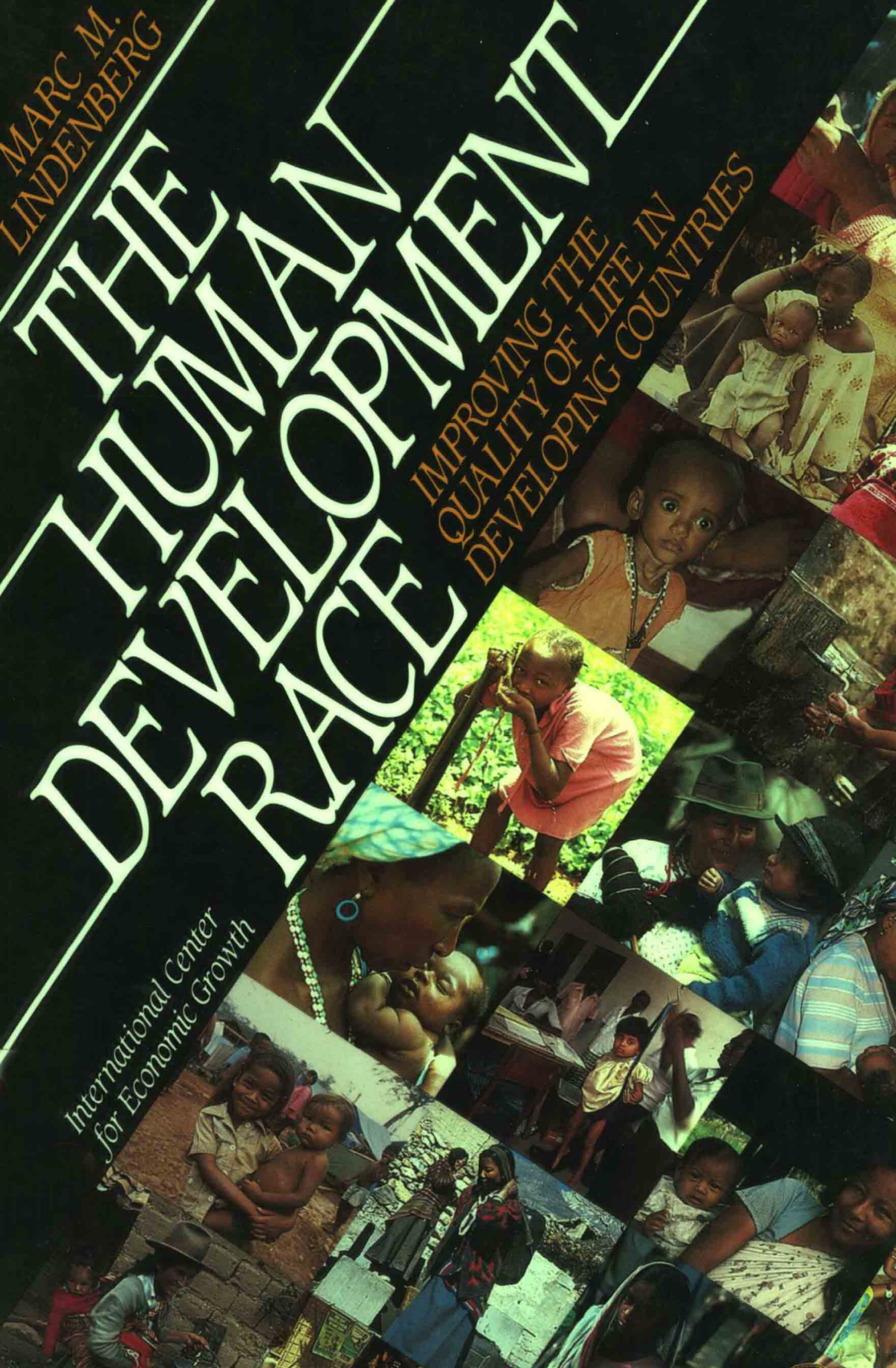


MARC M.
LINDENBERG

THE HUMAN DEVELOPMENT RACE

IMPROVING THE
QUALITY OF LIFE IN
DEVELOPING COUNTRIES

International Center
for Economic Growth



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Marc M. Lindenberg



An International Center for Economic Growth Publication

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PREFACE

Although economists spend a great deal of time studying, measuring, and trying to understand economic growth, they still know little about how to improve the quality of people's lives in developing countries. What strategies work best for improving access to education and health care? How can people's lives be made as long, healthy, and productive as possible? *The Human Development Race* addresses these questions.

