UNITED NATIONS RESEARCH INSTITUTE FOR SOCIAL DEVELOPMENT

DP 88

SOCIAL INVESTMENT, PRODUCTIVITY AND POVERTY

A SURVEY

by Robert Cassen and Ganeshan Wignaraja
with Geeta Kingdon

October 1997

The **United Nations Research Institute for Social Development (UNRISD)** is an autonomous agency that engages in multi-disciplinary research on the social dimensions of contemporary problems affecting development. Its work is guided by the conviction that, for effective development policies to be formulated, an understanding of the social and political context is crucial. The Institute attempts to provide governments, development agencies, grassroots organizations and scholars with a better understanding of how development policies and processes of economic, social and environmental change affect different social groups. Working through an extensive network of national research centres, UNRISD aims to promote original research and strengthen research capacity in developing countries.

Current research themes include: Business Responsibility for Sustainable Development; Crisis, Adjustment and Social Change; Culture and Development; Emerging Mass Tourism in the South; Gender, Poverty and Well-Being; Globalization and Citizenship; Grassroots Initiatives and Knowledge Networks for Land Reform in Developing Countries; New Information and Communication Technologies; Public Sector Reform and Crisis-Ridden States; Social Policy, Institutional Reform and Globalization; Technical Co-operation and Women's Lives: Integrating Gender into Development Policy; Volunteer Action and Local Democracy: A Partnership for a Better Urban Future; and the War-torn Societies Project. Recent research programmes have included: Environment, Sustainable Development and Social Change; Ethnic Conflict and Development; Participation and Changes in Property Relations in Communist and Post-Communist Societies; Political Violence and Social Movements; and Socio-Economic and Political Consequences of the International Trade in Illicit Drugs. UNRISD research projects focused on the 1995 World Summit for Social Development included: Economic Restructuring and Social Policy; Ethnic Diversity and Public Policies; Rethinking Social Development in the 1990s; and Social Integration at the Grassroots: The Urban Dimension.

A list of the Institute's free and priced publications can be obtained from the Reference Centre.

United Nations Research Institute
for Social Development
Palais des Nations
1211 Geneva 10
Switzerland

E-mail: info@unrisd.org
World Wide Web Site: www.unrisd.org

ISSN 1012-6511

◆ Preface

In 1994, the Swedish International Development Cooperation Agency (Sida) set up a Task Force on Poverty Reduction to review its experience in reducing poverty, examine the needs and achievements of partner countries, and propose methods and approaches to improve its effectiveness in reducing poverty. UNRISD was requested to assist the Task Force in two areas: the productivity of social services and measurement of poverty with special reference to women's poverty.

This Discussion Paper has evolved out of the work carried out on the first theme. In recent years, there has been a renewal of interest in academic and policy circles on the problems and policies connected with enhancing human development in poor countries. A number of new theoretical and empirical contributions (such as the new growth theories and the work on flexible production in manufacturing) have emphasized the importance of investments in human capacities as both inputs and outputs of economic development. In addition, high levels of human development are being increasingly viewed as a necessary ingredient for successful structural adjustment in developing economies. In spite of these developments, there seems to be a lack of clarity in the development literature on the input and output effects of human development and the way it relates to structural adjustment programmes in developing countries.

This paper attempts to fill this gap by providing a simple, coherent and practical approach to human development. It reviews several diverse strands of theoretical and empirical literature concerned with human development and highlights the nexus of relationships among them. The authors review work on population change, education and health, poverty, productivity, international trade and technological capability and structural adjustment, among other subjects. They go on to focus on the steps involved in formulating a human development strategy, and point out the costs of inaction. Finally, they set out the main elements of best practice human development strategies. The paper thus covers, in a non-technical fashion, a wide range of topics of relevance to many contemporary debates. It should be of interest to academics, development practitioners, NGOs and others interested in human development and adjustment issues.

Robert Cassen is currently a visiting professor in the Department of Social Policy and Administration at the London School of Economics and Political Science. Ganeshan Wignaraja is Chief Programme Officer at the Export and Industrial Development Division of the Commonwealth Secretariat.

October 1997

Dharam Ghai
Director

◆ Contents

◆ Acknowledgments

The authors wish to acknowledge valuable comments from Dharam Ghai, Willem van der Geest, Rolph van der Hoeven, and anonymous commentators. We have not been able to take all the advice we have received, and are alone responsible for the paper's contents.

Geeta Kingdon contributed the section on Education and Individual Productivity in part II, as well as commenting on the text.

