

Chapter One

ECONOMIC DEVELOPMENT AND HUMAN DEVELOPMENT

I. ECONOMIC DEVELOPMENT

Modern theories of economic development appeared principally after the Second World War. Indeed, the term *economic development* was rarely used in economic literature before that time (Arndt, 1987). These theories were greatly influenced, initially at least, by the post-war experience of Europe and the great destruction that the war caused in the productive infrastructure of European countries. The main experience of development economists of that time was, therefore, in the reconstruction of Europe. It was not until the late 1950s, after the virtual completion of the reconstruction process in Europe and the emergence of scores of newly independent developing countries bent on economic development, that the main attention of development economists shifted from reconstruction to development.

The basic approach of early development theories was simple and, in the circumstances of Europe at that time, quite effective. What was needed, the argument went, was a mass infusion of capital into the European economies which, together with austerity measures, would reactivate the industrial base of these economies and bring them to a level of sustained economic growth (Harrod, 1939 and 1948, and Domar, 1946, and also post-war theories e.g., Hirschman, 1958, Nurkse, 1955 and Rosenstein-Rodan, 1984). Since at the time the only country that could infuse such enormous amounts of capital was the United States, the American administration established the Marshall Plan through which billions of US dollars were transferred to Europe in the form of grants. The social and human infrastructure of European countries still in place and highly developed, the Marshall Plan was a great success.

Evidence rapidly accumulated showing that only a portion of the growth of output over time can be statistically explained by changes in the quantity of conventional factors of production. The residual growth must be explained largely by changes in the *quality* of the labour force, that is, by the development of human resources. Empirical work relating to the improved education of labour and to entrepreneurship, only reinforced this now widely accepted proposition (e.g., Meier, 1964; Schultz, 1971 and 1981, and Chaudhri, 1974). The importance of human resources development for overall economic growth has been further documented by the more recent experience of the so-called newly developed countries, such as those of East Asia. One of the main features of the development of newly developed countries has been the emphasis placed on the development of their human resources. However, it must be noted that, while all the countries that broke out of underdevelopment have emphasized the development of human resources, it is also true that some countries that succeeded in spreading education among the labour force (e.g., Sri Lanka) have not managed to initiate a robust and sustained economic development. This experience has shown that capital investment is a necessary but not sufficient condition for development and that human resources development is also a necessary condition of development but not a sufficient one.

In the late 1970s and early 1980s development thought was overtaken by the debt crisis of many Less Developed Countries and became largely centered around programs of economic stabilization and structural adjustment, led by the World Bank and in particular by the International Monetary Fund. The first casualty of these programs was the social aspect of development. A reaction soon developed that demanded that even these programs should take into account the social conditions. Cries for adjustment programs “with a human face” (Cornia *et al.*, 1988) soon returned development discussions to the importance of the human dimension in the development process.

Another major change in development thinking came as a result of the experience of the industrialized countries themselves, particularly the United States. This experience showed that economic growth could take place together with social ills, such as the maldistribution of income¹, the persistence of poverty and increasing homelessness, the disintegration of the family, high rates of divorce, environmental pollution and destruction, the spread of violent crime and drug abuse, and the appearance of other social pathologies. In other words, the Gross National Product (GNP) and other measures of economic performance could rise together with the rise of undesirable social trends. This type of economic growth, it was recognized, was neither desirable nor sustainable in the long run.

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The major problem of GNP as a measure of welfare is that it measures the commercial transactions taking place in the economy while the welfare of the individuals depends on many other non-transactional aspects. Some economists tried, therefore, to adjust GNP to take into account some of the omissions. One notable attempt in this regard was the concept of Net Economic Welfare, first introduced by William Nordhaus and James Tobin (1972) and later adopted by Paul Samuelson. “Net Economic Welfare is based on GNP but makes two major changes. First, it excludes components of GNP that do not contribute to individual well being; and second, some key consumption items that are omitted from GNP are included in Net Economic Welfare” (Samuelson and Nordhaus, 1992, p.430). Net Economic Welfare takes into account the do-it-yourself work done at home, work done in the informal sector of the economy (legal and illegal activities that are not reported) and environmental damage. On the latter inclusion, Net Economic Welfare does “not only add in the value of electricity (which

