Human Resources Development and Operations Policy
The World Bank
March 1993
HROWP 1

SOCIAL DEVELOPMENT IS ECONOMIC DEVELOPMENT

Nancy Birdsall

Papers in this series are not formal publications of the World Bank. They present preliminary and unpolished results of analysis that is circulated to encourage discussion and comment; citation and the use of such a paper should take account of its provisional character. The findings, interpretations, and conclusions expressed in this paper are entirely those of the author(s) and should not be attributed in any manner to the World Bank, to its affiliated organizations, or to members of its Board of Executive Directors or the countries they represent.
Social Development is Economic Development

by
Nancy Birdsall
Nancy Birdsall is the Director of the Policy Research Department of the World Bank. This paper was originally presented to the Delegates of Social Committee, United Nations General Assembly on October 19, 1992. This statement and the accompanying charts rely heavily on materials in World Bank publications. The actual statements, however, are those of the author, and do not necessarily reflect the views of the World Bank or its affiliated organizations.
Abstract

Social development, in addition to improving human welfare directly, is an excellent investment -- in terms of its contribution to economic growth. This is the hard nosed economic fact. Even a narrow interest in growth for growth’s sake dictates putting your money into social development programs.

But investing in social development does not guarantee growth all by itself -- so those concerned with social progress cannot absent themselves from the larger debate about other aspects of economic policy in their countries.

Moreover, making social programs work is not simple -- it is not simple from a political point of view, and not from a technical and administrative point of view.

Still, we know from the experience of some of the poorest countries that it can be done.

Finally, increases by the World Bank in support for social investment -- from $1 billion for 1987-89 to more than $3 billion for 1990-92 -- indicate growing awareness that social development is economic development -- both as an end in itself and as a good investment in economic growth.
### Table of Contents

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social Development is Good Economics</td>
<td>1</td>
</tr>
<tr>
<td>Social Investments do not Guarantee Economic Growth</td>
<td>10</td>
</tr>
<tr>
<td>Making Social Programs Work is Not Simple</td>
<td>13</td>
</tr>
<tr>
<td>Social Progress is Possible in Poor Countries</td>
<td>15</td>
</tr>
<tr>
<td>World Bank Lending for Social Development</td>
<td>19</td>
</tr>
</tbody>
</table>
The fundamental goal of economic development is not economic growth, but improvement in human welfare -- what we often call human development, or social development. By any sensible measure of human development, the postwar development effort has been an astonishing success -- a point that is too often overlooked in assessments of the past 40 years. Life expectancy, one of the single best measures of overall welfare because it reflects not only the length of life but access to health care and good nutrition, and because as a statistic it will not increase in a country where development gains are not widely shared, has risen in developing countries from about 45 to 65 years in the last four decades. In the same period, adult literacy increased dramatically, primarily because of increases in formal education -- in Indonesia, for example, from just 17 percent in 1950 to 67 percent in 1980.

Yet despite success, we have a long way to go. In some regions and countries, much less progress has been made. To illustrate, consider that in 1980 in Africa, South Asia and the Middle East, more than 100 of every 1000 children died before age 5 (Chart 1, left hand side, top portion). Moreover, the recessionary 80s slowed down progress in all too many countries. The right hand side of the top portion of Chart 1 shows the percentage reduction in deaths to children between 1975-80 and 1980-85. The reduction in deaths was smallest in Africa, and small in South Asia compared to elsewhere -- in other words reductions were lowest where the initial problem was worst.

But the purpose of my presentation today is not to describe the current situation and the recent past. Let me tell you briefly the four points I do wish to make today.

1. First, that social development, in addition to improving human welfare directly, is an excellent investment -- in terms of its contribution to economic growth. This is the hard-nosed economic fact. Even a narrow interest in growth for growth's sake dictates putting your money into social development programs.

2. Second, that investing in social development does not guarantee growth all by itself -- so those concerned with social progress cannot absent themselves from the larger debate about other aspects of economic policy in their countries.

3. Third, that making social programs work is not simple -- it is not simple from a political point of view, and not from a technical and administrative point of view.

4. Fourth, that despite the difficulties, it can be done; some of the poorest countries have shown it can be done, and provide lessons on how it can be done.

Before closing, I will also say a word about the World Bank's lending for social development.

**Social development is good economics**

Let me turn now to the first point; that social development is good economics -- that social programs are superb investments in future economic growth.

