

POVERTY, HUMAN DEVELOPMENT, AND PUBLIC EXPENDITURE: DEVELOPING ACTIONS FOR GOVERNMENT AND CIVIL SOCIETY

*Eduardo Doryan*¹

One dictionary defines poverty as “the state of one who lacks a usual or socially acceptable amount of money or material possessions.” Two things are reflected in this definition: first, the standard for what is “socially acceptable” could vary from country to country or between regions of the world; second, poverty is linked not only to money but also to material possessions or assets, including land or any means of production. In the *World Development Report* of 1990, the definition was much more linked to absolute poverty, a condition of life characterized by such malnutrition, illiteracy, and disease as to be beneath any reasonable definition of human decency. This definition brought human outcomes into the definition of poverty. We also have the United Nations Development Program (UNDP) definition of human development. And the Human Development Index (HDI), in particular, looks beyond income and has a more comprehensive definition. Finally, Amartya Sen’s definition of poverty is more linked to capabilities, where citizens are well prepared to take advantage of economic opportunities.

The World Bank has conducted a global study, interviewing 60,000 people in 60 coun-

tries throughout the world and capturing the voices of the poor, their definitions of poverty, and how they would like their problems to be resolved. Someone from Ghana said that poverty is “like heat, you cannot see it, you can only feel it. So, to know poverty, you have to go through it.” For a poor woman in Moldova, “poverty is pain, it feels like a disease. It attacks a person, not only materially, but also morally. It eats away one’s dignity and drives one into total despair.”

Keeping in mind the academic definitions of poverty, or at least some of them, and having heard some of the voices of the poor, the international community has established very clear international development goals—halving of the number of people living in poverty by the year 2015; universal access to primary school by the same year; elimination of gender disparities by the year 2005; a two-thirds reduction in infant mortality and mortality in children under 5; and so on. If we look at these goals more closely, we find some direction for action: halving poverty by 2015 is conditional on achieving poverty reducing paths; universal attendance to primary schooling is very much dependent on the quality of teaching in primary schools; gender equality is very much linked to political and economical empowerment of women; and infant mortality in cer-

¹ Vice President, World Bank Human Development Network.

tain parts of the world, and probably in certain areas all over the world, is very much conditional on issues such as tackling the spread of HIV/AIDS.

Some of these goals are unlikely to be attained because growth is very volatile, as demonstrated in the Asian crisis and in some of the recent economic crises in Latin America. We also have seen it during natural phenomena such as Hurricane Mitch in Central America. Inequality can rise rapidly in unstable economies, as has occurred in many of the Latin American countries. The adoption and the effective implementation of pro-poor policies and interventions are central, but sometimes are subsumed with the overall macroeconomic policies. Economic policies are a two way street for poverty, however.

There is nothing more effective against poverty than good policies. In Latin America, general economic growth has not led to a decrease in income disparities, and the Gini coefficient for Latin America is much higher than for most other regions of the world. The poor are falling behind in terms of distribution of income; the proportion of income captured by the wealthy grows; and current poverty rates are very much the same as 20 years ago. These results are a reminder of the centrality of human development for all countries.

Although we still have a long way to go, we have learned a great deal about human development and growth. Girls' education is a key factor in health. A study that relates to mothers' education shows that a lack of secondary or higher education has a huge impact on mortality in children under 5 years old (see Table 1). This study also shows that mothers' education is much more important than fathers' in decreasing child mortality. This study points to several important approaches: analyzing policy outcomes, looking beyond health, and finding the linkages and how to make the best investments. Our investments must be directed by an understanding of the dynamics of poverty and human development. This means learning about outcomes for the poorest groups, not just national averages.

A former President of Costa Rica used to tell the following story. "You can have a person lying down with his head in an oven and his legs in a freezer, and the temperature in the belly button is going to be 98.6 degrees. That person is supposed to be in very good health, but probably, that person is very uncomfortable." So, averages are not that useful. We have to think more clearly about the actual meaning of poverty and look at the different income levels in each society.