¹ Advocates of economic growth do not claim that their approach results in an ideal distribution of income. As Fisher stated long ago, the resulting distribution of wealth depends “on inheritance, constantly modified by thrift, ability, industry, luck and fraud” (Fisher, 1913). But they claim that market forces under perfect competition and a limited role of government constitute the best system available and the best insurance against totalitarianism and for the preservation of freedom. It should be recalled in this respect that the debate at the time was between socialism and central planning, on the one hand, and capitalism and free markets, on the other (see, in particular, Hayek, 1944 and Friedman, 1962).

GNP does) but also subtracts the environmental damage from the pollution (which GNP does not)" (Ibid. p.431).

While it was a step in the right direction towards a better measurement of development and welfare, Net Economic Welfare fell short of what was desired. First, it still excluded a number of activities that contributed to general welfare. Women's work at home is not included in Net Economic Welfare because of measurement problems but admittedly contributes a great deal to the welfare and development of society. Second, the way in which the environmental damage is calculated remains problematic. The cost of pollution, for example, should go beyond the physical damage it causes. Thus, if air pollution causes health problems, the resulting doctors' bills are not the only negative consequence. Being healthy is not equal, in terms of welfare, to being ill plus seeing a doctor. Finally, Net Economic Welfare shied away from incorporating the other social ills such as poverty, drug abuse, suicide, divorce, violent crimes and the like.

A number of attempts were made by social scientists during the past forty years to devise more welfare-sensitive measurements or indices of development that incorporate other variables than GNP. Major examples are the Unitary Index of the 1960s (Drewnovsky and Scott, 1966), that combines a large set of social variables in the areas of nutrition, shelter, health, education, leisure, security, and social and physical environment; the Physical Quality of Life Index of the 1970s (Morris, 1979), that combines infant mortality, life expectancy at birth and adult literacy; the International Human Suffering Index of the 1980s (Population Crisis Committee, 1992), in which are integrated a large set of variables such as expectation of life at birth, calorie intake, availability of clean drinking water, secondary enrollment, inflation rate, infant immunization and other indicators dealing with civil rights and political freedom; and, finally, the Human Development Index (HDI) of the 1990s. The common feature of all these multi-variable indices of development is that they try to combine a number of indicators, generally proxies for various aspects of economic and social life, into one index of development.

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Three basic things separate the HDI from the rest: First, HDI is supplemented by other indices that give, separately, specific characteristics of development and, together, a broader picture of the development processes taking place. Second, it was developed and is backed by the United Nations Development Programme (UNDP), the major United Nations development agency and a major international forum of development. This was done in a series of Human Development Reports beginning in 1990 (*Box*). Third and most important, human development is not only a new measure of development performance; it involves an altogether new approach to development efforts.

UNDP Human Development Reports, 1990-97

1990: The first Human Development Report (HDR) defined human development as the process of enlarging people's choices. It focused on the idea that development involves much more than an increase in per capita income. It thus introduced a new measure of development, the Human Development Index, that included indicators of health and education, in addition to income (Box) as an alternative to the simple per capita income measure. It was found that the classification of countries on the human development scale differed significantly from that on the per capita income scale. The report also introduced the idea that the political, economic and social freedoms are important to the sustainability of development.

1991: The second HDR examined the development policy implications of the human development approach, in particular the need for the restructuring of the national budget and the international aid allocations in favour of human development. It suggested that it was the lack of political commitment rather than financial resources that was the cause of human neglect. The Report advocated decreasing spending on defense thus freeing more resources for building human capacities.

1992: The third HDR declared that human development was not simply a national issue but also a global one. It demanded that the rich, industrial countries undertake institutional reforms at the international level and institute aid strategies to improve the distribution of knowledge, technology, and information. It also expanded on the concept of human development to include environmental sustainability.