Some developing countries have succeeded in improving the human development level of their population: Chile, Costa Rica, Singapore, and South Korea, to name a few. But many others are still struggling with widespread illiteracy, poor health care, and low incomes. To understand why such wide differences in human development exist, Marc Lindenberg examines the countries with the best human development performance to see what the ingredients have been. Have they been characterized by high or low state spending on social services? Have they been the lucky beneficiaries of beneficial world economic cycles and well-endowed with natural resources, or have policies been more important? He looks not only at economic factors, but at political factors as well. Have democracies or authoritarian systems been more successful at stimulating human development?

The most successful countries, Lindenberg discovers, are those that have used their policy tools wisely over long periods of time to invest in the well-being of their people. Such policy commitments have been possible only in countries that enjoy some measure of political stability. His conclusions offer sobering lessons to the many countries now attempting to pursue both economic and political liberalization.

If the true goal of development is not simply to raise growth rates by several percentage points but rather to improve the lives of people,

then the issues raised in this book are central to every student of economic policy. The International Center for Economic Growth is pleased to publish this important work.

Nicolás Ardito-Barletta
General Director
International Center for Economic Growth

Panama City, Panama
September 1993

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The idea for this book came out of my attempt to put the intense experience of economic and political collapse in Central America in the 1980s into a broader context of global human development. The effort to develop a deeper understanding of this period of turmoil would not have happened without a series of helpful conversations with and strong encouragement from Robert Klitgaard, a valued friend and colleague. These conversations began in Costa Rica and continued in places like Nicaragua, Equatorial Guinea, and Boston. The ideas were expanded with help and useful insights from Jack Montgomery. Shantayana Devarajan helped deepen my understanding of the relationship between economic growth and democracy. Chapter 2 is a longer version of ideas that we published together in an article called "Prescribing Strong Economic Medicine," *Comparative Politics* 25, no. 2 (January 1993). Jorge Domínguez and Forrest Colburn's ideas were invaluable in helping get at the underlying trends in Central America and in keeping me motivated to finish what I began. These insights about Central American political transitions were deepened through a series of workshops that Jorge and I coordinated at Harvard with support from Richard Bloomfield and the World Peace Foundation.

Many colleagues contributed useful ideas along the way, among them: Graham Allison, William Ascher, Jim Austin, Nicolás Ardito-Barletta, Ricardo Castañeda, Silvio De Franco, Jorge Manuel Dengo, John Ickis, Ray Goldberg, Mark Moore, Jay Patel, Rodolfo Paíz, Dwight Perkins, Roger Quant, Dani Roderik, Edith Stokey, Harry Strachan, Eduardo Vallarino, Louis Wells, Richard Zeckhauser, and Andrew Zimbalist.

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PART I

INTRODUCTION

The Human Development Dilemma

The 1980s were bitter years for most developing countries. The world economy experienced its worst collapse since the Great Depression of the 1930s. This global turmoil was accompanied by economic crisis and political instability in much of the developing world.¹ The battle to raise living standards through the economic medicine of industrial import substitution and a strong interventionist state suffered dramatic setbacks. According to the World Bank, living standards plummeted to the levels of the early 1970s in much of Africa, South Asia, and Latin America.² The life chances of an entire generation of the world's population were compromised along the way.³

At the same time a small group of developing countries—the four Asian tigers, Singapore, Hong Kong, Korea, and Taiwan—came to be viewed as heroes, first by a small group of academics⁴, later by the World Bank, the International Monetary Fund (IMF), and the U.S. Agency for International Development (USAID), and still later by a widening circle of policy makers. Finally they, along with Japan, were elevated to the status of folk heroes by the media.⁵