◆ Abbreviations and Acronyms

AIDS	Acquired Immune Deficiency Syndrome
CBA	cost-benefit analysis
DAC	Development Assistance Committee (OECD)
DALY	disability adjusted life-year
ESF	engineering service firms
GDP	gross domestic product
H-O	Heckscher-Ohlin (model)
HD	human development
HDI	Human Development Index
IMF	International Monetary Fund
IQ	intelligence quotient
IRDP	integrated rural development project
NGO	non-governmental organization
NIE	newly industrializing economies
ODA	Overseas Development Assistance
OECD	Organization for Economic Cooperation and Development
SAP	structural adjustment programme
SME	small and medium-sized enterprises
TFP	total factor productivity
TFPG	total factor productivity growth
UNICEF	United Nations Children's Fund
UPE	universal primary education
WHO	World Health Organization

INTRODUCTION

Most things that individuals and societies are capable of depend on the investments that are made in human capacities. Yet when economists have, in the past, talked of investment — although there was a respectable history of attention to human capacities — it was usually a matter of factories and buildings, roads and power-plants. "Human capital" in the growth literature was, until relatively recently, discussed mostly as an adjunct to physical capital. In the last few years there has been a spate of literature on "human development" (HD), which has served, in particular, to establish human and social welfare as the principal objectives of economic development. But economists have also become much more aware of the range of benefits from social investment.

The human development approach owes much to Amartya Sen, and in particular to his efforts to show the weaknesses of considering welfare as a function of the "utility" provided by commodities. The replacement of utility analysis by that of capabilities has been a profound change in welfare economics (Sen, 1993). If this paper concentrates on the productive aspects of human development, it is not out of any lack of sense of the importance of viewing individual welfare in this way. But human development comes about from the social and economic order. At the same time, it contributes to that order, and it is these productive contributions of HD that we focus on here: the contributions to productivity, growth and competitiveness in manufacturing, agriculture and services, and to social integration and avoidance of social costs.

Some recent developments in particular have lit up the stage of research on human resources as inputs. One has been the new growth literature, with its emphasis on the production and use of knowledge and the ways it can be endogenized (Romer, 1986; 1994; Lucas, 1988).[1] New inter-country estimates incorporate education variables which explain a considerable share of economic growth (Barro, 1991).[2] And the phenomenal growth of the East Asian countries has been shown to be due to a considerable extent to their human investment (Ogawa et al., 1993; World Bank, 1993a). (A small stir was created in 1994 by an article questioning whether there was anything unusual in East Asia's development; it claimed that everything could be "explained" by high levels of accumulation — including education of course (Krugman, 1994 citing such works as A. Young, 1994). But sustained high levels of accumulation in the neo-classical growth framework leave something *un*explained (*why* were levels of investment so high — or what is, even to a neo-classical economist, the same thing, why were rates of return so high that these investments continued?). In the "new growth" models, these things may be less puzzling.

Another development has been in the world of manufacturing itself. First, competition has been widely seen to have been affected by "lean production", "flexible production" and other changes. Second, countries facing competition from new lower cost producers as their own wages rise have had to "upgrade" their products, product-mix and technological capabilities to succeed in world markets. It is well known that this has much to do with human skills; even in some industrialized countries, falling behind in the skilling of the labour force has been a frequent topic in the media and in academic research.[3]

These "input" and "output" strands have only rarely met. Clearly, the two approaches have to be integrated with each other, and with a third. Structural adjustment, which has formed the dominant macro-economic context of development in the recent past, has often failed to attend adequately to HD issues. The present paper attempts to address the need for a more coherent analytical and practical approach to human development. It attempts to bring together the humanitarian and productivity objectives of human development; the roles of government, and the private and "third" sectors in service provision; the place of supply of and demand for services; and the relative roles of quantity and quality of services. In much of the better known literature on human development, the second half of each of these pairs of dimensions is relatively neglected. Here they are given fuller emphasis, and related to structural adjustment.

The more traditional literature concentrates on the myriad interrelationships in human development. These too are reviewed, and form our point of departure; we have extracted from a huge range of studies those findings which bear particularly on policy.

I. THE NEXUS OF INTERRELATIONSHIPS

◆ Social and Economic Development

At a national level, there is a broad correspondence of social indicators with per capita income: the higher the level of income, the more governments and individuals can afford to spend on basic services. But as is well known, income is far from being the only determinant: if for any indicator one plots a curve relating its level in each country to per capita income, there will be a considerable spread of countries around the curve, with some distinct "outliers" well above and below it. Very commonly if it is a health indicator, a large part of the variation from the curve can be explained by education, particularly female education.[4]

This is true even at relatively high income levels. In several high-income countries where life expectancy is below the average for their level of income, female education is relatively neglected. The extent of female education often proves to be a key factor for the outliers, positive and negative, at low income levels as well. Female education has been found to be the most important single positive correlate of life expectancy in the developing world (Caldwell, 1986). Yet income is also