1993: The fourth HDR advanced the idea that human development needed public participation in economic and political decisions. Since human beings are the means and end of human development, it was important that they participate in the policies taken to improve their condition. It also advocated that development should involve a partnership between the market and the state in order to combine market efficiency with social compassion. The Report re-emphasized the need for new forms of international cooperation in which aid is oriented towards people preferences.

1994: The fifth Report focused on the issue of human security, that is, the security of people in the home, the job, the community and the general environment. As long as regional conflicts were not eradicated and as long as freedom was not enjoyed by all people, well being would be difficult to achieve. It also addressed issues on the agenda of the World Summit for Social Development, which was to take place in March 1995 in Copenhagen and offered a six-point agenda for the meeting.

1995: The sixth Report addressed the issue of gender equality on the occasion of the Fourth International Conference on Women (Beijing, September 1995). It stressed that human development should target all groups in society, particularly those that were at risk of being marginalised. The Report reviewed the progress made in the recent past in the status of women around the world and highlighted the gap between women's expanding capabilities and the still limited opportunities available to them.

1996: The seventh Report explored the human development-economic growth nexus. It noted that there need not be a conflict between growth and equity and that reinforcing the relationship between them had far-reaching implications. If improperly managed, growth can take place together with rising unemployment, lack of freedoms, and without sense of purpose for the bulk of the population.

1997: The eighth Report focused on poverty, not on income poverty only, but on poverty as a "denial of choices and opportunities for living a tolerable life." The Report called for eradicating poverty as an international goal and a practical possibility. The means for achieving this end go beyond increasing incomes and must include action aimed, among other things, at promoting gender equality and good governance.

II. HUMAN DEVELOPMENT

It has become clear that social problems that may accompany economic growth cannot be left aside until economic development has taken place because development is a never-ending process and cannot be sustained in the long run while social ills are increasing. Furthermore, social problems are best and most economically solved when economic development is taking place and not after the fact. Solving the problem of crime at its beginning is exceedingly easier than after it has taken root or become organized. Most important, it is often the pursuit of the single goal of maximizing income growth that *causes* the social problems in question. The geographic location of industry and other economic

activities on purely economic principles may result in the concentration of these activities in and around the major city which necessitates labour movements that disrupt family life with attendant social problems. It may increase the marginalization of certain regions and groups of the population that are not directly touched by this concentrated investment thus increasing the gap between rich and poor within the nation. It may also result in a deteriorating physical environment and in a social environment that causes social unrest that ultimately destroys the fruits of economic growth. Conversely, social development, in terms of greater participation of the population in decision-making and in the execution of development activities, that minimizes poverty and promotes equity, that advances the status of women and integrates youth in the development process and that insures, in general, a more humane social environment, itself plays a major positive role in the long-run intensity and sustainability of economic development.

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The human development approach is, therefore, one that calls for a simultaneous treatment of economic and social aspects of development. As stated by Mr. James Gustave Speth, UNDP Administrator, “sustainable human development is development that not only generates economic growth but distributes its benefits equitably; that regenerates the environment rather than destroying it; that empowers people rather than marginalizing them. It gives priority to the poor, enlarging their choices and opportunities and providing for their participation in decisions affecting them. It is development that is pro-poor, pro-nature, pro-jobs, pro-women and pro-children.” (UNDP, 1994, p.13).

Of course, human development does not deny the importance of economic growth and wealth accumulation for the welfare of society. It claims, however, that economic growth is a necessary but not a sufficient condition of human development (UNDP, 1990, p.11). Even before great wealth is accumulated, major improvements in the quality of life are possible. “A society does not have to be rich to be able to afford democracy. A family does not have to be wealthy to respect the rights of each member. A nation does not have to be affluent to treat women and men equally.” (UNDP, 1994, p.15). Furthermore, wealth is not the only thing people enjoy in spite of its importance to welfare. Human beings may also want “to enjoy long and healthy lives, drink deep at the fountain of knowledge, participate freely in the life of their community, breathe fresh air and enjoy the simple pleasures of life in a clean physical environment and value the peace of mind that comes from security in their homes, in their jobs and in their society” (Ibid.). While wealth may facilitate some of these desires it is not, alone, a sufficient factor in this regard. “Many countries have a high GNP per capita, but low human development indicators—and vice versa. Countries at similar levels of GNP per capita may have vastly different human development indicators”(Ibid.) In other words, “The maximization of wealth and the enrichment of human lives need not move in the same direction” (Ibid.).