Consider education. Chart 2 shows the positive association between school enrollment in 1960 across more than 90 countries -- developed as well as developing -- and those countries' average rates of growth over the entire period 1960 to 1985. The rising line tells us the return is positive, and quite strongly so. Moreover, the relationship is extremely robust. As shown in the chart, it
Chart 1: The Impact of Recession on Social Indicators in Developing Countries

Under 5 mortality rates

Deaths per thousand children under 5, 1975-80

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage Reduction</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia</td>
<td></td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td></td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td></td>
</tr>
<tr>
<td>South Asia</td>
<td></td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td></td>
</tr>
</tbody>
</table>

Primary enrollment rates

Net enrollments as percentage of children age 6-11, 1980

<table>
<thead>
<tr>
<th>Region</th>
<th>Percentage Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>East Asia</td>
<td></td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td></td>
</tr>
<tr>
<td>Europe, Middle East, North Africa</td>
<td></td>
</tr>
<tr>
<td>South Asia</td>
<td></td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td></td>
</tr>
</tbody>
</table>

Chart 2:

Partial Association between per Capita Growth and School Enrollment Variables

takes into account differences across countries in initial income and other factors that also affect growth. The statistical work confirms strongly what we already know almost instinctively -- that an educated population is the key to long-term growth. A country may grow for limited periods on the basis of mining its natural resources, or by large infusions of foreign aid -- but to sustain the growth process there is no substitute for educated people.

Let me give you one quantitative example. As many of you know, in 1960 countries like Korea and Japan had much higher enrollment rates than would have been expected given their 1960 levels of income. In Korea, the primary school enrollment rate was 94 percent, whereas at that income level, its expected enrollment -- given the average relation across countries between income and enrollment -- would have been 60 percent. For Korea, this relatively high enrollment rate in 1960 is associated with an annual growth rate for the next 25 years that is 1.4 percent higher than it would otherwise have been. Not 1.4 percent for the entire period, but 1.4 percent each year -- i.e. something like a difference in per capita income in 1985 of 30-40 percent more than it would have been -- with this additional boost in growth explained by the greater than expected amount of education in 1960. Unhappily, the opposite is true for many countries in Africa, which had lower human capital in 1960 than would be expected given their incomes at the time, possibly because of relatively great reliance then on natural resources. For Senegal, the lower than predicted education in 1960 is associated with an annual growth rate that is 1 percent less per year over the 25 year period.

The same effects of education show up in other ways at different levels of analysis. More educated workers earn higher income, so that education is a good investment for parents to make in their children -- an obvious point to any man or woman on the street. As Chart 3 shows, the private rate of return to primary and secondary education, based on country studies, all in developing countries, is at or above 18 percent a year. (The social returns are about 15 percent-- the difference in these studies reflects public costs of education, and not any positive spillovers to society of education over and above the private benifit embodied in higher individual income with more education.) This return implicitly takes into account the time lag between the investment and the resulting higher wage or salary. Who would not want today a long-term, virtually guaranteed return of 18 percent on his or her money?

Even more convincing is evidence that education raises the output of farmers -- since, for example, a farmers’ output cannot be higher with education just because his education made it easier to get the job in the first place. In Malaysia, Ghana and Peru, studies show that on average, one additional year of education of a farmer is associated with an annual increase in output of between two and five percent -- this is taking into account farm size, inputs, hours worked and other factors. Why should this be the case? -- because better educated farmers absorb new information quickly and are willing to innovate, to use unfamiliar inputs and try new processes. In Thailand, farmers with four years of schooling were three times more likely to adopt new fertilizers and other inputs than farmers with 1-3 years of schooling.

Finally and most importantly, education has a high social return as well -- that is educated people, and especially educated women, bring benefits to society as a whole, not only to themselves -- and do so even if they never enter the formal workforce and never earn a peso or a rupee. For example, as Chart 4 shows, educated women have healthier children. In Africa, one out of five children dies before the age of five if her mother has no education. The probability is more than halved for children whose mothers have seven years of education. Educating women matters more for childrens’ health (and indeed their education) than educating men -- so from a social point of
Chart 3: Returns to Investment in Education by Level, (Latest Year)

Chart 4: Educated Women Have Healthier Children

Source: Lawrence H. Summers. 1992. "Investing in All the People - Educating Women in Developing Countries."
view, there is a greater bang for the buck in putting bucks, or rupees, or pesos, into girls' than into boys' education. This is not so surprising. Many studies show that mothers channel more of their own income to expenditures on children than do fathers -- and of course in virtually all societies women are much more heavily involved in the immediate care of children and in the critical decisions about food, sanitation, and general nurturing, all of which affect children's health and development.

