Poverty

Brief Digest

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INTRODUCTION

Despite the impressive level of economic growth the developing world has achieved over the past quarter century, some 800 million individuals there remain caught up in absolute poverty: a condition of life so limited by malnutrition, disease, illiteracy, low life expectancy, and high infant mortality as to be beneath any rational definition of human decency.

The self-perpetuating plight of the absolute poor has tended to cut them off from the economic progress that has taken place elsewhere in their own societies. They have remained largely outside the entire development effort, able neither to contribute much to it, nor to benefit fairly from it.

Unless specific efforts are made to bring them into the development process, no feasible degree of traditional welfare, or simple redistribution of already inadequate national income, can fundamentally alter the circumstances that impoverish them

The only practical hope, then, of reducing absolute poverty is to assist the poor to become more productive. The World Bank has put a major emphasis on that strategy in its lending operations over the last several years projects specifically designed to enhance the earning power of the poor

A critical component of that approach is for governments of developing countries to provide better access for the absolute poor in their societies to essential public services, particularly basic education, primary health care, and clean water These fundamental services—combined with the better shelter and nutrition that improved incomes can afford—are the key to the poor's being able to meet their own basic needs

None of this can be achieved, of course, except in a climate of economic growth But growth alone—essential as it is—cannot assist the poor unless it reaches the poor And it does not reach the poor well enough today in much of the developing world. It all too often passes them by.

In this situation the right kind of public services are those which not only reach the poor, but help them alter their personal circumstances so that their own inherent potential can be more fully realized

What the Bank's experience clearly demonstrates is that investment in the absolute poor's human development is not merely more equitable social policy, but very sound economics as well.

In June 1980, we published a booklet of articles on *The World Bank and the World's Poorest*. This present series on *Poverty and Basic Needs* continues that discussion and examines the task of redesigning and expanding those essential public services that can help transform the deprivations of poverty into the enhancement of human achievement.

Robert S McNamara

Over the past 25 years, the emphasis of development strategies has been adapted to changing experiences. From an initial concentration on growth, we moved to stressing the creation of employment, and then the redistribution of benefits to the poor. Although the purpose of development was sometimes lost in the technical complexity of the means, it was then, as it is now, to reduce mass deprivation—to give everyone the opportunity to live a full life. This article describes how the latest approach with its emphasis on basic human needs evolved, and why it is more finely tuned to its objective than previous approaches.

Paul Streeten

How is it that, in spite of growing hostility and misconceptions, the concept of "basic human needs" has been so widely accepted as the principal objective of development policies? Among the advocates of a basic needs approach to development are not only bilateral and multilateral donor agencies, but also thinkers from the Third World whose views are expressed in documents such as *The Declaration of Cocoyoc* (1974), *What Now—Another Development* (1975), prepared by the Dag Hammarskjöld Foundation, *Catastrophe or New Society?* (1976), prepared by the Bariloche Foundation in Argentina, and *Reshaping the International Order* (1976).

In order to understand the wide appeal of this approach, it is helpful to reflect on how the concept has evolved and on the way in which accumulating experience has called for changes in the approaches adopted by development policymakers. Otherwise we might be tempted to say that the international development community takes up, from time to time, new fads and fashions, or that we are acting out a comedy of errors. Basic needs is not just another fad. (Nor, of course, is it the revelation of ultimate truth.) It is no more, but also no less, than a stage in the thinking and responses to the challenges presented by development over the last 20 to 25 years.

If, in the following pages, the deficiencies of the prebasic needs approaches are stressed and the virtues of the basic needs approach overstressed, this is done in order to bring out sharply its distinctive features. It is not intended to imply either that the previous approaches have not taught us much that is still valuable, or that the

basic needs approach is not subject to many of the objections raised to earlier approaches, and some additional ones.

Basic needs is concerned with removing mass deprivation. The approach can be defined briefly as one which is designed to improve, first, the income earning opportunities for the poor; second, the public services that reach the poor; third, the flow of goods and services to meet the needs of all members of the household; and fourth, participation of the poor in the ways in which their needs are met. All four pillars must be built on a sustainable basis. In addition, basic needs must be met in a shorter period and at lower levels of earned income per capita than has generally been true in the past, or than would have been achieved via the income expansion associated with growth alone.

The early discussions of development in the 1950s had the same concern with deprivation. But, strongly influenced by Sir Arthur Lewis and others, these discussions concentrated on economic growth as the most effective way of eradicating poverty. It was on the growth of incomes, especially in modern, organized, large-scale industrial activity, that the hope for improvement in basic welfare was built. At this early stage, it was quite clear (in spite of what is now often said in a caricature of past thinking) that growth was not an end in itself but merely a performance test or an indicator of development.

There were three types of justification for the emphasis on a country's economic growth as the principal performance test. One was the belief that the gains from economic growth would automatically "trickle down" to the poor and their benefits would spread through market forces, raising demand for labor, raising its productivity, and raising wages, or lowering prices. There were, of course, even in the early days, some skeptics who said that the process of growth tends to give to those who already have, not to spread its fruits widely.

Alternatively, the assumption was made that governments are democratic, or at any rate concerned with the fate of the poor, and will extend the benefits of growth by policies such as progressive taxation or social services. If, in fact, market forces did concentrate benefits, governments would correct them.

The third justification was the more hardheaded belief that in the early stages of development the fate of the poor must not be a major concern. The best way to help them, it was argued, was first to build up the capital, infrastructure, and productive capacity of an economy. For a period of time—and it can be quite a long period—the poor might even have to go through a process of belt tightening, while the benefits from development would go mainly to the rich. But if the rewards of the rich are used to provide incentives to innovate, to adapt, to save, and to invest, the accumulated wealth will eventually benefit the poor.

This view was supported by analysis based on the U-shaped so-called Kuznets curve, which has strongly influenced thinking about development. According to this model, the early stages of growth are accompanied by growing inequality. Only at an income of about $600 per capita (in 1973 dollars) is further growth associated with reduced inequality (measured by the share of the lowest 20 per cent of the population).

Dualism and unemployment

Each of these three assumptions turned out to be wrong, or at least not to be universally confirmed, as we gathered more experience. Income did not automatically trickle down to the poor, except possibly in a few countries, with special initial conditions and policies; nor did governments (not surprisingly) always take corrective action to reduce poverty; and it certainly was not true that a period of increasing poverty or inequality was needed in order to accumulate capital and stimulate entrepreneurship. It was found that small farmers saved at least as high a proportion of their income as big landlords, and were actually more productive in terms of yield per acre, and that entrepreneurial talent was widespread and not confined to large or foreign firms.

Judging by economic growth, the development process of the last 25 years was a spectacular, unprecedented, and unexpected success. But judged by poverty reduction, it was much less successful. Growth was often accompanied by increasing dualism—the expansion of the modern, urban, large-scale manufacturing sector alongside slow growth or stagnation in the rest of the economy. Despite high rates of growth of industrial production and continued general economic growth, not much employment was created. Nor were the benefits spreading to the poor. In 1954, Sir Arthur Lewis had predicted that subsistence farmers and landless laborers would move from the countryside to the higher-income, urban, modern industries. This would increase inequality in the early stages of growth (as long as rural inequalities were not substantially greater than urban inequalities), but when all the rural poor were absorbed in modern industry, the golden age would be ushered in, when growth would be married to equality.

The Lewis predictions, which dominated not only academic thought but also political action in the early days of development, did not turn out to be true for three reasons. (1) The differences between rural and urban incomes were much greater than Lewis had assumed, owing partly to trade union action on wages, partly to minimum wage legislation, and partly to income differentials inherited from colonial days. (2) The rates of growth of the population and of the labor force were much larger than expected. (3) The technology transferred from the rich countries to the urban industrial sector was labor saving and did better at raising labor productivity than at creating jobs.

The reaction to the growing dualism that had resulted from modern, industrial growth was to turn to the need to create employment. Since 1969, work by the International Labor Organization's missions to seven countries has shown that "employment" and "unemployment," as these are defined in the industrial world, are not illuminating concepts for a strategy to reach the poor in the developing world. Experience in many countries showed that "unemployment" can coexist with considerable labor shortages and capital underutilization. (Gunnar Myrdal had criticized the employment approach in *Asian Drama* earlier.)

"Employment" and "unemployment" only make sense in an industrialized society where there are employment exchanges, organized and informed labor markets, and social security benefits for the unemployed who are trained workers, willing and able to work, but temporarily without a job.

There are none of these institutions in many developing countries. The root problem of poverty in the developing countries is not unemployment. It is very hard work and long hours of work at unremunerative, unproductive forms of activity. This discovery has drawn attention to the informal sector in the towns: the blacksmiths, the carpenters, the sandal makers, the builders, and the lamp makers—all those who often work extremely hard, are self-employed, or are employed by their family, and are very poor. And it has drawn attention to the women who, in some cultures, perform hard tasks and work long hours without even being counted as members of the labor force. The problem then was redefined as that of the "working poor." Not only labor but also capital are grossly underutilized in many developing countries, which suggests that causes other than surplus labor in relation to scarce capital are at work. There are three types of causes of low labor utilization in developing countries, none of which is captured by

the conventional employment concept, but all of which are important if development is to mobilize fully the abundant factor—labor. These can be classified under (1) consumption and levels of living; (2) attitudes; and (3) institutions.

Nutrition, health, and education—aspects of the level of living—are important for fuller labor utilization. But they have been neglected because in rich societies they count as consumption, which (except for some forms of education) has no effect on human productivity (or possibly a negative one, like four-martini lunches). In poor countries, better nutrition, health, and education can increase production. They constitute forms of investment in human resources. (This is one thread that goes into the fabric of the basic needs approach.)

Attitudes also make a difference to what jobs people will accept. In Sri Lanka, for example, a large part of unemployment is the result of the aspirations of the educated, who, as a result of their education, are not prepared to accept manual, "dirty" jobs.

The third dimension is the absence or weakness of such institutions as labor exchanges, credit institutions, and an appropriate system of land ownership or favorable tenancy laws. As a result, labor is underutilized.

For reasons such as these, an approach to poverty which runs in terms of unemployment and underemployment, in which levels of living, attitudes, and institutions are assumed to be adapted to full labor utilization (as they are in industrial countries), or automatically adaptable (as they are in Marxist theory, though not in Marxist practice), has turned out to be largely a dead end.

Moreover, and this brings us closer to basic needs, perhaps 80 per cent of the population of developing countries are members of households, so that one might, by raising the income of the head of the household, presume to benefit them. (Some qualifications are discussed below.) But there are perhaps 20 per cent outside these households. These are not the unemployed but the unemployables: the old, the infirm, the crippled, and orphaned children. If we wish to meet basic needs, we ought to be concerned also with those for whom productive and remunerative work is not an option and who do not benefit from being members of a family.

Inequality

With the concern for the "working poor," the attention then switched from dualism and employment to income distribution and equality. The book published in 1974 by the World Bank and the Sussex Institute of Development Studies, entitled *Redistribution with Growth,* was concerned with redistribution. This concern arose from two sets of questions. (1) How can we make the small-scale, labor-intensive, informal sector more productive? How can we remove discrimination against this sector and improve its access to credit, information, and markets? How does redistribution affect efficiency and growth? Does helping the "working poor" mean sacrificing productivity, or is helping the small firm and the small farm an efficient way of promoting growth? (2) How does economic growth affect income distribution? In Bangladesh, India, Indonesia, Pakistan, the Sahel of Africa, and Sri Lanka growth (of a certain type) is necessary to eradicate poverty. But economic growth in some countries—for example, Brazil and Mexico—reinforced and entrenched existing inequalities in incomes, assets, and power. Therefore, not surprisingly, a certain type of growth, beginning with an unequal land and power distribution, made it more difficult either to redistribute income or to eradicate poverty.

It is an empirical question to ask how economic growth affects inequality and poverty, and how both in turn affect economic growth. The answers to these questions will vary from country to country and will depend in large measure upon the initial distribution of assets, the policies pursued by the government, available technologies, foreign trade opportunities, and the rate of population growth. It is another empirical question to ask how policies aimed at reducing inequality and meeting basic needs affect individual freedom. But we also asked ourselves the question: Which objective is more important—to reduce inequality through redistribution or to meet basic needs?

In societies in which many people's levels of living are low the goal of meeting basic needs may have a higher priority than reducing inequality—for two main reasons. First, most people would, rightly, regard meeting basic needs as more important than equality. Equality per se is of no great concern to people, other than to utilitarian philosophers and ideologues. Second, implementing basic needs is a more operational goal than equality. Equality is a highly complex, abstract objective, open to many different interpretations, and it is, therefore, difficult to know what are the criteria for achieving it, quite apart from the difficulties of implementation. On the other hand, meeting the basic needs of deprived groups, like removing malnutrition in children, preventing disease, or educating girls, are concrete, specific achievements judged by clear criteria. If we judge policies by the evident reduction of suffering, the criterion of basic needs scores higher than that of reduced inequality.

Basic human needs

The current emphasis on "basic human needs" is a logical step along the path of development thinking. The evolution from a concern with growth, employment, and redistribution to basic needs shows that our concepts have become less abstract and more disaggregated, concrete, and specific.

The basic needs approach is concerned with particular goods and services directed at particular, identified human beings. Another advantage of the basic needs approach is that it is a more positive concept than the double negatives of eliminating or reducing unemployment, alleviating poverty, or reducing inequality. The basic needs approach spells out in considerable detail human needs in terms of health, food, education, water, shelter, transport, simple household goods, as well as nonmaterial needs like participation, cultural identity, and a sense of purpose in life and work, which interact with the material needs.

Moreover, basic needs have a broad appeal, politically and intellectually. Because of the political appeal, they are capable of mobilizing resources, which vaguer objectives, like raising growth rates or contributing 0.7 per cent of GNP or redistributing for greater equality, lack. Intellectually, they provide a key to the solution of a number of apparently separate, but on inspection related, problems. Urbanization, the protection of the environment, equality, inter-

Ivan Andrews

Paul Streeten

a U.K. citizen, joined the Bank staff in 1976 as Special Adviser to the Policy Planning and Program Review Department. He was Warden of Queen Elizabeth House, Director of the Institute of Commonwealth Studies, and a Fellow of Balliol C[illegible] Oxford (U.K.). Mr. Streeten was Professor of Economics at the University of Sussex, a Fellow of the Institute of Development Studies, and Deputy Director-General of Economic Planning at the Ministry of Overseas Development (U.K.). He was a member of the Board of the Commonwealth Development Corporation and of the Royal Commission on Environmental Pollution, and has published widely on development.

national and intra–Third World trade, appropriate technology, the role of the transnational enterprise, the relation between rural development and industrialization, rural-urban migration, domination, and dependence all appear in a new light and are seen to be related, once meeting the basic needs of men and women becomes the center of our concern.

