menchini, (2002) based on selected DHS

- in the 1980s, the ratio of the U5MR of the children of the poorest 20 percent of families (ranked according to an «household asset index») to that of the top 20 per cent of the same distribution ranged between 1.3 to 4.7 in a sample of 20 countries that had undertaken a DHS survey. Between the 1980s and 1990s, such gaps worsened in 16 countries, remained constant in two and improved only in two.

5. A very slow decline in poverty rates

The slow gains in human development are confirmed by the changes recorded on the poverty front. In 1990 the World Development Report of the World Bank projected a drop in the number of the poor from 1183 to 825 millions (28.3 to 18.0 per cent) in the total number (rate) of people living on less than one $PPP/day between 1987 and 2000. Such predictions, however, have not materialized and – outside China – the number of the poor has risen by about one hundred million, mainly in Sub-Saharan Africa and South Asia (Table 6). Likewise, outside China, the poverty rate fell by a modest 0.18 percentage points a year as against a planned yearly decline of one percent.

Table 6
Trends in the number of poor people (million) and in poverty rates (percentages, in parenthesis), 1987-1998

Regions	1987	1990	1993	1998
East Asia*	418 (26.6)	452 (27.6)	432 (25.2)	278 (15.3)
EE/FSU	1 (0.2)	7 (1.6)	18 (4.0)	24 (5.1)
Latin America	64 (15.3)	74 (16.8)	71 (15.3)	78 (15.6)
MENA	9 (4.3)	5 (2.4)	5 (1.9)	6 (1.9)
South Asia	474 (44.9)	495 (44.0)	505 (42.4)	522 (40.0)
Sub-Saharan Africa	217 (46.6)	242 (47.7)	273 (49.7)	291 (46.3)
Total	1183 (28.3)	1276 (29.0)	1304 (28.1)	1199 (24.0)
Total without China	879 (28.5)	916 (28.1)	956 (27.7)	986 (26.2)

Source: World Bank (2000). * Includes China.

6. Summing up

Notwithstanding the limited availability of data permitting to analyze the evolution over time of social differentials in human well-being, it appears that the last 20 years were characterized by slower aggregate gains and their increasingly unequal distribution among social groups. Improvements mainly benefited the middle- and high-income urban groups and favoured some regions and countries while the disadvantaged areas, social groups and nations recorded limited or no improvements. While in many cases this increasing divergence resulted from a faster pace of improvement among the better-off, there have also been cases of absolute deterioration in well-being for poor and marginal populations and countries.

What explains these disappointing results?

What explains these only partially satisfactory trends in human development? Obviously, they depend on a variety of factors which include – among others – the level, distribution and stability of household incomes; public expenditure on basic health and education; social policies in various areas; adult time; the prices of basic goods and some other factors. While space limitations do not allow to review here changes in all these variables, we focus on the main changes in growth pattern and international financing of development to start discerning the measures needed to rekindle progress in human well-being.

1. A slow growth in GDP and household income

Slow growth or, worse, a decline in average family income affects the pace of improvement in several aspects of human well-being in both the monetary and capabilities spaces. The impact is particularly pronounced in the field of nutrition and poverty, and especially in the 120 or so economies with a GDP per capita of less than US$2,000 PPP.

Table 7.
GNP per capita annual growth rate: 1960-98 and sub-periods

	1960-79	1980-98	1960-69	1970-79	1980-89	1990-98
World	2.6	1.0	3.4	1.8	1.2	0.8
- High income	3.4	1.9	4.3	2.5	2.2	1.4
- East Asia & Pac. except China	4.5	4.2	4.2	4.9	5.1	3.2
- China	2.8	8.4	1.3	4.4	7.7	9.2
- Eastern Europe & Central Asia	4.2*	-0.8	5.0*	2.3*	2.1*	-3.3
- Latin America & Caribbean	3.0	0.2	2.7	3.3	-1.1	1.9
- Middle East & North Africa	..	0.1	..	..	-0.4	0.7
- South Asia except India	1.5	2.8	2.3	0.6	3.0	2.5
- India	..	3.6	..	0.8	3.4	3.8
- Sub-Saharan Africa	1.5	-0.8	2.6	0.6	-1.1	-0.5

Source: author's calculations (constant 1995 US$) based on the World Development Indicators 2000 cd-rom.
* The data in the various columns refer to the periods 1950-98, 1950-82, 1982-98.