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The complex relationship between economic growth and human development was explored in detail in the 1996 Human Development Report. The central message was that there is no automatic link between economic growth and human development, but when these links are forged with policy and determination, they can be mutually reinforcing and economic growth will effectively and rapidly improve human development. Government policies are vitally important, as now we know the limits of trickle down economics. For economic growth to lead to fuller choices to all people – rather than few choices for most people or many choices for a few – human development and poverty reduction must be moved to the top of the agenda for political and economic decision making (UNDP, 1996).

III. MEASURING HUMAN DEVELOPMENT

It was only natural that measuring the extent of development under the human development approach should differ from GDP or per capita income that measures economic growth. In its first Human Development Report of 1990, UNDP devised a measure called the Human Development index (HDI). This measure combined three basic elements considered proxies for the most important aspects of life: longevity, knowledge and the level of living. Longevity was measured by expectation of life at birth, knowledge by literacy levels and level of living by the purchasing power of per capita income. The method of combining the three indicators was a simple one and not very different from that used in calculating the earlier multi-variable indices of development mentioned before: A choice of a minimum and a maximum for each component is first determined and the position of the indicator of a given country on this scale is calculated as a value between zero and one hundred. The resulting values of the three indicators are then averaged out to give the human development index for that country. In addition to HDI, the report gave a number of other data relating to social conditions in its statistical appendix.

As a result of ideas and criticisms received by UNDP and expressed in the literature, a number of amendments were made to the measurement of human development, both in terms of internal revisions to the HDI itself (*Box*) and in terms of new supplementary indices (*Box*).

The internal revisions were made in three different ways: First, adjustments were made to the purchasing power of income (purchasing power parity or PPP). Second, the minima and maxima for two of the three indicators were changed in the 1994 report to reflect advances in longevity and income made in the world. Finally, mean years of schooling were substituted in the 1994 report for the concept of educational attainment that combined mean years of schooling and literacy rates (UNDP, 1995 to 1998).

The Human Development Index (HDI)

- **What does the HDI include?**

The HDI incorporates three indicators: Longevity, measured by life expectancy at birth, educational attainment, measured by literacy rates and combined primary, secondary and tertiary school enrollment, and access to resources, measured by income per capita (adjusted to purchasing power parity, PPP).

- **How does the HDI combine the three indicators in one index?**

The method of combining these three indicators into a single index is relatively simple: A choice of minimum and maximum for each component is first determined and the position of the indicator for the given country on this scale is calculated as a value between zero and one. The resulting values of the three indicators are then averaged out to give the human development index for the country.

- **What are the adjustments made to the HDI since it was first devised in 1990?**

- * **Educational Dimension:**

1990: Education was initially measured by literacy rates.

1991: Mean years of schooling was added to literacy rates attainment (weights given one-third and two-thirds respectively). This comprised a composite indicator to measure educational attainment.

1995: The estimate for mean years of schooling was replaced by combined gross enrollment rate at primary, secondary and tertiary levels. This was due to the unavailability of data on average years of schooling in most countries.

- * **Income per capita:** HDI is based on the premise that there are diminishing returns from income for human development. Within this context, the following changes were made:

1990: Per capita income above the poverty line was given zero weight.

1991: Per capita income was given progressively diminishing weight. That is, income above the poverty line has an effect, but still a marginal one.

- * **Minimum and maximum variables fixed:**

1990: The minima and maxima for the variables were set at the level of the poorest-performing and the best-performing countries respectively.

1994: The minima and maxima were fixed for the four basic variables: life expectancy (minimum 25 years, maximum 85 years), adult literacy (minimum 0 percent, max 100 percent), mean years of schooling (minimum 0 years, maximum 15 years), and income at PPP (minimum US\$ 200, maximum US\$ 40,000).