Chart 5 illustrates the power of women's education. It shows the relationship between infant mortality and the ratio of women's secondary education to men's. Note for example that in Latin America, there are about 110 women for every 100 men receiving secondary education, but in South Asia, only about 55 women for every 100 men. As is clear, infant mortality is closely associated with these differences, even after taking into account econometrically other differences such as income across the regions.

It is also true that educated women have fewer children, again controlling for all kinds of other factors such as family income, access to health, and access to family planning services. In South Asia, women with no education have 7 children on average (Chart 6). Women with 7 years or more of education have fewer than 4 children. One reason is that women with education are much more likely to seek out and use family planning services -- just as farmers with education are more likely to quickly adapt new inputs or processes.

Women's education even has environmental benefits. The report of the World Bank on environment and development, prepared for the Rio Conference, concluded that investing in women's education is one of the highest return investments in environmental protection -- because it reduces fertility, discourages forest clearing by insuring women have better work options, and improves women's ability to manage natural resources.

These same findings about the direct economic impact of social investments show up in health as well. A simple example is the effect of sickness on loss of work time. As Chart 7 shows, workers in Ghana, Indonesia and Peru report they are sick between 3 and 5 days a month on average (the first bar for each country except the United States) -- this is a lot of sickness. Compared to the United States, they report much more loss of work -- about one day a month compared to 1/4 day in the U.S. Worst of all, these days lost from work amount to a potential income loss of between 3 and almost 7 percent per month in these countries -- compared to an income loss of less than 2 percent in the United States. These poorer countries and families can ill afford such losses.

Moreover, there is something very special about public investments in health, education, nutrition and family planning. They complement and interact with each other in a manner which raises the economic return to any one of them the more there is of another. I have already noted this in the case of educating women and their use of family planning -- educated women are more likely to use available family planning services, which in itself can reduce the cost of providing services. Consider other examples.

First, there is systematic evidence from many settings all over the world that children who are poorly nourished or chronically sick do less well in school. So investing in the health of children raises the economic benefits of investing in schooling.

Second, recall that educated women have healthier children (Chart 4).
Chart 5: Educating Women Reduces National Infant Mortality

Chart 6: Educated Women Have Fewer Children
Chart 7: THE ECONOMIC BURDEN OF ADULT ILLNESS
Selected countries and years

Third, women who use family planning have children that are born farther apart and are healthier -- again this is true not only because such women come from richer households and have more education; it is true even after these factors are taken into account.

Fourth, educated adults are more effective users of their own income in maximizing nutritional gains from food -- for themselves and their children.

Fifth, women who receive some education, and are then employed, provide an example to young girls. For example, women employed in family planning outreach work in rural Bangladesh have had a considerable impact not only in family planning, but in gradually bringing a quiet revolution in women's status in the villages, including in attitudes toward educating girls.

Chart 8 portrays the powerful synergy among social programs in a very simple way. It is from a major report the World Bank completed more than ten years ago, called poverty and human development. It illustrates what was called in that report a seamless web. The words printed outside the circles refer to public investment, such as in education and water supply, and to public policies that affect income such as trade and taxation. In this seamless web, public investments and policies affect not only one part of the web -- they affect all the others. For example, public investments in education affect nutrition and fertility as well as education, and public investments in water supply not only improve health but increase education -- for example by reducing childrens' absences from school or their inability to learn because they are beset with parasites and have less energy. This seamless web is analogous to a virtuous circle -- but with many more positive and thus powerful interactions.

I have taken a long time to make a simple point: Investing in social development is good economics. It leads to higher income and more economic growth -- and to more education, health of this and the next generation. It is not just the soft-hearted who should be concerned with improving health, education, family planning, sanitation and other programs. It is the hard-headed as well.

Social Investments do not Guarantee Economic Growth

Let me go to my second point: that investing in people and in social development is not enough. The nature of the economy also matters -- in particular, the poor cannot benefit from more education and better health if they are not able to use their human assets to increase their own incomes. The principal asset of the poor is labor: it is not surprising that the countries of East Asia that have had the fastest growth over the last 30 years -- Korea, Malaysia, Thailand, Indonesia, for example -- have not only invested heavily in social programs. They have also avoided macroeconomic distortions discouraging use of labor. Economic policies have ensured, including through emphasis on labor-intensive exports, that their abundant resource, the labor and skills of their farmers and urban workers, has been in heavy demand. In unfortunate contrast, some countries, such as the Philippines and Sri Lanka, despite heavy investments in social programs, have wasted some of the potential for translating these human assets into higher income for the poor -- in part due to policies that in effect penalized labor.