Despite the favourable changes induced by the end of the Cold War, the transition to the market economy and democracy, the spread of the ITC revolution and a «demographic gift» involving some 4/5 of the developing and transitional countries, the last 20 years have witnessed a decline in the rate of growth of world GNP per capita (Table 7) from 2.6 per cent a year over 1960-79 to 1.0 over 1980-98. Growth was particularly weak in the 1990s. China and India are the main exceptions to this rule. In these two countries, the acceleration of growth was associated with some domestic liberalization, greater export orientation and some opening up of the economy though these reforms followed a distinctly homegrown pattern and were more selective and gradual than the standard prescription.

Stagnant or slow growth affects family income and public revenue and thus influences the resources available to keep a child well nourished, in good health and in school or to promote human development more broadly. As noted, falling family incomes have been shown to have a particularly bad effect on child malnutrition.

2. Increasing growth volatility and instability of family income

In the absence of adequate social safety nets (which are little developed in most countries), growth volatility has a negative effect on well-being. For instance, during periods of recession, children may be taken out of school, adults may enter hazardous jobs or be forced to adopt other unsustainable survival strategies. Growth volatility rose sharply in Latin America in the 1980s before declining moderately in the 1990s, while it surged in East Asia and in the Eastern European bloc in the 1990s. In Africa, meanwhile, war and natural disasters contributed to mounting instability. The main overall source of unsteadiness was, however, an epidemic of banking, financial and currency crises triggered by the domestic financial deregulation of the late 1980s and the liberalization of international portfolio flows of the 1990s. These crises have had a severe impact on human well-being (see later). In Russia, for instance, the crude death rate rose by almost 20 per cent between late 1998 and the first half of 2000 following the financial crisis and currency devaluation of August 1998.

3. Rising inequality in the distribution of household income

Human development is negatively affected by high or rising income inequality. Over 1980 and the mid 1990s, income inequality rose in 48 of the 73 countries with reliable time-series data (Table 8). If the impact of the financial crises of the late 1990s is factored in, the number of countries with growing inequality rises to 53 (still out of 73). While inequality fell in nine countries, these were mainly small and medium-sized ones whose combined population and GDP-PPP account for only 4 and 8 per cent of the world total. The rise in inequality was universal in the former Soviet Bloc, almost universal in Latin America and the OECD and frequent in South, South East and East Asia. In about half of these cases, the surge in inequality was large or very large and appears to be related to the deregulation of domestic banking and international financial flows and to widespread reductions in tax rates. In contrast, trade liberalization, appears to have had an ambiguous effect on the distribution of household incomes.

When occurring from an already high level or if it is very large, a rise in inequality generates a number of negative effects. It slows the pace at which poverty and malnutrition are reduced by aggregate income growth and pushes into destitution a larger number of families than in the case of more egalitarian growth. For instance, strongly urban-focused growth (a common occurrence in the 1990s) raised overall inequality and did not reduce perceptibly rural poverty. In addition, when the recorded increase in inequality is sizeable, growth itself might be reduced, as a very high income polarisation erodes the work incentives of the poor and political instability. High inequality, in other words, can reduce growth and in this way affect further family incomes, poverty and well-being. Finally, high inequality erodes social cohesion and adversely affects the ability of communities to undertake collective action including in the field of health.

Table 8
Trends in the Gini coefficient of income distribution from the 1950s to the 1990s for 73 countries.