The more substantive amendments came, however, in the form of new supplementary indices that showed disparities among regions and segments of the population within countries. As early as the second Human Development Report (1991), the need was recognized for an HDI for different regions and population groups in a country and for a gender-sensitive measurement of HDI. The need to disaggregate the HDI for separate groups in the country was given formal treatment in the 1993 Human Development Report. In that report, HDI was calculated for specific groups and regions within countries and the results were alarming. For example, it was found that although whites in the United States had the highest HDI in the world, Hispanics ranked 35th (next to Estonia) in terms of their specific HDI (pp. 17-18). The gender issue was taken up again in the 1995 report with the formal introduction of two gender-sensitive measurements: the Gender-related Development Index (GDI) and the Gender Empowerment Measure (GEM).

In the 1996 report, special attention was given to poverty and a new index was devised to reflect the capability of the poor to participate in society, as opposed to their human development status, as indicated by the disaggregated HDI. Thus, the Capability Poverty Measure (CPM) was introduced. In the 1997 report a new index of poverty, the Human Poverty Index (HPI) was introduced based on the disaggregated HDI.

Other Development Indices

Besides the HDI, the United Nations Development Program devised several other indices of development since 1990.

Inequality indices

- **Income distribution sensitive HDI** (1991): This index accounts for inequality in income distribution. It is calculated in the same way as HDI with one main difference: income per capita is multiplied by a factor indicating distributional inequality (1 minus the Gini coefficient).
- **Disaggregated HDI** (1993): The aggregation factor of the HDI was regarded as a weakness, thus UNDP calculated disaggregated HDIs for specific social groups within the same country.

Freedom index

- **Human Freedom Index** (HFI), (1991): Based on a questionnaire, it combines 40 indicators covering five aspects of freedom, namely, personal security, rule of law, freedom of expression, political participation and equality of opportunity.

Gender indices

- **Gender-disparity adjusted HDI** (1991): This was an addition to the HDI, which attempted to measure disparities in male and female development. It consisted of multiplying the overall HDI by an average female-male ratio (average of separate indicators for women expressed as a percentage of their male counterpart).
- **Gender-related Development Index (GDI)**, (1995): It is defined as HDI adjusted for gender inequality. It differs from the gender-disparity adjusted HDI constructed in 1991 which does not relate female-male disparity to the overall level of achievement in a society. The new GDI takes the overall achievements of women and men in the three dimensions (longevity, education, and income) into account. This means that the GDI falls when the achievement levels of both men and women in a country go down or when the disparity between their achievements increases.
- **Gender Empowerment Measure (GEM)**, (1995): GEM reflects women's participation in political decisions, their access to professional opportunities, and their earning power. It concentrates on three broad categories of variables: per capita income in PPP dollars (for earning power), share of jobs classified as professional, technical, administrative and managerial (for access to professional opportunities) and share of parliamentary seats (for participation in political decisions).

Poverty indices

- **Capability Poverty Measure (CPM)**, (1996): The CPM is a new multidimensional measure of human deprivation. Like the HDI, it complements the income measurement. It reflects the percentage of people who lack basic or minimally essential human capabilities, i.e., the capability to be well nourished and healthy (measured by the percentage of children under 5 who are underweight), the capability for healthy reproduction (measured by the percentage of births unattended by trained personnel), and the capability to be educated (measured by female illiteracy).
- **Human Poverty Index (HPI)**, (1997): The HPI pursues the same approach as the CPM, concentrating on the deprivation of the same essential elements captured by the HDI: longevity (measured by the percentage of people dying before age 40), knowledge (measured by the percentage of people who are illiterate), and a decent standard of living (measured by a composite index of three variables: percentage without access to safe water, percentage without access to health services, and percentage of underweight children under 5).