Income approach and basic needs

Does, then, the basic needs approach represent an improvement on the earlier approaches, which advocated raising the productivity, incomes, and purchasing power of the poor? There are several reasons for thinking that it does. An improvement in only the productivity of, say, poor farmers may not raise their earnings. It may be reflected only in lower food prices and benefit urban food consumers. But even when higher productivity is fully registered in higher earnings, the income approach has serious limitations. Personal income which is earned by an employed worker or self-employed farmer or artisan is sometimes an inefficient way of meeting basic needs and may even reduce the amount spent on necessities. The expenditure pattern of subsistence farmers who switch from growing their own food to cash crops, or are employed in dairy farming, often changes from coarser, more nutritious, to finer, less nutritious, cereals or from food to nonfood items. Nutritional and health standards fall, even though income has risen.

Similarly, when women go out to work and cease to breast-feed their children, incomes rise but health standards fall. We have to see how we can achieve appropriate medical, biological, and physiological standards of nutrition because the methods by which higher incomes are generated may interfere with the availability of nutritious food. There is also the neglected question of the intrahousehold distribution of goods and services. In our surveys we often assume that if the head of the household receives adequate income the other members of the family are also looked after. But the male head of the household often benefits at the expense of the women and children. In these cases simply increasing incomes does not help the deprived "target groups."

Another criticism of the income approach is that, while it may provide adequate personal income to buy needed goods and services in the market, some basic needs cannot be met at all or cannot be met efficiently by private purchases. Such needs as health, education, safe water, and sewerage can only, or more efficiently, be provided for through public efforts. (A minimum private income is, however, often necessary for gaining access to free goods and services: first, to cover the costs of forgone income—of children sent to school who would otherwise have worked on the farm, for example—and second, to cover out-of-pocket expenses, such as transport, clothes, or books.)

Other limitations of the income approach are that it ignores those who are incapable of earning an income—the unemployables—and that it ignores nonmaterial needs. Participation in the design and implementation of projects affecting the poor, a sense of purpose in life and work, and a sense of national and cultural identity built on indigenous values are essential.

The role of nonmaterial basic needs, both as ends in their own right and as means to meeting material needs that reduce costs and improve impact, is a crucial aspect of the basic needs approach. Nonmaterial needs interact in a complex and underexplored way with material needs, but are quite distinct in that they normally do not require the allocation of scarce resources and, therefore, cannot readily be dispensed by the state. But any proper definition of basic needs must encompass a whole range of needs that cannot be met simply by supplying goods to the needy.

The essence of the case for the basic needs approach is that it enables us to achieve a widely agreed-upon, high-priority objective in a shorter period, and with fewer resources, than if we took the roundabout route of only raising employment and incomes, and waiting for basic needs to be satisfied. This is clearly illustrated by the experience of Sri Lanka and the state of Kerala in India, where, at extremely low income levels, life expectancy, literacy, and infant mortality have reached levels comparable to those in the most advanced countries. The basic needs approach achieves this objective by economizing on the resources required and by increasing the available resources.

The required resources are reduced because the basic needs approach economizes on resources devoted to nonbasic needs. For example, it replaces expensive, urban, curative health services, by low-cost, replicative, preventive, rural health services. It also economizes by using linkages between sector programs, such as improving nutrition, and thereby reducing health expenditure, improving health (by eliminating parasitic diseases, for example) and thus reducing both health and nutritional expenditures. In Sri Lanka, for example, the right kind of education has made possible economies in the provision of safe water, because the people know when to boil unsafe water. Finally, it economizes on required resources by reducing fertility rates. When infant morality is reduced and more children survive, when women are better educated, and when the community takes care of the old and disabled, the need and the desire for large families is reduced. Resources can then be devoted to improving the quality of life of smaller families.

The available resources are increased because a sustained basic needs approach makes for a healthier, more vigorous, better skilled, better educated, better motivated labor force, both now and later when the present generation of children enter the labor force, because it mobilizes previously underutilized labor (and local materials) and because it makes use of capital-saving techniques. Costa Rica, South Korea, Singapore, Taiwan, and Yugoslavia illustrate this.

Basic needs is therefore thrice blessed. It is an end in itself, not in need of any further justification. But it is also a form of human resource mobilization, it harnesses the factor in abundant supply in the poor countries, and, by reducing population growth, it economizes in the use of resources and improves the quality of labor.

If this effective and concerted attack on hunger, malnutrition, ignorance, and ill health also mobilizes more international resources, by making meeting basic needs a first charge on our aid budgets, it would testify to the fact that we have begun to acknowledge our membership of the human family.

Related reading

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Country experience in providing for basic needs

The performance of developing countries in meeting the "basic needs" of their people varies greatly. This article provides a brief analysis of the results of World Bank studies on the determinants of such performance and discusses their implications for framing an approach to provide for these needs at a national level.

Frances Stewart

The ultimate goal of economic development is the improvement of the conditions of life in developing countries. In the years after World War II, when many countries acquired independence, economic development became a major objective, and the main aim of development policy was then to raise the growth of gross national product (GNP). But it has become apparent that economic growth alone is, in many cases, not sufficient to improve substantially the conditions of life of the poor. The real incomes of the poorest 40 per cent of many populations have remained abysmally low; while the values of social indicators—such as life expectancy at birth, morbidity, and literacy—lag well behind those of the population of developed countries. The basic needs approach to development is a response to these shortcomings of policies concentrated on economic growth: it focuses directly on improving the conditions of life of poor people—in particular on their need for essential goods and services.

It is not possible to reach complete agreement on exactly what the basic needs of poor people are. The composition of the basic goods and services required in each country varies, of course. Moreover, some people would include nonmaterial needs such as employment, participation in the means of production, and political rights. But some needs are common to the poor in most countries—these include food and nutrition, health services, education, water, sanitation, and shelter. These are basic human needs in large part because they contribute to two fundamental aspects of human life—health and education. In this article, improvements in health and education are taken as the primary objectives of a basic needs approach.

In order to provide a basis for identifying the key macroeconomic elements for policy-makers attempting to meet the basic needs of their populations, the World Bank recently conducted in-depth analyses of the performance of seven countries in the area of basic needs—Brazil, Egypt, The Gambia, Indonesia, Mali, Somalia, and Sri Lanka. This analysis from the country studies can be set alongside more general information from other developing countries to form a picture of how countries are meeting basic needs.

Varying performances

The performance of developing countries in meeting the basic needs of their populations varies enormously. Figures for life expectancy at birth and rates of literacy provide rough measures of achievement. For example, among countries with populations of over half a million people, life expectancy at birth in 1977 was estimated to be less than 45 years in 12 countries—Afghanistan, Angola, Bhutan, Chad, Ethiopia, Guinea, the Lao People's Democratic Republic, Mali, Mauritania, Niger, Sene-

Mezzotint by Joseph J. Diana from WHO photo

gal, and Somalia. It was 70 years or over in 10 countries—Argentina, Costa Rica, Cuba, Hong Kong, Jamaica, Panama, Singapore, the Republic of China, Trinidad and Tobago, and Uruguay. Similar variation occurs in rates of literacy: in 12 countries less than 20 per cent of the adults were literate in 1975, while 16 countries had adult literacy rates of over 80 per cent. The quality and extent of basic goods and services provided in the less developed countries also varies widely. For example, in the 5 best-served countries, there is one nurse for every 432 people; in the 5 worst-served countries, each nurse serves over 36,000 people (see table).

Provision for basic needs in developing countries

	Education 1976		Health services 1976		Water 1975	Nutrition 1974	
	Enrollment in primary education (As per cent of age group)		Population per:		Population with access to safe water (In per cent)	Average per day (In calories)	As per cent of requirements[1]
	Male	*Female*	Doctor	Nurse			
Average of lowest five countries	24	9	56,710	36,764	7	1,773	76
Average of highest five countries[2]	135	127	846	432	89	3,137	125

Source: World Bank, *World Development Indicators*, 1979.
[1] Requirements are defined by the UN Food and Agriculture Organization.
[2] Among all less developed countries, excluding Greece, Israel, Portugal, and Spain.

However, between 1960 and 1977, all developing countries improved their provision of basic goods and services, although the improvement was by no means uniform over all the countries. On average, life expectancy in low-income developing countries had risen from 40 years in 1960 to 50 by 1977; in middle-income developing countries it increased from 53 years on average in 1960 to 60 in 1977; in the industrialized countries it went from 69 years to 74; and in the centrally planned economies it rose from 58 years to 66. Similar improvements occurred in literacy rates; for example, among low-income countries the adult literacy rate rose from 29 per cent in 1960 to 36 per cent in 1977, while middle-income countries moved from 51 per cent in 1960 to 69 per cent in 1977.

Two factors are of major significance in explaining these large variations. One is countries' past performance in the provision of basic needs goods and services: countries that did relatively well in 1960 also did relatively well in 1977, and conversely. Thus, of the 16 developing countries where life expectancy was over 60 years in 1960, in 14 life expectancy was over 70 in 1977. By contrast, in no country where life expectancy was less than 60 in 1960 was it over 70 in 1977. There was quite a substantial variation in the rate of improvement among countries between 1960 and 1977, but the strong correlation between present and past performance over the 17-year period indicates not only the importance of history but also the limits to major progress in the medium term.

The second major explanation of the varying performance of countries is the level of per capita income. Since this level determines the availability of resources, it helps determine national expenditures on goods and services that affect life expectancy and literacy. For a group of 86 developing countries in 1975, 52 per cent of the variance in life expectancy is related to differences in income per capita.

However, a large number of countries do much better (or much worse) than would be predicted by per capita income alone. The relationship between changes in income per capita and changes in performance on life expectancy and basic needs is much weaker—the change in per capita income providing virtually no explanation of the change in life expectancy between 1960 and 1970. (In fact, it was precisely the failure of growth of GNP to eliminate poverty which led to the new emphasis on basic needs.)

One reason why a country's performance in meeting basic needs is not fully explained by per capita incomes is that the distribution of income among the population varies between countries and changes over time. One would expect the income of the poorest 40 percent of the population, rather than average per capita income, to be critical in determining basic needs performance. While data are inadequate for a full testing of the significance of income distribution, it is clear that those countries in which life expectancy is much higher than their per capita incomes might indicate also tend to have more egalitarian income distribution. And countries that do worse than might be predicted tend to have marked inequality in income distribution. Thus, two groups of countries—the socialist countries, which have fairly equal income distribution, such as the People's Republic of China, Cuba, and North Korea, and the rather egalitarian market-oriented and mixed economies, such as Jamaica, the Republic of Korea, Sri Lanka, and the Republic of China, all provide better for basic needs than predicted. The countries with relatively unequal income distribution, on the other hand, such as the oil producing countries, do not perform as well as might be predicted on the basis of per capita income. But some countries with very inequitable distribution of income appear to be average performers in meeting basic needs.

Paradigms of success

The evidence from the Bank's studies, together with more general evidence from other developing countries, enables us to classify countries according to their success, and tentatively suggests certain paradigms of performance. Life expectancy is the single most significant indicator of performance on basic needs. Comparing achievements in life expectancy with what might have been predicted on the basis of a country's level of income per capita provides a way of classifying countries' performance.

The countries whose achievements on life expectancy have been significantly above their expected level form a rather mixed bag. They include Burma, the Peo-

Frances Stewart

Ivan Andrews

a citizen of the United Kingdom, wrote this article while working as a consultant in the Policy Planning and Program Review Department of the World Bank. She is a Fellow of Somerville College, Oxford University (U.K.) and a Senior Research Officer at the Institute of Commonwealth Studies in Oxford (U.K.). She has written widely on questions of technology, employment, and development.

ple's Republic of China, Costa Rica, Cuba, Hong Kong, Jamaica, North Korea, the Republic of Korea, Panama, Paraguay, Sri Lanka, the Republic of China, Thailand, and Uruguay.

In general, we may tentatively distinguish three types of economies which turn out to be notably successful.

The rapidly growing, market-oriented economies: Successful examples include the Republic of Korea and the Republic of China. They both combined relatively equal land and income distribution with rapid economic growth; the economic growth has been generally labor-intensive and employment-generating with considerable emphasis on human capital. For these countries, the prime impetus for success in meeting basic needs has been rising incomes among all sections of the community. These higher incomes have permitted increased expenditure by poor families for basic needs. The public sector has played a supportive role in providing near-universal primary education and health services, although public consumption as a proportion of national income has been below average. These economies show that a market-oriented strategy may succeed in meeting basic needs, given fairly equal initial distribution of incomes and land, and rapid economic growth which is not accompanied by a serious increase in inequality in income distribution.

The centrally planned economies: The People's Republic of China and Cuba are examples of socialist countries which have been relatively successfuly in providing for basic needs. Their achievements are based on a combination of equitable income distribution and planning, with priority given to social investment. We know too little at this stage about the People's Republic of China to say much in detail about its experience.

The Cuban achievements—average life expectancy of 72 years and almost universal literacy—reflect the high priority placed on education, health, and nutrition by the socialist government. Cuba has spent about twice as much of its national income on health and education as other developing countries with a similar income level. A system of subsidies and rationing has guaranteed a minimum balanced supply of food, clothing, and shelter to all the people, while expenditure on nonbasic private consumption has been curtailed. While precise figures are not available, it is believed that substantial asset redistribution combined with full employment has brought about an egalitarian distribution of income. However, the high priority given to social investment may have been partly at the expense of productive investment.

The "mixed" economy with welfare intervention: Sri Lanka's programs provide a prime example. With income per capita at less than $200 a year, life expectancy in Sri Lanka is 69 years and 75 percent of the population is literate. The high level of achievement in Sri Lanka was the result of effective government intervention—on supply, through universal health and education programs, and on incomes, through food subsidies—which reinforced a fairly egalitarian income distribution.