	A	B	C	D	E
Rising inequality	48	59	47	78	71
-of which U shaped	29	55	44	73	66
Falling inequality	9	5	4	9	8
No trend	16	36	29	13	12
Not incl. in sample	...	...	20	...	9
Total	73	100	100	100	100

A - Number of countries in each grou; B - Share of population of country groups; C - Share of world population; D - Share of GDP-PPP of sample countries; E - Share of world GDP-PPP

Source: Cornia (2004)

4. Growing employment informality and instability

Another unfavourable aspect of the recent growth pattern outside East Asia (where the number of formal sector job has steadily risen) is the growing informalization of employment. This is a complex phenomenon that depends on various factors. For instance, to compete in the global economy large firms outsource production tasks to a chain of ever-smaller subcontractors who provide unstable and low-paying employment. Likewise, domestic firms may respond to the appreciation of their currency caused by capital inflows by subcontracting some production tasks to informal, low-wage firms. The shrinking of the public sector (as in the economies in transition) following the introduction of economic reforms is another source of informalisation, as it is the introduction of the ITC technology that permits to easily decentralize a number of work tasks. For the majority of the people affected by this trend, the wage rate, conditions and duration of employment, employment stability, skill content of work and so on tend to worsen. In addition, the scarce data available indicate that the wage distribution in the informal sector is more skewed than in the formal one, and that tax collection among informal firms is very low.

5. Changes in public expenditure on health, education and welfare

In a globalizing world, revenue collection – and, through this, public expenditure on human development – may be affected because of the «tax competition» among developing countries trying to attract foreign direct investments. A preliminary examination of aggregate public expenditure data, however, does not provide evidence of a systematic fall of the social spending/GDP ratio during the 1990s. In low-income developing countries, public expenditure on health stagnated at a low 1.1 per cent of GDP over 1990-6 while that on education fell marginally from 3.4 to 3.2 per cent. In middle-income countries there was a perceptible rise in public spending on education and a modest one on health. Such results are somewhat puzzling and may conceal unfavourable shifts in the intrasectoral allocation of public expenditure (e.g. between basic and hospital-based care). In addition, it is unclear whether social spending was able to compensate the fall of foreign aid in this area experienced in the 1990s in many middle and low-income countries (see later). Finally, a clear fall in public expenditure for human development was evident, in most economies in transition or affected by political instability where health and education expenditure fell both as a share of a fast-shrinking GDP and in per capita terms, but there are several examples (e.g. in Latin America) in which social expenditure was sustained or was raised moderately.

6. Problems in the domestic and international financing of development

One of the recent developments that possibly contributed to the slow and skewed improvements in human development discussed above concerns the so-called «financing of development», i.e. the mobilisation of domestic and foreign resources for investment, social improvement and growth in the developing countries. An analysis of such topic requires the examination of changes in the domestic mobilisation of resources, international financial flows and aid flows.

As far as the mobilisation of domestic resources is concerned, it must be reminded that while low-income countries have traditionally had on average low savings rates, several of them have exhibited in the past the ability to mobilise large amounts of resources at the national level. For instance, Japan, China, Taiwan and other countries in East Asia have habitually displayed high domestic savings rates (in the range of 25-30 percent of GDP) while Latin America and Africa have traditionally lagged behind in this area. While domestic policies to develop an efficient savings and banking infrastructure covering all sectors of the economy (including the small and medium enterprises and the agricultural sector) have been shown to be essential for development, such objective has remained broadly unfulfilled outside the main urban centres of many countries. Exceptions to this rule concern the development of a capillary network of post offices administering saving schemes in Japan, of mutual credit cooperatives and provident funds in East Asia, and of subsidized rural banking in part of India (until the early 1990s). In most other cases, the banking sector of the developing countries remained underdeveloped and characterized by a few, large (and often) state-controlled banks unable to reach the small entrepreneurs and savers, paying negative interest rates on deposits, and providing limited financing to the economy as most savings were used to finance the budget deficit.