While the human development approach constitutes a major contribution to development thinking, the proposed measurement of success in achieving human development is still in need of improvement. Two major areas for improvement may be noted:

First, the plethora of indicators, although it contributes to understanding various aspects of human development, leads policy makers to some confusion. Thus, it is not clear which

index is to be maximized in priority and hence what policies need to be pursued. Maximizing all indices at the same time implies an extremely complex development policy that goes beyond the capability of many developing countries. The advantage of per capita income as a measure of development is in its simplicity. The disadvantage of the indices of human development is in their increasing variety.

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Second, the variables used in the computation of the indices are generally intercorrelated and correlated with per capita income. While it is true that the classification of countries by per capita income differs from that obtained in the classification of countries by HDI, it is also true that the groups of countries that have a high, medium or low HDI do not differ greatly in either classification. Further development of HDI could take this into consideration by introducing social variables that are not intercorrelated with per capita income or with the other variables used in the present HDI but are, nevertheless, universally considered important for social development and for the sustainability of development in general. Such variables may include divorce, violent crime, drug abuse, suicide, environmental degradation and the like.

IV. POLICY IMPLICATIONS

Notwithstanding measurement difficulties, the human development concept requires a new approach to development policies. Human development involves a development strategy that is different from that of economic development in that it deals with the social and economic aspects of development in a balanced and simultaneous fashion. Therefore, it requires “far reaching changes in both national and global [development] policies” if development is to be a sustainable undertaking.

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On the economic side, human development is compatible with a free market where the private sector plays an important role. It recognizes, however, that the growth of national income “will enhance the living conditions of the poor only if they get a share of the additional income, or if it is used to finance public services for sections of society that would otherwise be deprived of them.” (UNDP, 1994, p.17). In other words, while the growth of income is absolutely necessary for human development, there may be, in the short-run, a trade-off between additional income growth and non-economic goals. The purpose of development policy, therefore, is not necessarily to maximize economic growth, that is the growth of GNP, but to establish a balance between income growth, on the one hand, and social equity, environmental quality and public participation in a democratic setting, on the other.

The first step in this direction is for the policy maker to consider the social implications of every public investment project. This is particularly true of Lebanon where a major reconstruction effort is taking place. In these circumstances, to incorporate the social dimension in a reconstruction project, not only makes the project a more viable and sustainable one, but is much more economical than the alternative of introducing the social dimension after the project is completed. To take the example of the reconstruction of a commercial district with accessibility to the disabled, it is necessary in such a project to take into account the needs of the disabled in the design and implementation of the project. This is clearly a necessary condition for the employment and economic participation of the disabled in society and is complementary to the programs aimed directly at their rehabilitation. It is also clear that taking this dimension into account in the design and implementation of the project is much more economic than doing so after the project is completed. It costs approximately the same to build sidewalks with ramps than without, elevators with the buttons down than up, buildings with access to the physically handicapped than without and so on, while the cost of changing all these things after the fact might be prohibitive.

The second step is to establish a system of incentives and disincentives to make private investment more responsive to social needs. In laissez-faire conditions industries and other economic activities tend to congregate in and around major towns which causes environmental problems and overcrowding in the affected urban area and possibly the depletion of the countryside with a negative effect on agricultural production. A public policy that encourages the location of economic activities away from the major urban agglomerations (through such measures as tax incentives, the establishment of industrial parks in small cities and the countryside, improved internal transportation and communication and the like) may divert income from more directly productive investments and result in a lower growth of national income in the short run. However, such policy will establish geographically more balanced growth in which broader segments of the population participate and, hence, a more sustainable development in the long run. By bringing work opportunities to the people instead of the other way around, such a policy will help to maintain and strengthen the institution of the family and the structures of the local communities.

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The third and, perhaps, the most important step towards the implementation of a human development approach is in the design of specific policies that lead to the empowerment of people and their participation in development, particularly those that are marginalized because of limited income, their place of living, disability, gender or age (e.g., youth). Human development cannot take place except in a free and democratic environment where the civil society is invited to participate in the design and implementation of policies directly affecting people and local communities. Human development is incompatible with increasing inequity, marginalization and lack of freedom, even if they are accompanied by rapid growth of income.