It is useful, for example to look at the link between education and growth. The average number of years of education for 25-year-olds, grouped by income levels, in Latin America can be divided into ten segments of the population (see Table 2). In Chile, the top decile has twice the years of education as does the lowest decile. In Venezuela the gap between highest and lowest is 2.5 times. The same pattern occurs in countries in different parts of the world. Looking beyond national averages is much needed in development policy.

So, where do we assign more spending? Where we put the resources that are usually meager? Well, that's not an easy question. Health spending alone cannot explain all the variations in health among countries. Nor can income, education, or even disposable income and schooling together. Figure 1 illustrates these discrepancies: the vertical axis shows the deviation from predicted life expectancy in a country; the first upper half of the figure shows deviations from the value predicted on the basis of the country's income and average schooling. France, Singapore, Costa Rica, Honduras, and Sri Lanka, all in the top half of the figures, achieve five years or more of life beyond what would be expected. But Egypt, Ghana, Uganda, the United States, and Zambia, all in the bottom half of the figure, have a life expectancy of about five years lower than expected, given their levels of income and education. The horizontal axis of the figure shows the deviation from predicted percentage of GDP spent in health. Although one might expect that at any level of income and education, higher health spending would

TABLE 1. Mortality in children under 5 years old, according to the mother's education.

| Region/country | Mother's educational status | | No education as a multiple of secondary/higher education (col.2/col.3) |
|-----------------------------|-----------------------------|----------------------------|--|
| | No education | Secondary/higher education | |
| Asia/Near East/North Africa | | | |
| Indonesia | 111 | 51 | 2.2 |
| Morocco | 91 | 22 | 4.1 |
| Pakistan | 128 | 65 | 2.0 |
| Philippines | 152 | 42 | 3.6 |
| Turkey | 109 | 30 | 3.6 |
| Latin America/Caribbean | | | |
| Colombia | (74) | 25 | 3.0 |
| Dominican Republic | 91 | 31 | 2.9 |
| Peru | 150 | 45 | 3.3 |
| Sub-Saharan Africa | | | |
| Burkina Faso | 212 | 87 | 2.4 |
| Cameroon | 198 | 80 | 2.5 |
| Ghana | 166 | 69 | 1.7 |
| Kenya | 100 | 54 | 1.9 |
| Madagascar | 223 | 114 | 2.0 |
| Malawi | 255 | 127 | 2.0 |
| Namibia | 97 | 76 | 1.3 |
| Niger | 334 | 106 | 3.2 |
| Nigeria | 211 | 113 | 1.9 |
| Rwanda | 177 | 94 | 1.9 |
| Senegal | 171 | 52 | 3.3 |
| Zambia | 204 | 135 | 1.5 |
| Unweighted average | 164 | 71 | 2.3 |

yield better health, all else being equal, there is no evidence of such a relationship. Countries are scattered in all quadrants of the figure, which is partly due to the importance of institutions and policies.