Over the last 2 decades domestic savings creation has been influenced by the liberalisation of the domestic financial sector (inspired by the «financial de-repression» approach recommended by Prof. McKinnon), that tried to remedy to the problems caused by financial repression by promoting the privatisation of state banks, the opening up to foreign banks and non-bank financial institutions, the freeing of lending practices (and, in particular, of the obligation of the banking sector to purchase low interest state bonds), the liberalisation of interest rates, credit volume, and so on.

Particularly in weak and poorly regulated economies still suffering from large budget deficit, these reforms backfired in a number of ways. While the number of private and foreign banks increased and while the share of credit received by the private sector rose as well, real interest rates jumped to very high real levels, while the spreads, banking concentration and credit share received by the FIRE (finance, insurance and real estate) sector moved in excess of any reasonable threshold. Also, contrary to the expectations of the proponents of domestic financial liberalisation, credit to small scale agriculture and industry fell while the number of rural branches of national banks contracted in many countries. In addition, the number of new small and inherently unstable banks rose (in Latvia in the early 1990s people were allowed to open a bank with an initial capital of only 20,000 US dollars) together with that of non-bank financial institutions not subject to Central Bank oversight. As a result, one of the main effects of domestic financial liberalization was a marked rise in banking crises and financial instability, which affected many low and middle-income countries as well as a few generally well-managed high income countries such as Finland and Sweden. There were of course a few successes (one of them being Mauritius). These countries liberalized their banking system gradually and only after having stabilized their budget deficit, adopted a flexible exchange rate policy, and simultaneous developed strong institutions of financial control and regulation. In most Western European countries, in contrast, after some initial failures, liberalisation seem to have increased competition in the banking industry.

A second recent change in the field of domestic financing with potentially positive effect on human development has concerned the spontaneous or state- or donor-supported proliferation of micro-credit schemes and Development Finance Institutions (DFI) aiming at increasing the volume of micro loans to people unable to put up any collateral and to bear significant transaction costs. Most of the micro-credit schemes and DFI introduced important financial innovations (such as group lending or credit history) that allowed them to lend, for instance, to micro entrepreneurs, women and small farmers without any collateral. The spread of micro-credit and DFI has often had an important effect on the incomes of the poor and on their human development as, as noted above, both before and after the recent financial liberalization, the formal financial sector and the traditional moneylenders provided loans to only a very small proportion of farmers, artisans and micro-entrepreneurs. A thorough assessment of the impact of micro-credit schemes is still not available, but the international evidence available so far shows that they have usually generated positive effects on the volume of credit received by the poor and their living conditions. Yet, such schemes (that are often of a rather small scale) have not reached – and perhaps cannot reach – a sufficiently large number of customers, nor have they provided loans with long enough maturities and adequate supporting services able to solve the medium and long term financing problems of the mass of the poor. Finally, the micro-economic efficiency of such schemes has not been uniformly positive. While some of them (like the celebrated Grameen Bank) have been characterized by high repayment rates, adequate profits and a strong impact on poverty alleviation, others have exhibited less encouraging results.

The third important development in this area concerns the international financing of development. This too has also undergone profound changes during the last twenty years. International financial flows to the developing countries take many forms and include export credits (of a duration of less than a year), aid flows (both private and official), bank loans, foreign direct investments and portfolio flows consisting in the purchase of bonds, stocks and other financial instruments (Table 9). Net of reimbursements and payments of interests and dividends, over 1974-82 the overall transfer of public and private financial resources from the North to the South averaged 2.5 percent of GDP of the developing countries and was dominated by official credits and grants and bank sovereign loans. During the «debt decade» of the 1980s the overall net transfer of resources became negative (equal to – 0.3 percent of the GDP of the developing countries) as new bank loans dried up and the servicing of the interest on the foreign debt ballooned. As illustrated in Table 9, over the 1990s the overall transfer of financial resources resumed steadily (with almost a tripling of resource transfers between 1990 and 1997) and amounted on average to some 2.8 percent of the GDP of the developing countries.