The food ration accounted for about 20 per cent of the caloric intake of families with a household income below 400 rupees a month; in 1973 the subsidies amounted to about 14 percent of the income of families at that income level. The effect of the subsidies on health and nutrition was noticeable in 1974, when a cutback in the ration was associated with a marked increase in the death rate. Until recently, the programs were universal, not aimed at particularly needy groups. The distribution of income apparently became more equitable between 1953 and 1973, with the income share of the bottom 20 per cent rising from 5.2 per cent to 7.2 per cent. The distribution of taxes, government services, and subsidies was egalitarian, reducing overall inequality by one fifth according to one measure (that is, the Gini coefficient).

None of these three "successful" paradigms is easy to duplicate as a general model; each arises from special historical and political circumstances. Nonetheless, their stories suggest some of the essential elements of success: the fact that quite a large number of countries have been fairly successful (10 countries with life expectancies of over 70) shows that improved performance is feasible in varying circumstances and country situations.

Less successful cases

In contrast to the paradigms of success, the analysis also shows patterns of development that are associated with poor or moderate achievement in providing for basic needs. Such patterns are evident in three categories of developing countries.

Very poor economies: A number of small African countries are examples of this pattern. They lack almost all the elements needed to meet basic needs effectively. They have low incomes (around $100 a head) and low productivity; infrastructure and administration facilities are deficient; and there is very low expenditure on the main basic needs sectors. The sectors are closely linked, which means that advance on any single sector is likely to be ineffective if pursued alone. Curative health services, for example, tend to be rendered almost totally ineffective by low levels of nutrition, poor health and hygiene practices, low standards of sanitation, and unclean water. Similarly, the provision of clean water and sanitation services has little effect on health because of deficiencies in other services—particularly poor education that may prevent users from making proper use of the services. Yet simultaneous progress on all fronts is prevented by the lack of all the necessary resources—such as finance, administration, and skills.

The net effects of major deficiencies in all the basic needs sectors in these countries are very high levels of infant and child mortality—as many as 50 per cent of the children die before they are five in some areas. Most governments in such areas are now committed to a basic needs approach and recognize the deficiencies of past programs. Yet new programs are rendered rather ineffective by administrative deficiencies and by political pressures, at both national and local levels, which tend to deprive the underprivileged of access to basic services and produce urban and class bias in the distribution of services. The very low level of aggregate resources also severely limits the magnitude of any set of programs to meet basic needs.

Rapid growth without substantial poverty reduction: These are the economies where the "trickle down" of the benefits of growth has failed most notably; economic growth is combined with worsening income distribution. Not only do the incomes of the poor fail to keep up with the average; in some cases they actually fall in real terms, mainly because the growth process is rather capital intensive and favors the modern manufacturing sector at the expense of the rest of the economy. In many cases, the level of public services is low and the distribution of public services is rather inegalitarian, favoring the urban areas and the middle classes. Aspects of the performance of some of the larger countries in East Asia and Latin America illustrate this pattern.

Moderate growth, moderate poverty impact: This is a fairly typical development pattern. Here growth has been fairly capital intensive; as a result, additional incomes have tended to accrue to those in the modern sector rather than to the rural areas and the urban poor. In many of these countries up to a third of the population fall below an absolute poverty line, with poverty and malnutrition concentrated in the rural areas. Although public expenditure on basic services has tended to be quite high, performance in the field of education sometimes has been poor. The tax system has done almost nothing to offset maldistribution; the fairly high public expenditure benefits the middle classes dis-

proportionately, and thus fails to contribute effectively to providing for the basic needs of the poor.

In contrast to the very poor countries, a noticeable feature of the last two categories is that a much improved performance could be achieved by redistribution of resources to those who are without access to them. For the most part, these countries have a sufficient margin of resources, at present devoted to luxury or semiluxury consumption in both private and public sectors, to make this feasible without a substantial reduction in investment. But one could expect very severe political obstacles to such redistribution. There would be strong resistance to cutting down on private consumption to build up public services. Moreover, the distribution of public services is quite strongly inegalitarian, so a buildup of the public sector might not have any major impact on basic needs among the poor. Political constraints arising from entrenched vested interests provide the major obstacle to substantial improvements in providing for basic needs.

The analysis of country performance suggests that there are two major determinants of achievements in meeting basic needs: first, the pattern of growth and the consequent distribution of incomes. An egalitarian, labor-intensive pattern of growth provides the poor with the purchasing power to ensure adequate nutrition and other essentials. The second determinant is the nature of government interventions in relation to basic needs—both in terms of the level of services and subsidies provided and their distribution. While in theory government interventions can offset initial inequalities caused by the process of development, political limits on intervention are normally such that in fact the most essential element for successfully meeting basic needs is to increase the incomes of the poor.

In general, there seems to be no systematic relationship between a country's economic growth and its performance in meeting basic needs in the medium term. Some countries, such as the Republic of Korea and the Republic of China, have had rapid growth and improved performance while others, like Cuba and Sri Lanka, have done well on providing for basic needs but are below average on growth rates. Among the best performers in the area of basic needs, some have had above-average investment ratios for middle-income countries (the Republic of Korea, Paraguay, the Philippines, and the Republic of China) while others have had below-average ratios (Colombia, Cuba, Jamaica, Paraguay, and Sri Lanka). Because improving performance on basic needs increases the productivity of the labor force, it might be expected, in the medium to long term, to increase the overall rate of growth. A higher rate of growth, in turn, may be expected to improve performance on basic needs through its effects on per capita income. But much depends on the essential characteristics of the growth process.

Macroeconomic framework

The country studies and paradigms provide insights into the macroeconomic requirements for different types of countries to implement a successful program to meet basic needs. There is a need for a macroeconomic framework to provide coherent and comprehensive guidelines for planning and for policy intervention in three areas of the economy: production, organization, and income. Developments in all three areas affect basic needs. (1) The production approach shows how the allocation of productive resources in the economy (for example, between the basic needs sectors, nonbasic needs consumption, and investment) has certain effects on basic needs. (2) These productive activities are carried out in different forms of organizations—the market sector, the public sector, and the household sector. The household, particularly, plays a critical role both in producing basic needs "goods" (food, health, and so on) and in using these goods. This use of basic needs goods by households largely determines their effectiveness in improving conditions of life. The public sector is also of particular importance in basic needs sectors, since it normally provides most health and education services and also intervenes actively in other sectors. The areas of production and organization deal with the supply of basic needs goods. (3) Planning for basic needs must also include an analysis of the way incomes are generated and distributed throughout society, since the level of income determines families' purchasing power and, therefore, their demand for basic goods and services.

The three approaches must be consistent; in any particular country, successful planning for basic needs requires guidelines and action in each of them, while deficiencies in any one of the approaches may detract from the effectiveness of the overall strategy. Applying the three approaches to country performance described in this article, it is seen that organizational deficiencies were particularly notable in some countries. Poor household practices with respect to health and hygiene were a major factor in the persistence of unacceptable living conditions in the three African countries and in Indonesia; deficiencies in the provision of services by the public sector were evident in these countries and in Egypt. The failure to generate sufficient incomes among the poor was evident among all the weak performers, particularly in Brazil and Indonesia.

The "success" stories, on the other hand, showed all three aspects of the framework as effectively developed and coordinated; but the leading factor contributing to the success differed between countries. In the Republic of Korea and the Republic of China, the critical factor was a rapid and widely distributed growth in incomes; in Cuba, it was planned production; and in Sri Lanka, it was the combined effect of appropriate and efficient organization—the households were notably good at health/hygiene, and the public sector structure was successful in health and education—and in maintaining adequate real incomes for most of the population.

A major finding of the review of country experience is the very great variety of experience that is consistent with successful performance in meeting the basic needs of the population. Political and economic systems among successful countries vary widely. The macroeconomic framework provides a coherent way of classifying country performance and analyzing differences, although further development of such an approach and detailed application to particular countries are required. A major lacuna in our knowledge concerns aspects of political economy. We know that political factors are critical. But we are ignorant about the conditions that lead to an effective and determined basic needs approach to development. The paradigms provided by the country studies used in this analysis could serve as a guide in that direction.

Related reading

J. Fei, G. Ranis, and F. Stewart, "Basic Needs: A Framework for Analysis," World Bank, April 1979.

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N. Hicks, "A Note on the Linkages Between Basic Needs and Growth," *World Development* (forthcoming issue).

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Sectoral priorities for meeting basic needs

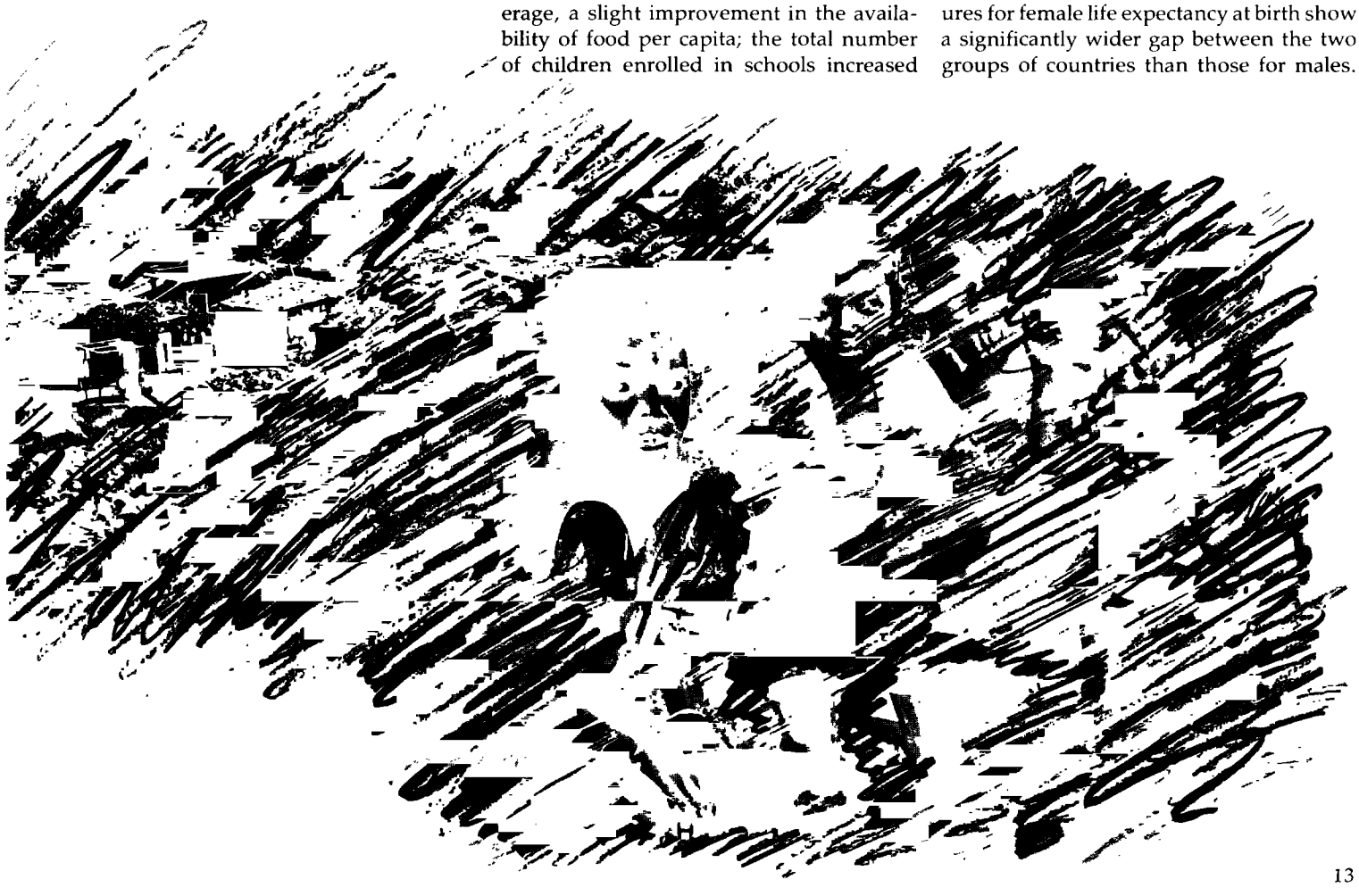
Although many developing countries have made some headway in meeting the basic needs of their populations, the situation—particularly of the poor—remains disquieting. The author outlines the results of World Bank studies on the priorities for action in various sectors, such as education, health, nutrition, water supply, sanitation, and shelter. He discusses the changes in national policy that are needed and the constraints on these changes that confront policymakers in the developing world.

Shahid Javed Burki

The "basic needs approach" to development reflects the necessity to ensure the access of the poor to a bundle of essential goods and services. While some of the components of this bundle may vary from country to country, there is a common core that includes education, basic health, nutrition, water and sanitation, and shelter.

Developing countries have made some progress in meeting these needs over the last two decades. There has been, on average, a slight improvement in the availability of food per capita; the total number of children enrolled in schools increased from 142 million in 1960 to 315 million in 1975; and there has been some expansion in the supply of water and sewerage services and in the amount of housing available to the poor. These improvements have had an impact. They have contributed to a 15 per cent increase in average life expectancy at birth in developing countries, from 47 years in 1960 to 54 years in 1977.

In spite of these improvements, living conditions in the developing world remain disquieting, as illustrated by a number of indices (see the table). For instance, there still remains a large gap in life expectancy at birth between the developed and developing countries: the average is 74 years in the developed, and only 54 years in the less developed, areas. The infant mortality rate in these countries is estimated at 100 per thousand of all live births, compared with 25 in the industrial nations. The figures for female life expectancy at birth show a significantly wider gap between the two groups of countries than those for males.



There are about 850 million people in developing nations who have little or no access to school. Of these illiterates, 250 million are children and 400 million are adult women. Only one fifth of the developing countries' population has access to adequate water supply—as a result, it is estimated that the women spend one tenth of their time in collecting water for consumption within households. Nearly two fifths of the population in these countries remains without adequate shelter.

Telling as these indices are, they should not be interpreted to mean that international action programs are needed in all these areas. While a global approach may appear attractive, in that it offers a well-defined set of targets for planning purposes, such an effort may make very little sense in operational terms. Plans to provide people with basic needs have to be evolved individually for each country.

As a result, the real burden of decision-making falls on the countries themselves. The main purpose of the World Bank's recently concluded work program on how to meet peoples' basic needs was to assist interested countries in planning to provide for the unmet basic needs of their citizens. The program included a number of conceptual, sector, and country case studies. This article summarizes some of the main conclusions of the work on education, health, nutrition, water supply, sanitation, and shelter.

There are a number of different ways to restructure activities in the relevant sectors of a national economy in an effort to satisfy the unmet needs of large segments of the population. Whether these steps should actually be taken depends on the prevailing political, social, and economic circumstances in each case, some of which are discussed later.