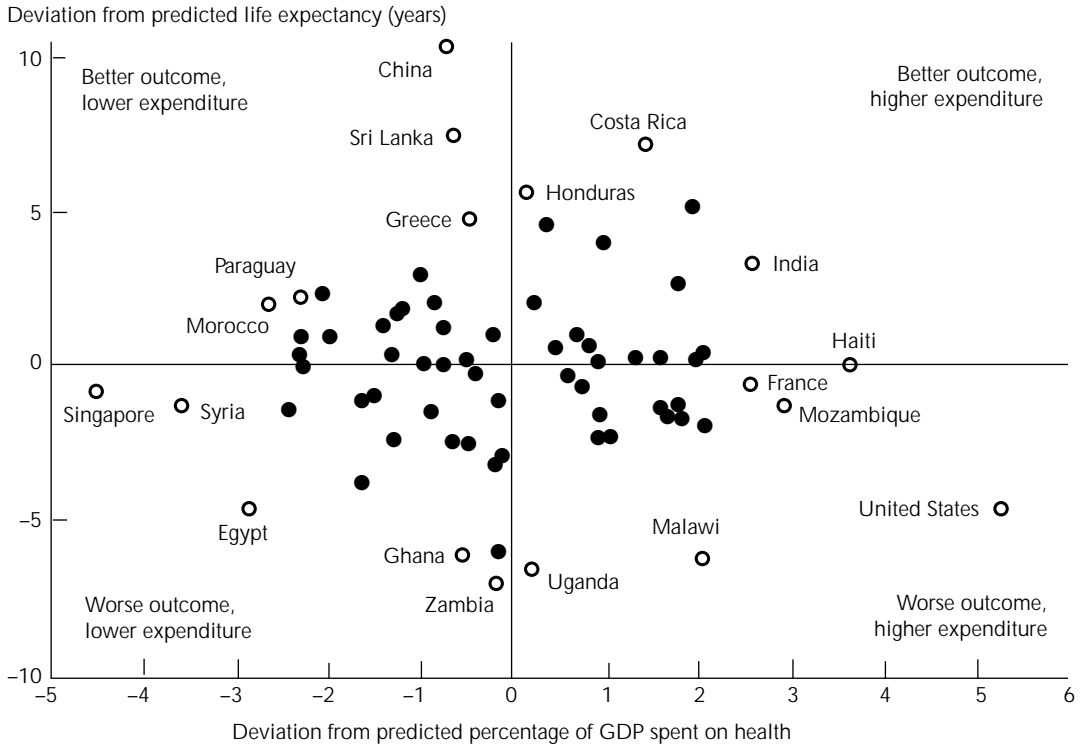
There is much to be done in relation to policies. Probably the best image is that we need developmental cocktails, that is, putting different policy elements together in a way that has a leapfrogging effect, which allows countries to pass through stages of development much more quickly than would be expected from isolated policies.

The *World Development Report* for the upcoming year gives us some premises for policy-making. First, poverty reducing strategies must recognize that appropriately designed combinations of policies will interact in a way that will produce an effect greater than the sum of the individual parts. If we have a robust process of linking different policies, we can actually achieve leapfrogging effects in development. Without such synergistic effects, the 21st century is going to be very difficult for most of the population of Latin America. Another premise for policy-making

TABLE 2. Average years of education for 25-year-olds, by income level, selected countries in Latin America.

| Decile | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|-----------|------|------|------|------|------|------|------|------|-------|-------|
| Chile | 6.24 | 6.88 | 7.09 | 7.40 | 7.69 | 8.16 | 8.47 | 9.80 | 10.88 | 12.83 |
| Brazil | 1.98 | 2.49 | 2.97 | 3.41 | 3.66 | 4.40 | 4.49 | 5.98 | 7.43 | 10.53 |
| Mexico | 2.14 | 2.95 | 3.78 | 4.15 | 4.78 | 5.66 | 6.06 | 7.24 | 8.89 | 12.13 |
| Peru | 3.87 | 4.17 | 4.85 | 5.69 | 6.60 | 7.05 | 7.66 | 8.28 | 9.04 | 10.80 |
| Venezuela | 4.66 | 4.94 | 5.27 | 5.72 | 6.23 | 6.68 | 7.20 | 7.78 | 8.58 | 10.81 |

FIGURE 1. Deviation from predicted life expectancy and deviation from predicted percentage of GDP spent on health, selected countries.



is that both growth and inequality are outcomes of economic policy as well as institutional capability, and are subject to external shocks and trends. It is odd that, in the past, analyses have typically looked for mechanical links when investigating growth and inequality jointly, largely ignoring the role of policies. When the role of policies has been investigated, studies have usually looked at growth and inequality separately, yet, the key piece of information, from the point of view of policy makers, is how policies influence both growth and inequality.