Such positive increase in total financial flows to the developing countries masks, however, a number of profound and less favourable changes:

- to start with, the amount of foreign aid is falling both in absolute terms and relative to the GDP of the donor countries. At the moment, foreign aid (i.e. grants from both state and NGO sources) account to around 0.25-0.30% of the GDP of the Northern countries as against the target of 1% set by the Pearson Report, and as against the 0.4 % recorded in the 1970s and 1980s. In addition, such aid is allocated in ways that are increasingly related to performance (i.e. if «good» macroeconomic policies inspired by the Washington Consensus are in place), while its quality has stagnated in many countries as the Development Assistance Committee of the OECD has been unsuccessful in 'untying' bilateral aid from all sort of clauses, such as the obligation to buy equipment and hire experts from the donor country. Such equipment and expert services often cost a multiple of the world market price.

Why is international aid falling? Because of the perception that the international financial markets can take care of the financing needs of all developing countries. The literature mentions also some «aid fatigue» and growing conditionality about the adoption of neoliberal policies and democratic institutions and about respecting

Table 9
Financial flows to developing countries (billion of current US $)

	1990	1995	1997
Official Flows	76	89	77
–Grant	51	60	50
–Loans	25	29	27
Export Credits	9	6	4
Private flows	43	168	252
– Foreign Direct Investment	27	52	108
– Bank lending	6	77	20
– Portfolio flows (purchase of bonds-stocks)	6	33	119
– Grants by NGOs	5	6	5
Total	130	263	325

Source: compilation by the author on OECD-DAC data

human rights on the side of the beneficiary countries. Finally, foreign aid has declined also because of the slow debt relief granted to poor developing countries included in the HIPC initiative. Such program requires a long track record of 'good policies' and has been slow in tacking effect.

- second, after a recovery in the mid 1990s, bank lending (both sovereign and private) started declining (Table 9) and is now lower than in the early 1990s.

- third, the increase in aggregate financial flows recorded in the 1990s is explained in good part by a rise in foreign direct investments (FDI) (Table 9). Such increase is generally thought to have generated a positive effect on development (especially in the case of manufacturing investments, less so in the case of investments in the primary sector), as it has brought with it a stable flow of money, the transfer of technical and managerial skills and greater ability to penetrate export markets. But FDIs have hardly been a panacea for the vast majority of developing and transitional economies, as illustrated by Table 10 that shows that most countries were bypassed by such flows. FDI are in fact mainly directed towards the OECD countries (USA and UK *in primis*) that received about 70 percent of all FDI. As for the developing nations, FDI were concentrated in Brazil, Mexico and a dozen of East and South East Asian countries. Indeed, the first «emerging nations» absorbed 75 percent of the total FDI received by the developing nations.

FDI are thus concentrated into very few developing nations and therefore offer no way to accelerate capital accumulation and foster human development in the remaining 150 low and middle income countries bypassed by them. In addition, the stream of FDI to some developing countries (e.g. the Latin American ones) has been closely connected to the acquisition of privatized state assets. They have consisted therefore more in the acquisition of existing firms rather than in new «greenfield investments». With the privatisation of state assets nearing its end in several nations, one wonders whether the aggregate flow of FDI will remain as high as in the recent past. Finally, even in the countries that recorded adequate inflows of foreign investments, the expected increase of total investments (foreign plus domestic) has often been elusive, as a rise in the former has been in some cases been accompanied by a fall in domestic investment, with limited or no effect on the overall rate of capital accumulation but at a cost of heightened dependence on foreign resources. With some exceptions, therefore, FDI have not helped solving the problem of financing of development of the poorer countries.