Chart 9 illustrates this point for a broad range of developing countries. The chart shows average growth rates for the 1965-87 period of 60 developing countries. The countries are classified
Chart 8: Policy and Poverty

- Land ownership and tenure
- Technology and research
- Domestic Saving
- External capital
- Investment allocation
- Agriculture
- External trade
- Taxation and transfers

Chart 9:

Policy distortion, education, and growth in GDP, sixty developing economies, 1965-87

into four categories. The worst category is in the bottom left corner -- these are countries with an average of 3.5 years of education or less; and a black market premium on their exchange rate of 30 percent or more over the period. Their economies grew at an average rate of 3.06 percent per year. In contrast, the countries included in the top right bar, with average education of more than 3.5 years and black market premia below 30 percent, grew at 5.53 percent per year.

Other studies show that the economic returns to education have been consistently higher in East Asia and Latin America than in South Asia or Africa over long periods. This could be because policy-induced distortions have been greater in Africa and South Asia. (It could also be that economic returns to education increase with increases in education, i.e. there may be a kind of threshold, say at an average of four years of education among workers, above which the social benefits of education increase exponentially -- for example if certain production processes and the capacity to change processes as new technologies emerge requires that most workers have a minimum amount of education.)

This phenomenon -- of different returns to social investments depending on the economic environment -- is true in fact of all investments. A study in the World Bank of the returns to projects supported with World Bank financing illustrates the result well. The study looked at returns to projects of all kinds -- in education, transport, agriculture, and so on -- taking into account four measures of the economic environment: trade restrictions, the black market premium, the real interest rate as a percentage of GDP, and the size of the fiscal deficit. As Chart 10 shows, returns to project investments were systematically higher where these distortions were smaller.

Making Social Programs Work is Not Simple

I now turn to my third point: Investing in social programs and making them work is not simple -- politically or technically. Since social development is good economics, it is reasonable to ask why social programs are often poorly funded. Why don't governments put more resources into these high-return investments? If there is no tradeoff between social programs and economic growth, why in some settings are social programs bereft of resources? Let me suggest two answers.

The first is that investing in social development means investing in the poor -- it means that a larger share of public spending will go to the relatively poor. There is a politically sensitive tradeoff in every country between investments in the poor vs. the non-poor. Certainly that is the case in OECD countries. This political tradeoff may go some way toward explaining why the infant mortality rate today is higher here in New York City than in Shanghai, China. It is also the case in developing countries.

The second reason why we do not see more investment in social programs, despite their high economic and social benefits, is that social programs are not easy to run efficiently. Compared to building a road or running an electric utility, they are intensive in management skills -- which are relatively scarce in all governments everywhere. In addition, because social programs are usually provided by the public sector, they are not subject to the management and organizational discipline that competition enforces in the private market. Many government officials are aware that their social programs could be more efficiently run -- and hesitate to direct scarce resources to poorly run programs.
Chart 10:

Economic Policies & Average Economic Rate of Return for Projects Financed by the World Bank and the IFC, 1968-89 (1%)

What can be done? Given the political tradeoff, I believe it is helpful to increase understanding and transparency, in all societies, about the way public money is and can be spent. Consider some examples of how public money could be better spent within social programs. In health, as Chart 11 shows, it costs a lot more ($500-5000) to save a life through hospital care and other curative services than through private and community services. Preventive services such as immunizations, and community services such as antimalarial spraying, are much more cost-effective in saving lives. But where does most public money for health go? In developing countries in the early 1980s, between 70 and 85 percent (Chart 12) went to curative services -- and thus much less to those services that are both more cost-effective and more likely to reach the poor.

What about education? Many studies indicate that the social returns are higher to primary than to secondary and higher education -- and of course the poor benefit most from spending on primary education, since many children of poor families do not ever go to higher levels. Chart 13 shows that countries such as Indonesia and Korea -- the countries that have grown fast and shown across-the-board social gains -- spend a higher proportion of their total education budget at the primary level, than India, Ghana, or countries in Latin America. One way they are able to do this is by spending relatively less per student at the higher level. Spending per university student in Korea and Thailand is ten times spending per primary student (Chart 14). But in anglophone Africa, Bangladesh and India, spending is 40 to 50 times higher. The difference in the ratio of spending partly reflects the higher relative costs of university education in poor countries, where the wages of university faculty are high compared to wages of primary school teachers. But it also reflects relatively greater spending per pupil at the primary level in the first set of countries -- where primary education has been a social and political priority -- net of salaries. And, in the case of Africa, it reflects publicly financed stipends for university students, many of whom come from high-income families.