Interventions in education

In education, efforts need to be concentrated in three areas: (1) expanding basic education opportunities, especially for women; (2) improving the quality of education and making it more relevant to local needs; and (3) improving the out-of-school environment of the poor.

The priority for the majority of developing countries is to expand basic education opportunities for the poor. This can be achieved in part by providing additional services for the poorest segments of society—in particular by expanding opportunities for primary school age children and for poorly educated or uneducated adults, especially women. The education of women is important not only to enable them to develop their own potential but also—because their function in most societies is to bring up children—to improve their attitudes toward education in general, and their children's education in particular.

The relevance and efficiency of the education process can readily be improved in most developing countries at all educational levels. At the secondary and higher levels, the most immediate need is to make education more relevant to the world of work. For primary and adult education, greater emphasis also needs to be placed on ensuring that students obtain the skills that are relevant to local social and physical conditions. For most developing countries, these changes imply major revisions in the content and style of teaching, with accompanying changes in teacher training programs. They also require substantial changes in the ways in which education and work places are integrated.

In some countries, special attention may need to be given to community preschool programs. Such programs would help to reduce the differences between rich and poor children of preschool age and would also help to reduce the burden of child care on women.

While such policies would require substantial resources to implement, the effects on the educational budget could include a reduction of total costs. The efficiency of most school systems can be improved in several ways: by reducing wastage (brought about by students repeating or dropping out of classes, or by classes that are too big); by instituting programs to make full use of existing capacity—that is, by using schools or teachers for double shifts or summer sessions; and, where teachers are in short supply, by using substitute teachers (such as students, workers, or retired persons).

Basic needs indicators

Country groups[1]	Life expectancy at birth (In years)			Adult literacy rates (In per cent)		
	1960	1970	1977	1960	1970	1975
Low income (up to $300 per capita)	42	47	50	28	35	39
Middle income (over $300 per capita)	53	57	60	56	65	71
All developing	***47***	***51***	***54***	***39***	***46***	***51***
Industrialized	***69***	***72***	***74***	***98***	***99***	***99***

Source: World Bank, *World Development Report, 1979*.
[1] Classification in the 1979 *World Development Report* of per capita income groups, according to GNP per capita in 1977. The developing countries exclude those with population below one million as well as the capital surplus oil exporters.

Health; water; shelter

The health of the great majority of the people in developing countries has remained relatively poor despite high levels of expenditure in this sector. This is not due to a lack of technical solutions to the problems of health care in developing countries, but to the way in which resources are spent on health services. In addition, many health problems are also affected by a wide range of causes not directly related to health, such as poor nutrition or sanitation. Curative health care has been emphasized at the expense of preventive, and urban health care at the expense of rural. Many millions of poor people in rural areas have no access to health care facili-

ties. What is required is a commitment to a community-based health care system: a redirection of a significant amount of resources away from urban curative health services toward primary health care for the underserved (mainly rural) populations. Such an approach needs special care in the selection and training of health workers, in the supervision and support of village health workers, and in the administration and management of buildings, vehicles, and drugs. To be effective, the approach requires community participation in decision-making, finance, and organization of the local system. Women (particularly when pregnant and lactating) and children under five are especially vulnerable groups requiring special attention.

As discussed in the article in this issue by Alan Berg, the primary nutrition problem faced by the world today is not one of the global supply of food—today's world output of grain alone could serve everyone daily with 3,000 calories, which is well over any definition of a minimum level of consumption; nor is it mainly a problem of balance between proteins and calories—most studies have shown that where calorie intake is adequate, even among the poor, protein needs are also satisfied. The nutrition problem is one of distribution between countries, regions, and income groups and within households. In general, it is the very poor—who spend the largest proportion of their income on food—who suffer most from malnutrition. Meeting nutritional needs will require a substantial increase in food production and an increase in the incomes of the poor. Berg's article suggests several strategies for achieving these objectives.

The costs of water supply and sanitation services could be considerably reduced by aiming for more modest standards. Instead of supplying piped water to houses, standpipes could be installed in the urban areas, and standpipes or improved village wells and springs in the rural areas. There is a very wide variety of technologies available for sanitation and water disposal, ranging from a conventional flush system to a simple vault or borehole, all of which are satisfactory from a health point of view. Major improvements in standards are often attainable along these lines without significant additional financial commitments.

Most developing countries need to expand housing in urban and rural areas. But the problem of urban shelter is more acute. The number of very poor households in the urban areas is expected to double between 1980 and 2000. Basic shelter for all but the poorest 20 per cent can be provided mainly through private schemes. Government support is required primarily to facilitate the transfer of land and to provide such services as water and sanitation.

Linkages and priorities

The activities of the various sectors involved in meeting basic needs are closely interrelated. In most cases, the efficacy of the activities of one sector depends largely on the activities of other sectors. For instance, the impact on health of investment in sanitation facilities depends on education in personal hygiene. The effectiveness of expenditure on health, too, is critically linked to improvements in the availability of other goods and services needed to meet basic needs. Curative medical services are likely to be ineffective if people are chronically malnourished, drink germ-infested water, have no sanitation facilities, and follow poor health practices in their personal lives. The provision of additional food to the malnourished may not help them either, if they do not change their nutrition practices.

In extreme cases, action in one sector without corresponding action in others can even be counterproductive; if a water supply system is installed without drainage, germs and insects that spread diseases are attracted. More often it is expensive to pursue a program in one sector without synchronizing it with other sectors. For instance, in terms of the proportion of gross domestic product (GDP) committed, Sri Lanka and Mali have placed the same amount of emphasis on health and education, but Sri Lanka has had better results, partly because its programs recognized linkages and complementarities between different sectors.

The manifold linkages between sectors raise an important question: must all basic needs be met simultaneously or can a country establish a set of sectoral priori-

ties? This question is important; efforts to improve all sectors at once would impose impossible administrative and financial costs on many developing countries. The answer lies in identifying key sectors that directly affect the quality of life of the poor.

A cross-country statistical analysis by Bank staff suggests a strong relationship between education—measured by literacy rates—and life expectancy at birth. The statistical relationship is even stronger if life expectancy is treated as a variable dependent on female literacy. This type of statistical analysis does not, of course, imply that better education "causes" longer life, or that the expectation of longer life "causes" people to invest more time on education. However, some further statistical tests as well as common sense indicate that education tends to lead to better health, which, in turn, leads to higher life expectancy.

Nutrition and health care are also singled out as important in this cross-country analysis, but their relationship to life expectancy is not as close as that of education. However, evidence available from country studies suggests that improvements in education, nutrition, and health considerably reduce the need to make large investments in shelter, water supply, and sanitation. For instance, the experience of Sri Lanka indicates that if people are educated, to some extent this can reduce the necessity for improvements in the quality of water, since people can be taught to boil low-quality water and to use clean utensils for storing it. Education in nutrition and in hygiene and sanitation can similarly substitute for some basic health services.

Reallocating resources

Developing countries have already committed a high level of their total resources to education and health and have ambitious plans for the extension of water and sanitation services. In many developing countries, educational expenditures per capita have doubled over the past 25 years, growing twice or even three times as fast as GDP. Education at present typically accounts for nearly 5 per cent of GDP in developing countries and for between 18 and 25 per cent of the public budget. Similarly, health care services receive high priority in all developing countries, most of which have publicly-financed health care systems and programs of investment in sanitation, water supply, and health education. Fragmentary evidence suggests that public sector expenditure on health services amounts to 3–4 per cent of GDP. Additional sums are spent on such health-related activities as family planning, water supply, and sanitation. In total, as much as 5–8 per cent of GDP is spent on health care, that is, about US$75 billion annually in the developing countries as a group.

But aggregate social sector resource expenditure is not necessarily associated with providing for the basic needs of the very poor. For instance, Egypt's present education budget amounts to 10 per cent of GDP, yet only 44 per cent of the population is literate, and primary school enrollment is estimated at 72 per cent (whereas the average enrollment for all developing countries of the income group to which Egypt belongs is 92 per cent). Mali is spending up to 5 per cent of its GDP on health services—a proportion much larger than the average for countries at its level of income—but the health of its people is well below the "normal" for this group of counties. Sri Lanka's success in meeting the needs of its population is not due primarily to high levels of public expenditure on social sectors. Its expenditure on social programs, including the rice subsidies, averaged only 11 per cent of GDP during the 1960s.

Basic needs have generally remained unmet not because public expenditure on them is insufficient but because it has been misdirected and because it does not benefit all population groups. In Brazil, for instance, the proportion of expenditure on public health devoted to preventive medicine declined from 87.1 per cent in 1949 to 29.7 per cent in 1975. In Pakistan, 40 per cent of the education budget goes for university training, while only 3 per cent of the total student body attends university classes. Not only are the resources in social sectors often spent on activities that contribute little to meeting basic needs, but also the disadvantaged and especially vulnerable groups have little access to them. In Colombia, the health subsidies for urban populations are five times as large as those going to people in the rural areas.

It is clear, therefore, that the emphasis on social expenditure in the developing world has not always meant an emphasis on the provision of basic needs. In the high priority sectors of education, nutrition, and health, major emphasis should be placed on the redirection of efforts within sectors. It is vital to reallocate some resources from higher to lower levels of education; from curative to preventive medicine; from urban to rural health care; and from urban and/or large-scale water supply and sanitation projects to village and community water and sanitation schemes. It is also imperative to make special efforts to reallocate these resources so that they reach the poorer segments of the population. It is particularly necessary to make it possible for women to educate themselves and to shield children from disease and hunger.

Shahid Javed Burki

a Pakistani, joined the Bank staff in 1974 and is at present Chief, Policy Planning Division in the Policy Planning and Program Review Department of the Bank.

The household sector

The activities of the household sector are particularly relevant. In developing countries, this sector produces a substantial amount of "nonmonetized" goods and services for its own use. While it may account for as much as 40 per cent of "full" (that is, accounted as well as unaccounted) income in these countries, its share is even higher in producing the goods and services that are important for meeting basic needs. However, studies of individual countries point to the problems faced by the household sector in meeting the basic needs of the more disadvantaged groups in the society, namely women and children below the age of five years. In many countries, households discriminate against these groups: women and children receive relatively low priority in the distribution of food, even though women may be required to perform physically taxing tasks. Some studies show that if the time spent by women in household activities is added to the time spent as farmhands, their workday is about 20 per cent longer than that of men.

Removing discrimination against women and children will, of course, help to meet their basic needs by providing them with additional goods and services. In addition, women can play a critical role in the production and use of goods that are important for meeting these needs. They perform a vital function in the adoption of practices conducive to good nutrition, health, and hygiene, for example. Further, if properly educated, women can make more systematic and enlightened use of their family income in purchasing goods and services that contribute to meeting basic needs. Our studies show that men in the developing countries are less prone to spend on goods that meet the basic needs of the household.

This finding highlights the need to gear policies and programs toward the participation of women in the economic life of the household. In addition, efforts should be

made to increase the opportunities for women to increase incomes and participate in administrative and decision-making processes. Although these efforts would challenge traditional male supremacy in these areas, and therefore may be difficult to implement, it is important to bring women into the development process and especially into programs aimed at meeting the basic needs of the general population.

Financing problems

In addition to the reallocation of resources, increased emphasis on the provision of basic needs raises a number of questions on how to finance them. In the projects and programs aimed at meeting basic needs, recurrent costs are quite heavy in relation to capital costs. Allowance must, therefore, be made for continuing financial support rather than for a once-and-for-all commitment for capital costs. The obvious solution to the problem of recurrent costs is to levy charges on the beneficiaries to cover these costs. This, however, may be both difficult to administer and undesirable, because the wider social benefits of these projects very often far exceed the private benefits to the individual consumer. This is clearly true, for example, of vaccination programs or programs of health education where the main beneficiary is the community at large rather than the particular individual involved in the program. In other cases, it may be difficult to charge for the services because they are provided communally. Since a major objective of the programs to meet basic needs is to provide universal access (especially for the very poor), any system of charges is likely to exclude the very people for whom the programs are most essential. Yet, despite these problems, unless some system of generating finance on a continuous basis is an intrinsic part of programs to meet basic needs, they are liable to be limited in coverage and in duration as the national government becomes overburdened with fiscal liability.

Political commitment

Changes are needed at the policy level to meet the basic needs of large numbers of people—including the reallocation of resources within sectors, concentrating them to benefit special groups, and committing government finance for maintaining social development programs. This calls for a political will that cannot be readily mustered by all societies. There are a number of instances of powerful constituencies blocking the transfer of public financial and administrative resources from secondary and university education to primary education, from urban to rural health, from high-cost curative health facilities to relatively low-cost preventive care. Such a transfer becomes even more difficult when it is linked with the further stipulation that the users of nonbasic services need to pay a price even higher than that justified on social grounds.

Some countries have been able to overcome such political obstacles to meeting basic needs simply by increasing the resources committed to social sectors, and especially to the sectors that affect basic needs. For instance, it is for political reasons that many countries—Egypt, Pakistan, and even Sri Lanka—found general food subsidy programs, rather than specific subsidies, a practical way of reaching the poor. Programs such as these may not have been politically feasible unless groups other than the poor had been allowed to benefit. But such solutions can be very expensive. According to one estimate, Egypt would need to spend the equivalent of three times its gross domestic investment to meet the basic needs of all its citizens, while providing them simply to the poorest and most neglected and recognizing the linkages between them would cost less than one fourth as much.

But political problems should not be allowed to constrain totally the effort needed to meet basic needs. Social and economic groups that see in these programs a high economic cost for themselves should be persuaded that procrastination may involve even higher penalties. The burden imposed by the alleviation of poverty may not only be financial; if poverty is allowed to persist in a country, this can bring very heavy economic, social, and political costs.

Administrative management

Even if political constraints on providing for basic needs can be overcome—and they have been overcome in a variety of political circumstances—serious administrative problems may still remain.

Successful programs for meeting basic needs require different administrative approaches from those involved in the more traditional capital- and technology-intensive development work. Such programs depend for their success on the substantial involvement of, and response by, the public that they intend to reach. When the intended beneficiaries are poor and geographically dispersed, additional efforts are required to achieve program success. Two principal administrative structures can be built for this purpose: official bureaucratic systems that provide basic goods and services, and organized groups of the intended beneficiaries themselves. The Sri Lanka food subsidy program is an example of the former approach, and the various village development programs in Korea illustrate the latter approach.