- fourth, over the last ten years, the most dynamic component of international finance has been the so called «portfolio flows», i.e. the purchase of stocks, bonds, derivatives and similar financial instruments by the non-resident population. This kind of flows has generated, however, a number of problems. To start with, rising private inflows into the developing countries were in part offset by a large outflows of domestic funds (equal to 30-50% of the funds inflow) as national investors sought to

Table 10
Distribution of FDI and population by country groups, 1998

	FDI (billions)	Population (millions)
Low income countries	11	2417
Middle income countries	160	2668
China	43	
Brazil	31	
High-income countrie	449	891
USA	193	
UK	67	
Europe (excl.UK)	116	
Japan /Singapore	11	
Others	52	
Total	620	5974

Source: author's compilation on UNCTAD data

diversify their portfolio by purchasing foreign stocks and bonds. The inflow of short-term portfolio flows induced also a rapid and costly reserve accumulation by the Central Bank in order to face possible flow reversal and currency attacks. It also caused very frequently an appreciation of the exchange rate of the countries of destination of such flows, with the net effect of discouraging exports, employment and human development. But the worst aspect of these short term financial flows have been the instability they have caused in financial, currency and stock markets, and the sharp recessions and huge human costs that have followed from these events. The social impact of the financial crises is underscored by the World Bank (2000) that shows that financial liberalisation raises the poverty rate over the short and the long term. As shown in Table 11, such increase in poverty persists even after the economy has returned to full-capacity growth (Table 11). Analyses based on micro data show that the impact on poverty is transmitted via differential employment, wages, price and income distribution effects that affect the lower deciles of the population especially hard. In brief, these type of flows tend to generate limited benefits, to cause recurring financial instability that affects also «innocent bystanders» via financial, trade and other forms of 'contagion', as shown by the case of Uruguay whose GDP fell in 2000 by a massive 11 percent because of the contagion of the Argentinean crisis that caused a drastic drop in the number of Argentinean tourists visiting the country.

Table 11
Poverty incidence before, during and after a few financial crises (percentages)

	before	during	after
Argentina (87-90)	25.2	47.3	33.7
Argentina (93-7)	16.8	24.8	26.0
Jordan (86-92)	3.0	....	14.9
Mexico (94-6)	36.0	....	43.0

Source: World Bank (2000)

In conclusion, while the increase in aggregate international financial flows to the developing countries in the 1990s could have – in principle – facilitated human development in many parts of the world, such flows have been excessively concentrated on a handful of middle income countries: In addition, aid flows to nations (such as the least developed countries and some middle income country such as Jamaica) that have almost no access to loans and FDI and depend increasingly on grants declined sharply. Finally growing financial instability has eroded many of the potential benefits of such increased flow or resources, especially in the emerging countries.

Conclusions

This paper has reviewed the changes in human development over the last twenty years and related them to a number of potentially positive epochal events, the changes intervened in the 1990s in the pattern of growth (especially its speed, stability, inequality, informality and public expenditure) and the shifts that have occurred in the domestic and international financing of development. Changes in these areas have facilitated human development in a few countries and for some social groups but have largely bypassed or – worse – caused a retrogression in the well-being in quite a number of countries and groups that were bypassed by the expansion of world exports and international finance.

While human development and poverty alleviation have become the central policy objective of the international community and of many developing countries, the policy changes intervened in the field of domestic and external liberalisation and the tendencies evolving in the area of the financing of development have likely rendered the achievement of such human objectives problematic in many countries.

September 2003

Bibliography

G. A. CORNIA (ed.), *Inequality, Growth and Poverty in an Era of Liberalisation and Globalisastion*, Oxford, Oxford University Press, 2004.

G. A. CORNIA & L. MENCHINI, «The pace and distribution of gains in child well-being over 1980-2000: some preliminary results», in G. A. CORNIA (ed.), *Harnessing Globalisation for Children*, <http://www.unicef-icd.org>, 2002.

G. A. CORNIA, N. DRAGER, D. WOODWARD & F. ZAGONARI, «Income Inequality in the Globalisation Era: Counting the Cost for Health», mimeo, Florence and Geneva, 2003.

L. C. SMITH & L. HADDAD, *Overcoming Child Malnutrition in Developing Countries: Past Achievements and Future Choice*, «Food, Agriculture and the Environment Discussion Paper - 30», Washington, IFPRI, 2000.

World Bank, *The World Development Report 2000/2001*, Washington, The World Bank, 2000.