The third premise for policy-making is that policies to help the poor should address increasing growth and improving equality at the same time, or at least mitigating inequality by generating growth with pro-poor measures. Policy makers should take into account (1) the

effects that different health care system financing methods have on improving health status, (2) how to ensure equity, (3) the linking of microeconomic and macroeconomic efficiency, (4) the enhancement of clinical effectiveness, (5) the improvement of care quality and consumer satisfaction, and (6) the assessment of the system's long-run financial stability, as they have important consequences for equity across income groups. They must consider the amount of revenue that can be raised, and losses in consumer welfare and production generated by different revenue raising techniques. These considerations are at the core of how to tackle the problems of poverty, inequality, and development in our countries.

The political economy of health policies and human development policies are going to be very important. In the first place, there is a

need to spend more, but with the caveat that spending is not enough if developmental cocktails and leapfrogging effects are not present in policy prescriptions. Second, health service outputs are needed. Finally, we need to move from outputs to outcomes. This third category relates to the effects that health expenditures have on health outcomes, and is tied to intersectoral factors such as education, water and sanitation, and women's status, because health services are just one factor among many that determines the population health status.

This presents difficulties from a political point of view, because the international financial community, which lends money, as well as many organizations, have very sectoral approaches. Those who work in health deal with the Minister of Health, others deal with the Minister of Education, and others deal with the Minister of Labor. Pulling together intersectoral development packages is not easy, and without an articulated approach, it will be impossible to prepare those cocktails and achieve the leapfrogging effects as we would like.

The "Voices of the Poor" study showed that there was a comprehensive view of development. From villagers in a republic in Central Asia we heard, "our problems are lack of jobs and money; high price of food, clothes, and health care; and lack of shops. Besides, we don't have training manuals, there is no high school, no public baths, and most important, there is no drinking water. We have to buy it and then keep it for a long time, so it goes bad, but we still use it."

Development is moving from ill being to well being. The 60,000 people who were interviewed repeated that they have a sense of powerlessness, weak social relations, material lack and poverty, physical weakness, and insecurity—ill being. And what they wanted was good social relations, security, physical well being, enough for a good life, and freedom of choice and action. Well being embodies much more than how to overcome poverty; it is related to equity, but it is also holistic in relation to the experience of life.

Next year's *World Development Report* will focus on three core issues. Empowerment is the first, and includes addressing economic, social, political, and institutional inequalities that prevent the poor and disadvantaged from having access to and influence over policies and interventions that influence their lives. The second important issue is security, livelihood, and risk management policies, including those related to natural disasters and economic shock, which poor nations will increasingly face in the global economy and which has always trapped the poor in poor countries in poverty. The third major component is opportunity and putting in place the conditions for investment and sustainable economic development. The poor must participate fully in the creation of such policies, and the policies must not degrade the environment or increase risk and vulnerability. These issues are not hierarchical, but rather are inter-related components of our overall framework for poverty reduction and equity. This framework clearly cuts across the more conventional sectoral framework of interventions. For example, health affects all three dimensions, even as each of the three dimensions affect each other.

From a policy-making perspective, we have seen that empowerment, opportunity, and risk management are core elements of equitable development. Whenever countries have used the benefits of growth to finance basic health care and access to education for all, and when countries have put in place incentive structures and complementary investments to insure that better health and education lead to higher incomes, the poor have doubly benefited. They are healthier and better educated, and they have increased their consumption. We must not only finance basic education and access to health, but also have a system in place that feeds back those investments into more productivity and growth. Such an approach will create a virtuous circle and not reproduce a vicious circle in which financing is not increased nor linked to the economic nor productive strategies. Those cycles of growth are followed by economic shocks that create a

vicious circle that degrades health and education indicators. A final corollary is that moving from income, which has been the traditional focus of equity, to multi-dimensional views of poverty has policy consequences. Even if incomes do not increase, policies that improve the health of individuals and increase their capacity to absorb and exchange information improve the quality of their lives. Health must be put in the context of poverty

reduction and linked to education, social protection, and other aspects of human development. The effect of health must also be considered in the context of its influence on empowerment, opportunity, and risk management, and we must find ways to pull together such policies and finance them in a way that really tackles the key aspects that affect and improve the quality of life and the well being of the poor.