Administrative problems become more severe when a deliberate effort is made to supply basic goods and services quickly. These problems arise in part because the production structure of the economy is not, over the short run, appropriate to the new consumption structure. Consequently, prices of basic goods are likely to rise, shortages may emerge, and some of the programs may be rendered ineffective. It may be necessary to make special arrangements to overcome these transitional problems. Some nutritional programs are good examples of some of these transitional activities.

The Bank's work on meeting the basic needs of the poor offers some guidelines to a country concerned with improving the access of more of its people to essential goods and services. Many countries already spend a relatively large proportion of their GDP on the sectors involved in meeting basic needs. However, very often the funds go to activities that are inappropriate for the poor and disadvantaged, or that do not reach them at all. Resources need to be reallocated within sectors, so that education, health services, water, sanitation, and shelter can become available to more low-income people in a form that is directly relevant to developing their potential.

However, the ultimate criterion of success of a program aimed at meeting basic needs is the individual country's political commitment to the program and the commitment that the efforts will be supported on a continuing basis.

A strategy to reduce malnutrition

Nutrition is a basic human need, one that continues, and will continue, to remain unfilled for vast numbers of people in the developing world. This article discusses the need for nutrition-oriented food policies—a promising vehicle for a major attack on the problem.

Alan Berg

Accepting nutrition as a basic human need has major implications for the way in which the problem of malnutrition is perceived and addressed. Such an approach emphasizes the importance of adequate nutrition, both as an objective and as a means of economic development. Moreover, it calls attention to the nutritional needs of people of all ages and both sexes—in contrast to the tendency of most national nutrition planning to focus almost exclusively on the needs of children and pregnant and lactating women. This article addresses these implications in the light of recent nutrition-related research and experience.

Among all human needs, the need for food is perhaps the most basic. Adequate

This article is based upon a longer paper, produced by the author for the World Bank.

nutrition is central to survival and is a critical factor in an individual's growth and capacity to function in society. Even in normal, nonfamine conditions, inadequate food consumption significantly affects the death rate. If adults fail to meet their food requirements, they lose weight. This can lead to diminished ability to cope with infection and other environmental stresses, to work, to enjoy the normal satisfactions of life, and to raise and educate healthy children. Maternal malnutrition during pregnancy results in low birth weight of infants (the most important cause of infant mortality), and malnutrition during lactation affects directly and indirectly the infant's health, as well as the mother's.

Undernourished children are less active than they should be. When a child's intake of food falls below 70 per cent of standard allowances, growth slows; if low levels of feeding persist, adult stature is reduced. Whether small size per se is disadvantageous is arguable. However, severe malnutrition associated with decreased growth also results in decreased brain size and cell numbers and altered brain chemistry. Even when malnutrition is not severe, decreased growth is associated with low scores on tests of cognitive and sensory ability. Small stature caused by early malnutrition has been directly related to poorer productivity. Recent studies of work performance of sugarcane cutters concluded that taller workers were more productive at all ages than shorter workers. Work output in industry has also been linked to body size.

Improved nutrition, and the survival and well-being it implies, is a sufficient justification for a country to invest in better nutrition for its population. In addition, reducing or preventing malnutrition and its deleterious effect on work capacity and cognitive ability adds to human capital and potentially increases output. Programs that improve the nutritional status of the poor also help to achieve other social goals, including the distribution of income, and, through their impact on nutrition-related mortality, help reduce desired family size.

Strategy needed

The common official response to the problem of food and nutrition has been to grow more food. More recent analysis, taking account of low demand or purchasing power among the poor and malnourished, has also emphasized the need to increase their incomes. The relative importance of food production and income, and the effect that improvement in either would have on the level of nutrition in a country, have been projected by Bank staff from data available on Bangladesh, Brazil, India, Morocco, and Pakistan. With the most optimistic (and perhaps least likely) set of assumptions—high income growth and stable food prices—the projections of the magnitude of malnutrition in the five countries studied show a sharp reduction by 1995 in both the proportion of the population that is undernourished and in the magnitude of its deprivation. But even then, the absolute number of the undernourished remains over 150 million in these five countries. With high income growth and, as is more likely, slightly increased food prices, the number of malnourished would fall by only about 1 per cent per annum from current levels. And with more pessimistic (and, unfortunately, not implausible) assumptions, the number of malnourished would increase significantly. Projections based on the actual recent experience of these countries show that only Pakistan could expect to have calorie adequacy within the next 30 years.

One key conclusion of this analysis is that increases in income and in food production are likely to fall far short of what is required to meet basic needs in nutrition. A specific strategy to improve nutrition is thus required to complement what a policy focused only on growth would be too slow to accomplish.

Policy considerations

Emphasis here is on the relatively neglected, deliberate use of public policy to influence the character of production, processing, and distribution of food within a country to increase the amount consumed by the poor. This can occur in two ways. First, by changing the strategy of agricultural production to put more emphasis on the nutritional needs of the poor; and second, by adjusting consumer prices in ways to assure that the poor have access to what they need.

Every government now influences, in a variety of ways, the quantities and kinds of foods being produced, traded, and consumed. Yet the nutritional effects of agricultural and food policies generally are inadequately planned or anticipated. Few countries have systematically collected—or used in their planning—data on the nutritional consequences of changes in incomes and in food prices. Fortunately, several countries (for instance, Brazil, India, Indonesia, and the Philippines) have begun disaggregating food consumption data by income group. These data, along with recent analyses and project experience, suggest several key considerations for the design of food policies aimed at improving nutrition.

First, families with very low incomes spend most of their incomes on food, but still often do not consume enough for nutritional adequacy. In many countries, more than 40 per cent of the population have calorie-deficient diets, and upward of 15 per cent have gross deficiencies. Second, the foods they buy differ markedly from those bought by the rest of the population. In Indonesia, for instance, the lowest three income deciles obtain about 40 per cent of their calories from cassava and corn; by contrast, the upper three deciles obtain about 14 per cent of their calories from these foods. Third, and contrary to common assumptions, poor people tend to have an adequate balance between protein and calories in their diets, even when an important share of their calories comes from low-protein starchy staples. Regrettably, they are not always so rational when it comes to the distribution of food to the very young of their families.

Fourth, while many of the malnourished are small farmers and their families, the majority are landless or near-landless agricultural laborers, those in other low-paid rural nonfarm or urban jobs, or the unemployed. They thus benefit only indirectly from programs designed to boost the production of small farmers. Fifth, within any country, the extent of deficiencies tends to vary substantially between regions and between rural and urban areas. The variations that occur partly reflect differences in incomes and tastes. They also reflect differences in prices resulting from differences in transport, production and storage costs, marketing margins, and government pricing policies. Often nutritional adequacy of diets also varies a great deal by season and by year. Seasonal deficiencies tend to be severe in countries with only one major harvest, where price rises gen-

Juan Russel

Alan Berg

a U.S. citizen, joined the Bank staff in 1972 and is now Senior Nutrition Adviser. Before joining the Bank, he was a Senior Fellow at The Brookings Institution, Visiting Professor of Nutrition at the Massachusetts Institute of Technology (M.I.T.), and worked from 1966 to 1970 on nutrition problems in India. His publications include The Nutrition Factor: Its Role in National Development *(Brookings, 1973),* Nutrition, National Development, and Planning *(M.I.T. Press, 1973, as senior editor), and was responsible for the nutrition section in* The World Food and Nutrition Study *(National Academy of Sciences, 1977).*

erally coincide with seasonally low earnings for agricultural laborers. Recent studies confirm that the highest incidence of malnutrition often occurs at this time.

Introducing a concern with nutrition into food policy calls for a broad review of agricultural production strategies. Most important is the need for more emphasis on the production of those low-cost foods consumed primarily by the poor. In Colombia, a 10 per cent increase in the supply of beef could add three times as many calories to the daily diets of the already adequately nourished group as to the diets of the calorie-deficient group. In contrast, the benefits of a 10 per cent increase in the production of cassava would be received entirely by the calorie-deficient group. Emphasis on foods favored by the poor should extend to every aspect of agricultural strategy, including research, extension services, supply of inputs, credit facilities, and marketing.

Effective programs aimed at improving the production of small farms will generally improve the diets of small-farm households, whether or not the programs directly increase the production of the food crops they consume. However, changes in agricultural cropping patterns or policies can sometimes have unexpected deleterious effects on nutrition. When a farm shifts production from subsistence to cash crops, total income may increase but heads of households may not provide to their families as much food as before, since it must now be bought at retail prices. This particularly affects young children and women, who generally come at the end of the family food line. Intensive nutrition education or plans to continue some subsistence production may be needed to avoid the dangers inherent in such shifts. Similarly, when agricultural prices are increased as an incentive to increase production, wages for unskilled laborers, which are often at bare subsistence levels, are generally slow to rise in step, and the transitional effect on nutrition may be severe. It can be alleviated through wage policies, short-term subsidies, or other food demand programs.

Food demand programs

Nutrition-oriented food production programs, in conjunction with steps to increase incomes of the poor, are the key elements in meeting nutritional needs in the longer run. In the intervening (and often lengthy) period, measures are required to reduce the prices the malnourished pay for their food. This generally involves the often contentious issue of food ration and subsidy programs—or food demand programs. Such programs raise budgetary, balance of payments, and agricultural pricing problems. Rationing programs are also difficult to administer, and they may build up political constituencies that make them difficult to cut back. It is not surprising that many development analysts have believed that ration and subsidy programs are much more a part of the development problem than a part of the solution. These programs are, however, one of the few ways to meet the basic nutritional needs of very large groups of people. Experience in several countries shows that such programs can effectively reach the poor and substantially reduce severe malnutrition and malnutrition-related deaths.

"Nutrition-oriented food production programs, in conjunction with steps to increase incomes of the poor, are the key elements in meeting nutritional needs in the longer run."

The nutritionally most successful (and financially one of the most costly) food demand program has been carried out in Sri Lanka. A 1970 survey shows that the rice ration program (which then provided rice to nearly the whole population) provided about 20 per cent of total caloric intake and had a value equivalent to 14 per cent of income for the lowest income group. Only 5 per cent of the (adult-equivalent) population consumed less than 1,900 calories per day. In 1975, life expectancy was 66 years, higher than in richer countries such as Brazil, Korea, or Malaysia, and the highest in relation to income level of all countries for which data are available. It was 39 per cent higher than would have been predicted for Sri Lanka's income level; infant mortality was 67 per cent lower.

How far is nutrition responsible for Sri Lanka's long life expectancy and low infant mortality? Sri Lanka also has a tradition of assisting the poor in meeting other basic needs—its literacy rate is 78 per cent, health services are good, and the water supply is better than that of most other poor countries. Clearly such achievements in meeting basic needs complement one another. But the direct relation between food supply, nutritional adequacy, and the low death rate in Sri Lanka has also been confirmed statistically. It was seen most dramatically in 1974, when ration supplies were sharply reduced and food prices on the open market sharply increased because the cost of imported food grains more than doubled. In that year the death rate increased significantly. The literacy rate had not changed, nor had the proximity to health services or the quality of the water supply. There was no plausible reason for the increased deaths other than the shortage of food. Programs to provide the poorest with subsidized food grains in Kerala (India) and Pakistan also appear to have had a positive impact on nutritional status.

In most developing and developed countries, food is, politically, a special commodity. There is ample evidence that redistributing incomes is politically difficult. However, many countries that are unwilling to transfer income to the poor are willing to transfer large sums to subsidize staple foods.

Target food programs

Food subsidies can be expensive, however. For example, in 1975 their share of total budgetary expenditure was 21 per cent in Egypt, 19 per cent in Korea, 12 per cent in Morocco, and 16 per cent in Sri Lanka. To keep costs down, subsidies must be specifically aimed—or "targeted"—at the nutritionally needy. Otherwise, the programs are likely to run short of funds and supplies just when they are needed most, as Sri Lanka's program did in 1974. Had the subsidies been directed more at the poor, as they are now, the increase in mortality could have been substantially reduced.

Target groups of malnourished can be identified in a number of ways—by income, by region, by season, by age, and by the staples in their diet. Income is probably the best means of indicating where nutritional problems on a large scale are concentrated. However, imposing a means test to define the target group is difficult, both politically and administratively. Another way is by geographic area—a part of Colombia's nutrition program, for instance, provides foods to specific age groups living in specified needy geographical regions, regardless of income level. A promising but generally unexplored means of targeting is by season. Countries with subsidy programs during the months when food prices normally are highest will cover the periods of severest nutritional vulnerability and of highest demand for expenditures of human energy.

Most target programs require rationing to avoid large-scale misuse. But when poor households constitute the target group, the need for rationing, with all the administra-

tive work it entails, can be reduced, or even sometimes eliminated, by a careful choice of the commodities to be subsidized. The best foods to subsidize are those with a low cost per calorie or gram of protein and with a positive income elasticity for the poor and a low or negative income elasticity for others. Coarse grains like sorghum and millet, processed cassava flour, and certain food legumes favored by the poor (for example, macassar beans in Brazil, lentils in central India, black gram in south India) meet these criteria. They are generally consumed in lower quantities by middle-income and upper-income people, so that a subsidy primarily would benefit the poor. Such subsidies have rarely been tried. Most subsidies of staples have, in fact, been for high-status grains like wheat and rice (which have been widely available in concessional foreign food aid programs) with the aim of reaching the urban lower-middle and middle classes.

The malnourished can also be reached by subsidizing inferior qualities of a given staple. For example, a subsidy on low-quality rice (short-grain, with a high percentage of broken grains) will have more effect on the diets of the poor than a subsidy on higher quality rice. So-called composite flours (such as a mixture of cassava with wheat and soy flours) could have nutritional benefits as well. Subsidizing a particular commodity—for instance, processed weaning foods or special fortified foods for pregnant women—can tend to limit beneficiaries of the subsidy to vulnerable groups.

Problems

Even food demand programs aimed at specific target groups will have substantial leakages to people outside the groups and through substitution when intended beneficiaries reduce their food expenditures or sell subsidized food. Such substitution may cause the program to become, at least partly, a disguised income transfer. There is little empirical information on the exent to which this happens. Only one study has rigorously compared the effect of a ration program on caloric intake with what would have occurred with an equivalent income transfer; it found the nutritional impact of the ration program in Kerala to be substantially greater. But even if a program turns out to be primarily a disguised income transfer to the poor, it cannot be assumed that the funds not spent on food are wasted. People poor enough to have serious nutritional problems in their families tend to spend more than half of their incomes on food, and most of the rest is spent for other basic needs like shelter and clothing.