These patterns of public spending reflect hard, but hardly immutable, social and political realities. Consider the change in Chile over the last 20 years -- where there has been a shift in public spending for education in favor of the poor (Chart 15). This improvement in the targeting of public spending is partly due to greater emphasis on putting public money into primary and secondary schooling, rather than higher education -- a strategy that countries such as Indonesia and Korea have implemented over many years.

Social Progress is Possible in Poor Countries

Let me turn now to my fourth point -- that faster progress in social development is not only desirable but possible. Countries such as Costa Rica, Indonesia, Sri Lanka, Korea and China have demonstrated that it can be done and done within the bounds of reasonable budgets. For addressing the political and administrative challenges of delivering social programs, especially to the poor, there is no one solution applicable in all countries. But these countries did two things: (1) They emphasized universal access to basic services: primary education, primary health care, family planning. (2) They relied on private and community initiatives rather than a highly centralized public sector. In one way or another they have exploited market incentives, either by permitting a large private sector to provide services to those able to pay, for example in secondary and higher education in Korea; or by emphasizing community initiatives and financing as in Thailand, China and Indonesia.
Chart 22: Cost of Various Health Services

Approximate total per additional life saved

Chart 23: % of Total Expenditure on Health

Spending for Various Health Services

Source: Preventive Health Services in Developing Countries: An Appraisal Report, A. World Bank

Page 16
Chart 13: Share of Public Spending on Education by level

[Bar chart showing spending by level for Latin America, Ghana, India, Indonesia, and Korea in 1995.]

Chart 14: Ratio of Unit Cost of Higher to Primary Education

[Bar chart showing the ratio of unit cost for Anglophone Africa, Bangladesh, India, Korea, and Thailand.]


Chart 15

Who gained from public spending on education? Chile, 1974 to 1986

World Bank Lending for Social Development

The rapidly increasing involvement of the World Bank in lending for social or human development provides an indication of the growing awareness of social programs as good investments. World Bank lending for human development programs increased from an average of $1.1 billion per year in (fiscal years) 1987-89 to $3 billion in 1990-92 (Chart 16). For the same years the number of projects increased from 26 to 45 (Chart 17). Lending is projected to increase to $5.5 billion per year in the 1993-95 period. Lending for population, health and nutrition has grown especially fast. Over the last three decades, lending has broadened beyond provision of physical infrastructure for schools, health clinics and training centers to lending in broad support of investment programs, including for adjustment and reforms in the social sectors. Projects now cover the full range of education, population, nutrition, women in development, and employment services. In addition, the Bank has supported social safety net programs and social emergency and investment funds as a means to protect the poor in countries undertaking adjustment programs.

I want to conclude by returning to my first point -- that investing in social development is good economics. In the UN, I am sure that you hear much special pleading for one cause or another, and it must be difficult to know where scarce resources can best be spent. What I have tried to suggest today, as an economist, and using hard-nosed economic tools, is that investments in people, in human and social development, have among the highest economic returns of all possible spending directed to long-term economic development. Lawrence Summers, the Chief Economist at the World Bank, noted in a speech at the Annual Meetings of the World Bank and the International Monetary Fund last month, that it would cost $3 billion a year to educate enough girls in developing countries to make female enrollment as high as male enrollment. $3 billion is less than 1/4 of 1 percent of developing countries’ GDP — a paltry amount for what is probably the best single social investment. Current projections suggest that developing countries will spend $1 trillion on power plants over the next ten years. In many of these nations, existing power plant utilization is less than 50 percent due to poor maintenance and pricing problems. As Dr. Summers said, it is hard to believe that building 29 out of every 30 planned power plants and using the savings to finance enough education to ensure equal educational opportunity for girls, would not be desirable. I would add: It is hard to believe that building 29 of every 30 power plants and spending the $3 billion thus saved for any one of a number of social programs would not yield greater returns, not only in social terms but in economic growth as well.
Chart 16: Average Annual World Bank Lending for Human Development

Chart 17: Average Annual Number of World Bank Human Development Projects