According to those enamored with their performance, these little dynamos adopted a different medicine—outwardly oriented, export-led economic strategies—and achieved sustained high levels of economic growth accompanied by improved income distribution in the 1960s and

1970s. They weathered the shocks of the 1980s with less economic hardship and political turmoil than their unfortunate neighbors.⁶

Although there was considerable tactical diversity among the tigers, the essential ingredients in their success were outwardly oriented policies pursued in a consistent fashion over a twenty- to thirty-year period, fostered by a state whose size decreased during the period but whose dynamism did not. These were states that encouraged the development of a strong private sector in an environment of political continuity.⁷

As the 1970s drew to a close, policy makers from crisis-plagued developing countries as well as the World Bank and the IMF became increasingly convinced that at least one part of the message—outwardly oriented economic strategies like those employed by the tigers—might provide the basis of economic recovery and takeoff in developing nations.⁸ But because of the need for quick responses to the economic crisis in the 1980s and the popularization of the Asian tiger story, other essential ingredients got lost in the shuffle. This complex and subtle story somehow got translated into evidence for rapid, often simultaneous economic and political liberalization with a drastically reduced role for the state. As a result the 1980s and 1990s have become the decades of experimentation with this new quick fix for underdevelopment.

In Latin America some countries, like Mexico, Costa Rica, and Chile, continued with relatively successful experiments to open their economies. Costa Rica maintained its democratic traditions, while Chile edged toward political opening after years of pursuing an outward economic orientation. But Bolivia and twelve other Latin American countries began the more difficult task of simultaneous economic and political liberalization later and with differing levels of success. By the end of the 1980s only a few "museum pieces" like Paraguay and Panama continued under authoritarian rule.⁹ As the 1990s began these countries started to liberalize as well. Similar openings began in Asia, the fifteen republics of the former Soviet Union, and Eastern Europe. In Africa the curtain rose on the struggle for multiparty democracy.

Some observers view the rising tide of rapid economic and political liberalization as an irreversible step along the path of human progress. For example, Milovan Djilas, a keen observer of and participant in post-World War II developments in Eastern Europe, commented recently:

The ruling class has been dissolving [in Eastern Europe]. It is no longer capable of government by the old ideology and methods. . . . The prolonged inefficiency of monopolistic government and restricted freedom of ownership have brought about the present situation. With the former and without the latter, further development of the forces of production is not possible.¹⁰

Others who tend to popularize such ideas place liberalization on the same plane as the smallpox vaccine. They treat the astonishing reversal of economic and political strategy in countries like Hungary, Poland, Nicaragua, Ghana, and Mozambique as confirmation of this viewpoint. Politicians from the industrial countries frequently express these views. For example, former U.S. president George Bush commented:

A new breeze of freedom is gaining strength around the world. In man's heart, if not in fact, the day of the dictator is over. The totalitarian era is passing, its old ideas blown away like leaves from an ancient leafless tree.¹¹

Britain's former prime minister was a bit more cautious:

Mrs. Thatcher told Commonwealth leaders that communism was in crisis. But she warned that while the "secular religion" of communism had been discredited and had lost its inner faith it retained its outer power. Thus, the West had to maintain secure defenses.¹²

More than fifty years ago Rudyard Kipling counseled even greater caution to those inclined to jump too quickly onto the bandwagon with politicians who look for simple solutions.

I could not dig; I dared not rob;
Therefore, I lied to please the mob.
Now all my lies are proved untrue
And I must face the men I slew.
What tale shall serve me here among
Mine angry and defrauded young?¹³

If we heed Kipling's warning, we might conclude that it is still early to draw conclusions about the implications of the wave of rapid economic and political liberalization that took place in the 1980s for the developing world. In a generation or two the plans for immediate, radical privatization in the former Soviet Union may seem as naive as the rapid collectivization of agriculture there after the Russian Revolution or the Great Leap Forward in China. Development is just not that easy. There is no quick fix.