Target programs involving ration shops or food stamps raise formidable institutional problems. There is bound to be a good deal of bureaucratic inefficiency, and the power of rationing officials to grant or withhold ration cards is an invitation to widespread corruption. But if administrative costs do not wipe out food savings and if they appear to be proportionately lower than those of other nutrition or poverty-oriented efforts, such a program will be better than one that is not targeted at all.

" . . . malnutrition is not just a poverty problem . . . . countries committed to eliminating most overt malnutrition appear capable of doing so. "

The potential disincentive to domestic agricultural production that ration and subsidy programs pose is also a widespread concern. Steps governments take to reduce the balance of payments and fiscal costs of the programs can lead to a net reduction in the prices farmers receive for their products and, hence, to a reduction in their output. The need to provide incentives for domestic agricultural production is increasingly accepted in developing countries, although the incentives are frequently inadequate and remain a serious problem. Food demand programs should be designed to take adequate account of disincentive risks.

Priorities

Several high-priority areas for country nutrition strategies emerge from this analysis. Accelerated growth in the incomes of the poor and, with very few exceptions, in food production continue to play fundamental roles in efforts to meet nutritional needs. While growth in income and in food production is not a sufficient condition for meeting basic needs in nutrition, it is a necessary condition. Without this growth, the poor will afford less food and government revenues will not increase enough to finance nutrition and other programs. Similarly, there must be rapid increases in food supply to meet increases in population and in per capita incomes. Otherwise, the relative price of food will go up, at least partly offsetting any increases in incomes of the poor. In addition, many of the poor are dependent on food production, as farmers or farm laborers, for increases in their incomes.

New attention is needed on developing nutrition-oriented agricultural production policies and programs. And to ensure that food reaches those in need, increased emphasis is required on food demand programs, including the strong possibility in some cases of food subsidies aimed at specific target groups. Such programs should not be dismissed a priori because of past fiscal and other problems associated with untargeted programs. (Nor should they be seen as a panacea for solving nutrition problems; initial emphasis should be on experimentation and careful monitoring.)

These newer areas of policy emphasis complement more commonly used, but limited, ways of reducing the malnutrition—nutrition education, the fortification of staples with micronutrients, institutional feeding programs, and the use of health services to support nutrition programs. Different countries will have different program priorities, depending on the distribution of malnutrition between rural and urban areas, the extent to which the rural malnourished are small farm families, the particular nutritional problems and their causes, the likely cost-effectiveness of feasible interventions, institutional and funding capacity, and political constraints.

Children under three with problems of low birth weights (largely addressed through the mother) and those in the first year of life deserve priority attention, because of the effect of early malnutrition on subsequent life. But nutrition needs also exist among older children, the aged, and working adults, who are able to produce more income and food for their families if they are better nourished. Even if planners were concerned only about reaching children, it often would be more cost-effective to reach them through programs affecting malnourished households as a whole; in many countries, a large percentage of malnourished children at vulnerable ages cannot be reached effectively in any other way.

The whole problem of the malnourished can be viewed as part of a complex tangle of poverty; clearly, the fundamental causes of poverty loom large in any analysis of the problem. But malnutrition is not just a poverty problem. While virtually all people suffering from calorie deficiencies are poor, not all poor people suffer from calorie or other nutritional deficiencies. Some countries with high per capita incomes have considerable malnutrition, and certain low-income countries have little. In short, countries committed to eliminating most overt malnutrition appear capable of doing so.

Is there a tradeoff between growth and basic needs?

It is often argued that policies aimed at providing the poor and neglected with basic goods and services imply a sacrifice of productive investments and economic growth. The author reviews theoretical and empirical arguments on the issue and uses evidence from 83 developing countries to indicate that providing for basic needs can improve growth performance.

Norman L. Hicks

While the developing countries have had substantial increases in output during the past 25 years, it has been widely recognized that this growth has often failed to reduce the level of poverty in their countries. Various alternatives have been proposed to redress this problem—including strategies aimed at increasing employment, at developing rural areas, at redistributing the benefits of growth in favor of low income groups, and at meeting the basic needs of the poor. An approach that concentrates on meeting basic needs emphasizes improvements in health, nutrition, and basic education—especially through improved and redirected public services, such as rural water supplies, sanitation facilities, and primary schools. It has been argued that the direct provision of such goods and services affects poverty more immediately than those approaches that rely on raising the incomes and the productivity of the poor (see Paul Streeten's article, "From growth to basic needs," in the September 1979 issue of **Finance & Development**).

The critical question for the individual country is: will the provision of basic goods and services slow down a country's growth rate? In other words, is there a tradeoff between growth and basic needs? From a theoretical standpoint there may be no necessary reason for such a tradeoff; but the evidence is not conclusive. Countries which have emphasized basic needs, such as Burma, Cuba, Sri Lanka, and Tanzania, may be seen to have done so at the cost of lower growth rates of output. On the other hand, one can point to countries such as Taiwan, Korea, and Singapore, which have both grown relatively rapidly and made commendable progress in providing social services, reducing poverty, and improving the distribution of income. The issue is complicated by the many factors which affect growth other than the elements emphasized in theory: that is, the allocations of national resources between savings and consumption or between social services and other "productive" sectors. The true impact of an investment program oriented toward basic needs thus becomes very difficult to evaluate.

The debate

Proponents of a basic needs approach argue that the direct provision of essential goods and services is a more efficient and more rapid way of eliminating poverty than an approach based on hopes that the benefits of increased national growth will eventually reach the poor. While supporting efforts to raise productivity and income, they emphasize that these alone may be neither sufficient nor efficient. Their case rests on their experience that:

- the poor tend not to spend incremental income wisely or efficiently, since they may not be good managers or are not suffi-

ciently knowledgeable about health and nutrition;

- there is serious maldistribution of incomes within households which cannot be overcome by raising family incomes but which can be corrected by the direct provision of goods and services to the neglected members;
- some basic needs—such as water supplies and sanitation—can only be met efficiently through public services; and
- it is difficult to formulate policies or investment strategies to increase the productivity of all of the poor in a uniform way.

The argument against directly providing for basic needs is based on two main contentions. First, transfers of essential goods and services result in increasing the consumption level of the poor at the cost of eventually reducing the net level of investment and saving in the economy and therefore the welfare of everybody. Second, the poor would be better provided for in the long run through the higher incomes realized by greater overall investment under a more conventional, growth-oriented development strategy. Meeting basic needs is seen as a strategy providing for a temporary consumption transfer to the poor, and not as a transfer of capital resources that would result in a permanent improvement in their condition.

The concept that basic needs can be better met in the long run through increased output appears faulty for two important reasons. First, the basic needs of the poor can be met in ways that have little or no direct effect on national levels of investment and growth—by reducing the consumption expenditures on nonessentials of the poor and the rich or by redirecting the expenditures of the public sector from nonbasic to basic needs activities. Second, it seems quite likely that expenditures on basic needs improve the productivity of human resources, and can therefore be considered a form of long-term investment in human capital. The question then becomes one of identifying the degree to which expenditures on basic needs actually result in permanent improvements in human capital, and whether economic returns to this form of human investment are higher than those from other kinds of investments available to developing countries.

Conflicting evidence

There is a considerable body of literature which attempts to identify the economic returns from improvements in human capital. In developed countries, considerable attention has been given to the concept of "growth accounting." In this approach, the growth of total output (measured by gross national product (GNP)) is broken down into components relating to the growth of factor inputs (land, labor, and capital) and an unexplained "residual" which captures productivity changes of an unidentified origin. While the earliest efforts in growth accounting can be traced back to George Stigler (1947), the definitive work remains that of Edward Denison (1967, 1974, 1979).

Denison's latest estimates show that less than 60 per cent of the growth in GNP in the United States can be attributed to the increase in traditional factor inputs—labor and capital primarily—while the remainder is the result of economies of scale, improvements in resource allocation, and a large residual attributed to human capital, which is labeled "advances in knowledge." Education is considered by Denison to be a factor input which alone accounts for 14 per cent of the growth of GNP between 1929 and 1976. If education is combined with the residual advances in knowledge, then the contribution of human capital to growth would be about 38 per cent. Attempts to apply the same technique to developing countries (Krueger, 1968) tend to show similar results.

There is some question, however, whether the residual can be attributed to improvements in the stock of human capital. It could represent errors in the calculations of other variables, the omission of other important factors, or simply a faulty assumption about the nature of the underlying production function. While growth accounting attributes an important role to human capital in explaining growth, it does not necessarily *prove* that human capital is important. Thus it is not a completely reliable way to measure the contribution of human capital to the growth process.

An alternative way of assessing the impact of improvements in human capital is to measure the rate of return from education. This can be done by estimating the lifetime earnings of people with various levels of education, compared to the private and social costs of education, which include earnings forgone while at school. In general, these kinds of studies have found high rates of return from investment in education particularly from primary education in developing countries. A survey of 17 developing countries by Psacharopoulos (1973) found an average return of 25 per cent for primary education. These returns range, however, from a low of 6.6 per cent (Singapore, 1966) to a high of 82 per cent (Venezuela, 1957).

There are considerable conceptual difficulties in measuring such rates of return on investments in human capital. The returns may be overstated because they capture the "screening" effect of higher education, which means that more highly educated people receive better paying jobs regardless of any true differentials in productivity. The high unemployment rate often found among highly educated people in some developing countries suggests that investments in education may not always raise productivity, particularly in those countries already possessing a large supply of educated persons. Several studies have questioned the utility of education investments in development. For instance, Correa (1970) found in a study of a group of Latin American countries that while health and nutrition were very important factors in GNP, improvements in education appeared to have no impact at all. Nadiri (1972) concluded from a survey of the published literature that education was not very useful in explaining differences in growth rates between developing countries, although it did seem to explain variations in productivity within countries over time. Thus, the evidence on the role of human capital, particularly education, in affecting the growth of output in developing countries is not definitive or measurable. Furthermore, the concept of human capital improvements covers areas (higher education is an example), which are not considered to be as relevant to a basic needs approach, and vice versa.

Another way of measuring the importance of human capital is to look at the statistical correlations between the provision of basic needs and the growth rates in a large number of countries. The problem with simple correlations is that they cannot identify the links between basic needs that have been met and growth. Better provision of basic goods and services is just as likely to be a result of higher incomes, as its cause. At the same time, growth in income is clearly going to be affected by factors other than those related to the provi-


Juan Rossel

Norman L. Hicks

from the United States, joined the staff of the World Bank in 1970 and is presently Senior Economist in the Policy Planning and Program Review Department. Mr. Hicks received his Ph.D. in economics from the University of Maryland in 1968, and worked for the U.S. Agency for International Development in Ghana before joining the Bank.

sion of basic needs. Thus, one has to isolate the meeting of basic needs from other factors which can be considered important determinants of growth, in order to avoid giving too much weight to the basic needs variables.

Measurement problems

We have no easy measure, however, of progress in meeting basic needs. A variety of social indicators can be used, but using them often presents conceptual problems. Some indicators reflect results, while others—such as population per doctor and school enrollments—measure inputs. Some indicators measure the average level of social progress for the whole society, while others are based on a "have, have-not" principle. Thus, the percentage of households with access to clean water can accurately capture the numbers without such service. By contrast, an average of the calories consumed per capita as per cent of requirements is quite misleading, since it combines the overconsumption of the rich and the underconsumption of the poor. Likewise, figures on average life expectancy, or average infant mortality, do not give us any idea of the range between the rich and the poor. Two countries with identical average statistics for infant mortality, for instance, could have quite different infant mortality rates for their least favored groups. It would be more useful if social indicators provided data separately for different income groups within a population. There is no reason why we could not construct distribution statistics for social indicators similar to our measures of income distribution.

Until better indicators are produced, however, we are forced to use what we have readily available. It seems appropriate to use life expectancy at birth as one crude measure of the effectiveness of a country's success in providing for basic needs. This single measure can encompass the combined effects on mortality of health care, clean water, nutrition, and sanitation improvements, although it is admittedly an average of country experience with no feel for how well these have been provided for different groups within the population. Progress in meeting needs for primary education can be measured by adult literacy—a better indicator than primary school enrollment, since it is oriented toward effects rather than efforts. These two indicators—life expectancy and adult literacy—give crude but fairly useful measures of progress in meeting basic needs. Both indicators are generally available for most developing countries on a fairly reliable basis, which is not true for some alternative measures, such as infant mortality.

Table 1
Economic growth, life expectancy, and literacy for selected countries

Country	Growth rate 1960–77[1] (In per cent)	Life expectancy 1960 (In years)	Deviation from expected levels of life expectancy[2] (In years)	Adult literacy 1960 (In per cent)	Deviation from expected levels of literacy, 1960[3] (In per cent)
Singapore	7.7	64.0	3.1	—	—
Korea	7.6	54.0	11.1	71.0	43.6
Taiwan	6.5	64.0	15.5	54.0	14.2
Hong Kong	6.3	65.0	6.5	70.0	6.4
Greece	6.1	68.0	5.7	81.0	7.5
Portugal	5.7	62.0	4.7	62.0	1.7
Spain	5.3	68.0	1.8	87.0	1.2
Yugoslavia	5.2	62.0	4.7	77.0	16.7
Brazil	4.9	57.0	3.0	61.0	8.6
Israel	4.6	69.0	2.0	—	—
Thailand	4.5	51.0	9.5	68.0	43.5
Tunisia	4.3	48.0	−0.5	16.0	−23.8
Average top 12 countries	5.7	61.0	5.6	64.7	12.0
Average—all countries[4]	2.4	48.0	−.0	37.6	−.0

Source: World Bank, *World Development Indicators, 1979*.
[1] Growth rate of real per capita GNP.
[2] Deviations from estimated values derived from an equation where life expectancy in 1960 (LE) is related to per capita income in 1960 (Y) in the following way: $LE = 34.29 + .07679\,Y - .000043\,Y^2$ ($R^2 = .66$).
[3] Deviations from estimated values derived from an equation where literacy in 1960 (LIT) is related to per capita income in 1967 (Y) in the following way: $LIT = 9.23 + .1595\,Y - .0000658\,Y^2$ ($R^2 = .44$).
[4] Data for average growth rates and life expectancy refer to a sample of 83 countries, while that for literacy covers 63 countries.

But even if we use these selected social indicators to measure progress in meeting basic needs, the problem of identifying causality remains. Is the progress in meeting basic needs shown by these indicators a result of growth in output, or is it one of the causes? One way to overcome this problem is to look at the data for growth rates of different countries compared to the levels of basic needs at the beginning of a particular period. If past achievements in meeting basic needs now require high levels of consumption expenditures, the data then should show that good basic needs performance has been associated with low growth. On the other hand, if provision of basic needs leads to an improvement in people's productivity, the indicators should show that basic needs are related to higher growth.

Comparative evidence

The simplest way of identifying the relationship between the provision of basic needs and growth is to examine the record of countries that have grown very rapidly in the past and to compare their basic needs performance—measured by life expectancy and adult literacy—with that of the average country. Table 1 presents data for the 12 fastest growing countries between 1960 and 1977 (excluding the oil exporting countries and those with populations of under one million). The average per capita growth rate of these countries—5.7 per cent per annum—was substantially higher than the average of all 83 countries in our sample. Further, the populations of this group of countries clearly had above-average life expectancy at the beginning of this period: 61 years, compared with an overall average of 48 years in all 83 countries.

This would seem to demonstrate that improving the provision of basic needs can augment the rate of growth. While this may be true, the data in the table contain a considerable bias. The countries that grew the fastest in the 1960–77 period were also countries which already had above-average levels of income. Since levels of income and life expectancy tend to be closely (but not perfectly) correlated, it is not surprising to find that the statistics for our 12 countries show above-average life expectancy.

To overcome this bias, an equation was established to relate life expectancy to income and to establish the "expected" level of life expectancy for every country. Better than normal performance on life expectancy could then be measured by the deviation between the actual and the expected levels. In a sense, this formula adjusts the level of life expectancy for the level of income. These deviations are shown in the third column of Table 1. The 12 countries in the sample have life expectancies that are, on average, 5.6 years higher than what normally would have been expected on the basis of their relative income level. Con-

sequently, there does seem to be a positive association between life expectancy and growth, even when allowing for the fact that some of the more rapidly growing countries are also those at more advanced stages of development.

Adult literacy is another useful measure of a basic needs performance. Table 1 shows that in the rapidly growing countries, about 65 per cent of adults were literate in 1960, compared with about 38 per cent for the sample of 63 countries. Even when adjusted for income differences, literacy levels in the rapidly growing countries were about 12 percentage points higher than in the other countries at the beginning of the period.

Table 2
Growth and life expectancy, selected countries

Country	Deviation from expected level of life expectancy (In years)	Growth rate, 1960–77 (In per cent)
Sri Lanka	22.5	1.9
Taiwan	15.5	6.5
Korea	11.1	7.6
Thailand	9.5	4.5
Malaysia	7.3	4.0
Paraguay	6.9	2.4
Philippines	6.8	2.1
Hong Kong	6.5	6.3
Panama	6.1	3.7
Burma	6.0	0.9
Greece	5.7	6.1
Kenya	5.5	2.4
Average, 12 countries	9.1	4.0
Average, all countries	0	2.4

Source: World Bank, *World Development Indicators, 1979.*
Note: For explanation of variables, see Table 1.

The preceding analysis suggests that meeting basic needs may contribute significantly to growth, but it does not prove that the approach is a sufficient condition for high growth. In Table 2, we turn the question around and look at the 12 countries that have the highest deviation from expected levels of life expectancy. Many of the same countries shown in Table 1 appear here, namely, Taiwan, Korea, Thailand, Hong Kong, and Greece. In addition, there are a number of other countries which have done well in terms of life expectancy but have not had exceptionally high growth rates during the period, such as Sri Lanka, Paraguay, the Philippines, Burma, and Kenya. Nevertheless, the average growth rate for this second group of 12 countries—4.0 per cent per annum—is still considerably higher than the average for the larger group.

One might argue, however, that the simple statistical analysis presented here is inadequate for drawing firm conclusions. The growth performance of countries is dependent on a variety of factors, such as the level of investment, export earnings and capital flows, and the general nature of development policies pursued.

The influence of these factors, as well as the emphasis on basic needs, can be combined and analyzed using multiple regression techniques on the cross-country data. This has been done for the period 1960–73 (see Hicks, 1979), regressing the growth rate of per capita GNP on the investment rate, the growth rate of imports, and the levels of either literacy or life expectancy in 1960. (The growth rate of imports combines the effects of export growth and capital flows.) This analysis concluded that the basic needs variables were significantly related to the growth rate, even after allowing for the influence of the other variables. It was found that countries which had life expectancies ten years higher than expected tended to have per capita growth rates 0.7 to 0.9 percentage points higher. Thus the more sophisticated techniques confirm the simpler ones shown here, which already concluded that those countries which do well in providing for basic needs tend to have better than average performance in terms of economic growth. This would also seem to suggest that a basic needs emphasis in development, far from reducing the rate of growth, can be instrumental in increasing it.

It would appear that economists who formerly focused on human capital may have concentrated too narrowly on one aspect of human capital, namely education. It seems possible that other aspects of a basic needs approach to development, which aim to improve the health and living conditions of the poor, should also be considered as building up a country's human capital. Exactly how health and related basic needs improvements help increase productivity and growth in the economy is difficult to pinpoint. The most obvious relationship is that healthy workers can produce more, work harder and longer, and so on. In addition, healthy students are apt to learn more. Improved health conditions reduce the waste of human and physical resources which results from the bearing and raising children who die before they reach productive ages. The prospect of a short life expectancy reduces the potential gain from long years of schooling. These kinds of gains in productivity from investments in health and education are now being recognized as important as the returns from investments in the more standard forms of physical capital. In other words, investing in people may be a good way to both eliminate the worst aspects of poverty and to increase the growth rate of output.

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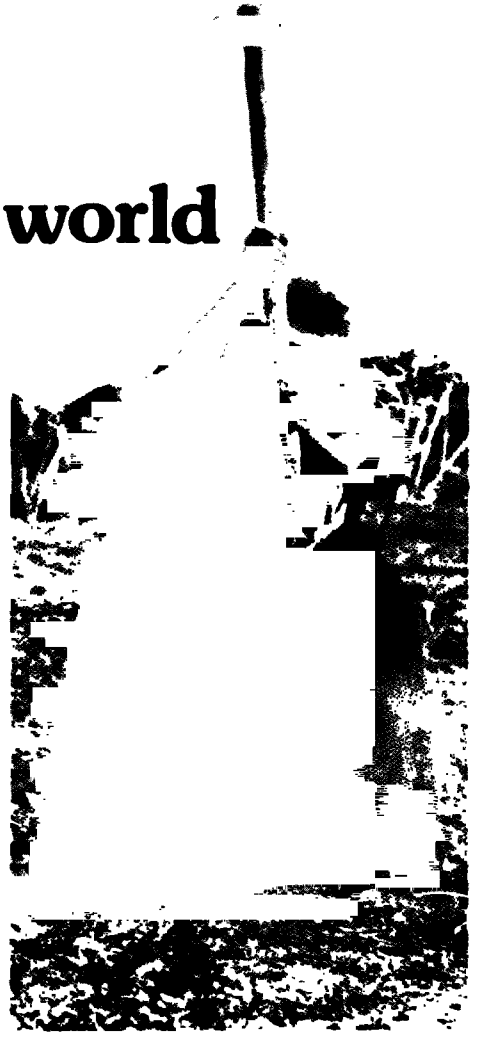
Poverty and progress - choices for the developing world



Two different concepts of progress lie at the heart of much of the controversy about development strategy. One is based on the objective of catching up to the industrialized countries, the other on securing greater equity and reducing poverty. Comparative studies of the experience of countries with different policy approaches can help to shift this argument from the ideological to the empirical level. The author surveys some recent results of Bank research in this field and proposes a pragmatic approach to poverty alleviation.

Hollis B. Chenery

Concepts of progress in most developing countries are heavily conditioned by their colonial past. Many of them express their objectives in terms of "catching up" with the advanced industrial societies and pattern their economies on this model. This tendency is reinforced by political objectives in countries that wish to acquire military power and influence.

One drawback to the emphasis on growth is that its benefits have usually been concentrated on the modern sectors of the economy, and increasing inequality of incomes has often led to political tensions. An alternative view of progress focuses more on achieving an equitable society and reducing poverty, with growth regarded as a necessary but by no means sufficient condition.

The postwar experience of relatively rapid growth in developing countries has provided a rich body of data on this set of relations that is only now being analyzed. Since there is relatively little established theory to guide this analysis, the collection of data and the formulation of hypotheses have gone hand in hand. Although substantial progress has been made in understanding the economic forces at work, the results to date are largely speculative and fall considerably short of the needs of policymakers. This article explores some of the implications of the prevalent views of progress in developing countries in the light of the information available on the results.

This article is adapted from a paper to appear in G Almond M Chodorow and R Pearce (editors), Progress and Its Discontents Stanford University Press

Concepts of progress

Catching up. The material success of the industrialized West has been a powerful incentive to the rest of the world to adopt elements of Western experience that are conducive to accelerated growth. The success of countries with different historical backgrounds and economic and political systems has served to reinforce this objective.

The concept of catching up with the industrial leaders is a product of the industrial revolution and its outward spread from Western Europe. This concept both provides a goal for social action and suggests a means by which this goal can be achieved. The technology and forms of economic organization created by the advanced Western countries have provided the means for accelerated growth for countries in all parts of the world. Nations following this model have differed primarily in their choice of the economic and social elements to be incorporated in their societies.

The prototype of a successful process of catching up is Japan, whose economic structure and income level in 1910 were not significantly different from those of the poor countries of today. Econometric estimates of the sources of Japanese growth suggest that the process of borrowing technology from more advanced countries is now virtually completed and that Japan is likely to attain the income level of the United States by 1990 (Jorgensen and Nishimizu, 1978).

The Japanese example has had a powerful effect on Taiwan, Korea, Singapore, Thailand, and other countries of East Asia. All of these economies are now growing considerably faster than those of the advanced countries, and some may be able to complete the transformation from a state of underdevelopment to one of maturity in less than the 60 years taken by Japan.

Several of these East Asian countries provide modern approximations to the earlier idea of progress as a process in which "good things come in clusters" (Keohane, 1979). Unlike most developing countries, the benefits of growth have been widely distributed in Japan, Taiwan, Singapore, and Korea, and the incomes

of the poor have grown almost as fast as those of the rich. Postwar governments have been growth minded and authoritarian but not very repressive, and these countries have ranked high on most indicators of social progress. In more typical cases growth has been achieved at the expense of increasing the concentration of wealth and income, however, and the poor have benefited much less.

Equity. Although the more equitable sharing of income features prominently among the political objectives of virtually all governments, it is taken much less seriously in practice than is the objective of rapid growth. Even though widespread government intervention in production and income distribution is justified largely on the grounds of reducing poverty, in fact most studies show that on balance the effects of government revenue collection and expenditure in developing countries favor the upper-income groups rather than the poor.

A few developing countries have, however, gone beyond the endorsement of equitable growth and have adopted policies designed to achieve it. Notable examples include the People's Republic of China, Cuba, India, Israel, Sri Lanka, Tanzania, and Yugoslavia. Although their social goals vary with the form and extent of government control of the economy, there is a common emphasis on providing a minimum level of income to the poorest groups. In the more extreme socialist formulations, greater equality is considered a goal in itself, even if it is achieved with an adverse impact on efficiency—that is, lowering the incomes of the rich rather than raising those of the poor.

A pioneering attempt to reconcile the objectives of growth and the alleviation of poverty in an operational framework was made in 1962 by the Perspective Planning Division of the Indian Planning Commission (Srinivasan and Bardhan, 1974). This approach was based on a formulation in which the rate of poverty reduction in India was determined by the growth of the national income, while the extent of redistribution considered feasible was based on the experience of other countries. This approach has been refined in the concept of "Redistribution with growth" (Ahluwalia and Chenery, 1974), which forms the basis of the comparative analysis in the following section. If the idea of a feasible limit to the redistribution that can be achieved with a given set of institutions is accepted, the conflict between growth and distribution is reduced.

A further refinement in the concept of poverty alleviation has been achieved by shifting from the use of income as a measure of poverty to physical estimates of the inputs required to achieve minimum standards of nutrition, health, shelter, education, and other essentials. These indicators of basic needs provide a way of evaluating the effectiveness of any set of policies designed to reduce poverty (Streeten, 1979). The "basic needs" approach focuses particularly on the distribution of education, health, and other public services as a necessary element of policies designed to raise productivity and to alleviate poverty. This is an area in which some of the more effective socialist societies, such as the People's Republic of China, showed marked improvement.

Formulating social objectives. The social goals of developing countries—and of international bodies representing them—tend to be stated in political terms that confuse ends and means and ignore the different dimensions of progress. For example, the goal of catching up with more advanced countries is a poor proxy for improving welfare because it often leads to emphasis on heavy industry and other policies that concentrate growth in the modern sectors of the economy. Similarly, many of the goals announced by international agencies, such as the attainment of given levels of nutrition, education, shelter, or industry, are misleading because they ignore the need to achieve a balance among the several dimensions of social progress.

The economist's answer to this problem is to replace a set of separate objectives by a social welfare function that defines the goal of a society in utilitarian terms as the increase in a weighted average of income or consumption of its members over time. Although the national income is one such average, the typical income distribution gives a weight of over 50 per cent to the rich (the top 20 per cent) and less than 5 per cent to the poor (the bottom 20 per cent). If the growth of aggregate national income is used as a goal, it therefore implies giving 10 to 20 times as much weight to a 1 per cent increase in the incomes of the rich as to a 1 per cent increase in those of the poor (Ahluwalia and Chenery, 1974).

In principle, any set of weights could be applied to the income or consumption of different groups to remedy this bias. One possibility is to give equal weight to a given percentage increase in the income of each member of society, which is the equivalent of weighting by the population in each group. A more extreme welfare function, which corresponds to the announced goals of a few socialist societies, concentrates entirely on raising the incomes of the poor and gives social value to increasing other incomes only to the extent that they contribute to this objective.

Although there is no scientific way to determine the appropriate welfare function for any given society, the concept is useful in bringing out potential conflicts in the idea of progress and in deriving alternative measures of performance. It will be used for this purpose in the following section.