Kipling's counsel might be to step back and take a more careful look at the lessons of successful development performance from the past three decades. Such a perspective brings new dilemmas into focus. For example, one must look beyond the Asian tigers and ask what the other top developing-country economic and social performers did to achieve their progress. Perhaps there are deeper common threads that led to improved human development—the process by which people expand their life

choices by gaining greater access to economic resources, improving their ability to acquire knowledge and increasing their chances of a long and healthy life. Second, as I noted earlier, many politicians assume that rapid, simultaneous economic and political liberalization and a quick reduction in the size of the state are indivisible parts of the remedy. Yet it is not at all clear that the developing-country high performers took their medicine exactly this way. Finally, those who see history as either cyclical or dialectical remind us that today's medicine often becomes tomorrow's poison.¹⁴ They argue that strong counterforces in most developing societies are waiting in the wings for the first signs of failure to reverse the process. One need only remember the drama of Tiananmen Square in the People's Republic of China, which was the first major illiberal counterrevolution of the 1980s, the internal conflicts in the new republics of the former Soviet Union, or the resilience of some of the African authoritarian regimes to find evidence for the fragility of the new processes.¹⁵ Instead of making irreversible advances along the path of human progress, some nations may tumble into a decade or two of real chaos.

The Search for Solutions

The search for strategies of development in poor countries in the 1990s poses new problems for scholars and policy makers alike, particularly those who step back from the temptation of quick fixes and try to put several decades of development experience in perspective. According to some students of the subject, there is a growing consensus that well-implemented policies have made a difference in country performance.¹⁶ Yet others suggest that policy makers in developing countries have been no more than prisoners of world economic forces.¹⁷ Still others argue that country performance is paralyzed by internal factors such as small country size and poor natural resource endowments.¹⁸ What does recent development experience tell us about the relative importance of good policies, sound implementation, and strong social support, as opposed to other factors? Finally, those charged with the responsibility of improving the immediate well-being of their nation's population rightfully ask, does the post-World War II experience tell us anything about potentially successful development strategies for poor countries in the next twenty years? If so, how might these insights be most effectively transmitted?

The Purpose of This Book

The primary objective of this book is to shed light on the key questions about post-World War II development. These questions are:

1. What have been the characteristics of developing-country high human development performers?
2. Is there evidence that policy choice and implementation have been as important as external factors like world economic cycles or internal contextual factors like size or natural resource endowments in performance?
3. What role has the state played, and how important have regime type and political and civil rights been in this process?
4. How much of a wave of rapid economic and political liberalization has really taken place in developing countries in the 1980s?
5. Have countries that have ridden this wave achieved higher rates of growth and performance or is it too soon to tell?
6. Finally, what lessons if any might be drawn for development policy for the next decade?

A second important purpose of this book is to provide an integrative methodology for studying development. The questions will be addressed through two different research approaches: (1) an analysis of ninety developing countries as a group and in cross sections, and (2) a deeper historical study of six Central American countries. Each of these methods can be thought of as a lens that permits a different focus—unfortunately, at the expense of others.

Another objective is to help in the search for paths to development in one group of small poor countries where I spent almost one quarter of my life and about which I care deeply. Perhaps a greater understanding of the options open to them will shed particular light on choices for other small developing countries as well as for developing nations in general. My final objective is to present the results in a way that is accessible to policy makers. I have dropped as much technical discussion as possible into notes and appendixes to emphasize readability.

The book is organized as follows. Part II (Chapters 2–4) provides a global analysis of human development performance in developing countries between 1965 and 1990. Part III (Chapters 5–7) looks at the same issues in one region, Central America. Chapter 2 identifies high human development performers and the factors underlying their achievements between 1965 and 1987. It uses the first lens described earlier—cross-sectional and longitudinal analysis of a large data set. Chapter 3 continues with this lens to explore the role of political and institutional factors like regime type in human development. It also assesses the performance of

nations that attempted rapid economic and political liberalization in the 1980s. Chapter 4 concludes the global analysis with a look at the role of overall governance structures and human development performance. Chapters 5 and 6 treat the same issues using the second lens—deeper but longer historical analysis—for six Central American countries from 1930 through 1988. Chapter 7 looks at the roots of differences in human development performance among the Central American countries. The final chapter briefly summarizes some of the lessons of human development performance for development practitioners.