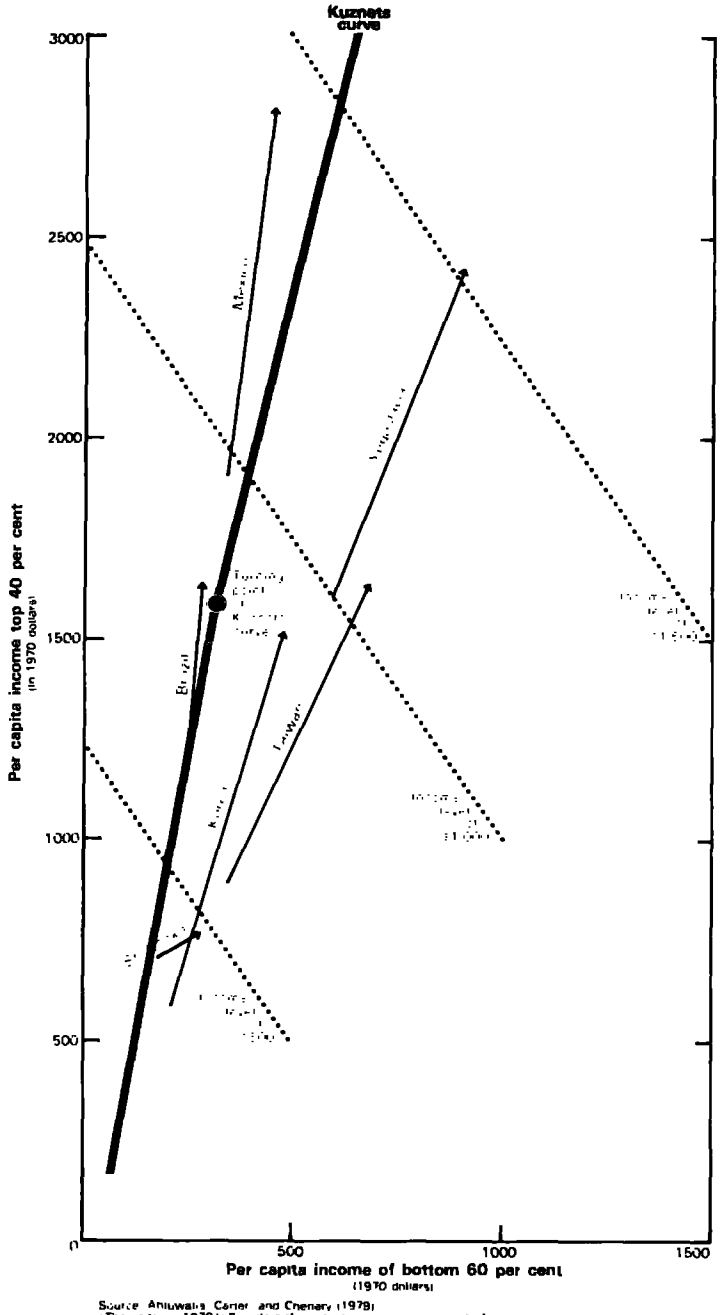
Experience with distribution

Perceptions of the nature of progress have evolved considerably as a result of the varied experience of the postwar period. Many of the early postcolonial governments set forth optimistic objectives that now seem highly oversimplified. However, there has also been a notable willingness to learn from experience in countries with varying ideologies. Equity-oriented countries such as the People's Republic of China, Cuba, Sri Lanka, and Tanzania have found it necessary to give greater attention to economic efficiency and growth, while some of the leading exponents of rapid growth—Brazil, Mexico, Thailand, Turkey—are now taking poverty alleviation more seriously.

Although scholarly interest in these relations has expanded rapidly in recent years, the statistical measures needed to test and refine hypotheses are only now becoming available. Twenty-five years ago, Simon Kuznets addressed the question: "Does inequality in the distribution of income increase or decrease in the course of a country's economic growth?" Although his answer was based on evidence for only a handful of countries and was labeled "perhaps 5 per cent empirical information and 95 per cent speculation," it has provided the starting point for empirical work in this field (Kuznets, 1955). Kuznets hypothesized that the distribution of income tends to worsen in the early phases of development and to improve thereafter. This "U-shaped curve" hypothesis has been subsequently verified in several cross-country studies based on samples of 50 or 60 developing countries (Ahluwalia, 1976).

There are several reasons for the earnings of middle-income and upper-income groups to rise more rapidly than those of the poor in the early stages of growth. Development involves a shift of population from the slow growing agricultural sector to the higher-income, more rapidly growing modern sector. In this process inequality is first accentuated by more rapid population growth in rural areas and ultimately reduced by rising wages produced by more rapid absorption of labor in the modern sector (Frank and Webb, 1977). The more capital-intensive type of development strategy followed by Mexico or Brazil absorbs less labor and produces greater concentration of income, while the more labor-

The Kuznets curve with country observations



Source: Ahluwalia, Carter, and Chenery (1979).
[1] The units are 1970 U.S. dollars of constant purchasing power, which in the poorest countries are between 2.5 and 3 times the per capita income converted at official exchange rates.

intensive forms of Taiwan and Korea distribute the benefits of modernization more widely. A number of other factors, such as the greater demand for skilled than for unskilled labor and the concentration of public expenditure in urban areas, also contribute to growing inequality in many countries.

My present concern is with the broader aspects of the relations between growth and distribution. How universal is the tendency toward less equal distribution in developing countries? Does it lead to an absolute decline in welfare for some groups? What kinds of policies have served to offset these tendencies? Is social conflict an inevitable concomitant of economic advance? Although none of these questions can be answered with great confidence, the average relationships and the variety of individual experience can be brought out by combining the available cross-country and time-series evidence for the postwar period.

The average relationship between rising income and its distribution is best shown by estimates of the Kuznets curve from data for all countries having comparable measures in some recent period (Ahluwalia, Carter, and Chenery, 1979). Although the variation in income shares was computed separately for each quintile, the general phenomenon is depicted in the chart by considering only two groups: the rich (upper 40 per cent) and the poor (lower 60 per cent). As national income rises from the lowest observed level to that of the middle-income countries, the share received by the poor declines on average from 32 per cent to 23 per cent of the total. In a hypothetical country following this average relationship, 80 per cent of the increase in income would go to the top 40 per cent of recipients.

The relationship between the income growth of different groups and that of the whole society can be brought out more clearly by expressing it in terms of the per capita income of each group. This is done in the chart, which plots the per capita income of the poor against that of the rich. Since the income level "Y" of the society is a weighted average of the two groups "a and b" ($Y = .4Y_a + .6Y_b$), the downward sloping straight lines define given levels of per capita income. Points on these lines indicate different distributions, and a growth process with a constant distribution is represented by a straight line through the origin, as in the case of Yugoslavia. A line deviating toward the vertical axis indicates growing inequality, as in the case of Mexico or Brazil. Growing equality is shown by Sri Lanka and Taiwan.

The Kuznets curve shown in this chart consists of two segments: a phase of worsening distribution up to an income level of about $800 (of constant purchasing power) and a phase of improving distribution thereafter. In the first phase the per capita income of the rich grows from about $300 to $1,600 while that of the poor increases from about $100 to $300. For the poorest 20 per cent, the rate of growth is considerably less. Since an increase in national income of this magnitude may take 40 or 50 years even with the relatively rapid growth rates recently experienced in developing countries, in the typical country the very poor cannot look forward to an annual increase of much more than 1 per cent—even though the economy is growing at two or three times that rate. Furthermore, there is nothing automatic about the improvement in distribution above $800, as shown by Mexico and Brazil.

Tradeoff between growth, equity. Although acceptable time-series data are only available for a dozen or so countries, they indicate a considerable variation around this average relation. The table gives selected measures of overall growth and of the share going to the lower 60 per cent for countries having observations for a decade or more.

Changes in income and its distribution

Country	Income level[1]				Distribution			Growth rates		
		Increments			Percentage share of bottom 60 per cent			(In per cent)		
	Initial year	Total	Top 40 per cent	Bottom 60 per cent	Initial year	Final year	Increase incremental	Total	Bottom 60 per cent	Ratio of bottom 60 per cent to total
Good performers										
Taiwan (1964–74)	562	508	758	341	36.9	38.5	39.5	6.6	7.1	1.1
Yugoslavia (1963–73)	1,003	518	822	316	35.7	36.0	36.5	4.2	4.3	1.0
Sri Lanka (1963–73)	388	84	58	101	27.4	35.4	51.3	2.0	4.6	2.3
Korea (1965–76)	362	540	938	275	34.9	32.3	31.1	8.7	7.9	0.9
Costa Rica (1961–71)	825	311	459	212	23.7	28.4	33.6	3.2	5.1	1.6
Intermediate performers										
India (1954–64)	226	58	113	21	31.0	29.2	25.8	2.3	1.6	0.7
Philippines (1961–71)	336	83	155	35	24.7	24.8	25.0	2.2	2.3	1.0
Turkey (1963–73)	566	243	417	128	20.8	24.0	27.9	3.6	5.1	1.4
Colombia (1964–74)	648	232	422	106	19.0	21.2	24.0	3.1	4.3	1.4
Poor performers										
Brazil (1960–70)	615	214	490	31	24.8	20.6	15.5	3.1	1.2	0.4
Mexico (1963–75)	974	446	944	114	21.7	19.7	18.0	3.2	2.4	0.8
Peru (1961–71)	834	212	435	63	17.9	17.9	17.9	2.3	2.3	1.0

Source: Ahluwalia, Carter, and Chenery (1979), Table 5.
[1] Measured by per capita income expressed in 1970 U.S. dollars of constant purchasing power.

They are divided into three groups according to the share of the increment in income going to the poor. The five good performers show over 30 per cent of the increment going to the bottom 60 per cent, while the three poor performers show less than 20 per cent. Whether distribution is getting better or worse is indicated by comparing these increments to the initial distribution and by the ratio of the growth of the per capita income of the poor to the national average in the last column.

This information, together with less complete data on other countries, provides a basis for describing the following patterns of growth and distribution observed in the developing world:

- *Growth-oriented pattern,* illustrated by Brazil and Mexico.
- *Equity-oriented, low growth,* illustrated by Sri Lanka.
- *Rapid growth with equity,* illustrated by Taiwan, Yugoslavia, and Korea.

These cases illustrate the main types of deviation from the average pattern that can be observed in the 12 countries of the table; India, Turkey, the Philippines, and Colombia follow the average relations of the Kuznets curve.

These examples suggest the following observations on the relationship between income growth and social welfare in developing countries. First, a small group of countries has achieved rapid growth with considerable equity. In addition to Taiwan, Korea, and Yugoslavia, this group includes Israel, Singapore, and perhaps the People's Republic of China. The policies underlying this successful performance vary from primary reliance on market forces in Taiwan, Korea, and Singapore to substantial income transfers and other forms of intervention in Yugoslavia and Israel. Second, substantial tradeoffs between growth and equity are illustrated by the other cases. Although Sri Lanka has grown much less rapidly than Mexico or Brazil, the poor have done considerably better in the former case. Cuba presents an even more extreme trade-off, since the welfare of the poor has risen despite a continuous fall in the nation's per capita income since 1960 (Seers, 1974).

Only in the few cases where economic growth has been both rapid and fairly equitably distributed is it possible to make unambiguous comparisons among countries—or among different development strategies for a single country. In other cases it is necessary to define some properties of a social welfare function to make such comparisons. To take two extreme cases from the table, the incomes of the poor have grown nearly four times as fast over a decade in Sri Lanka as in Brazil, while the opposite is true of the incomes of the rich. Since the latter receive greater weight in the national income, per capita income has grown 50 per cent faster in Brazil; conversely a population-weighted index of welfare increases 50 per cent faster for Sri Lanka. Even this limited sample therefore demonstrates that judgments about economic progress cannot be separated from social and ethical postulates.

Reducing world poverty

Attempts to extend the concept of material progress to a global scale run up against more acute problems of equity than the national issues described above. Although most governments recognize their national

Hollis B. Chenery

a U.S. citizen, is Vice President, Development Policy, of the World Bank. He joined the Bank at the end of September 1970 as Economic Adviser to the President. Mr. Chenery has degrees in mathematics and engineering from the Universities of Arizona and Oklahoma and received his Ph.D. in economics from Harvard. For the past 25 years, he has specialized in economic development, dividing his time between teaching, research, and government assignments.

Mr. Chenery is the author or coauthor of numerous publications, including Arabian Oil *(North Carolina, 1949),* Interindustry Economics *(John Wiley and Sons, 1959),* Studies in Development Planning *(Harvard University Press, 1971),* Redistribution with Growth *(Oxford University Press, 1974),* Patterns of Development *(Oxford University Press, 1975), and* Structural Change and Development Policy *(Oxford University Press, 1979).*

income as one dimension of national welfare, no one has suggested that global income has much relevance to an assessment of global welfare. Instead political and economic efforts of international institutions are increasingly focused on the reduction of poverty and other aspects of equity as objectives that command the support of people of widely varying political views.

In recent years considerable efforts have been made to establish measures of poverty based on standards of nutrition, health, shelter, education, and other essentials. Conservative estimates set the proportion of the world's population that falls below a poverty line based on such minimum standards at between 20 and 25 per cent. Although this proportion has declined somewhat in the past 30 years, the overall increase in the world's population has meant that the absolute number of people below this poverty line has continued to grow and is currently of the order of 800 million.

In technical terms the reduction or even elimination of world poverty seems deceptively easy. If resources could be shifted to satisfying the needs of poverty groups efficiently, it would only require a reallocation of 2 to 3 per cent of the world's output per annum from 1980 onward to meet the identifiable costs of eliminating poverty by the year 2000 (Streeten and Burki, 1978). Since three fourths of the world's poor live in very poor countries, however, the annual cost of eliminating poverty in these countries is more meaningfully stated as equal to about 15 per cent of their gross national product (GNP), even if expenditures could be designed to serve only the target groups. In the light of the distributional experience outlined in the previous section, the problem is seen to be vastly more difficult.

Some of the principal constraints to a more realistic attempt to reduce global poverty include:

(1) The multiple objectives of nation states, among which the alleviation of poverty is usually subordinated to a variety of nationalistic goals.

(2) The limited scope for resource transfers in the existing international economic order. Official development assistance from the industrialized countries has declined from 0.50 per cent of their GNP in 1960 to 0.35 per cent or less since 1970. Transfers from the Organization of Petroleum Exporting Countries (OPEC), while substantial, do not offset the negative effects of higher oil prices on the growth of the oil importing developing countries.

(3) Rapid growth of population, which will double in the next 35 years even though the rate has started to decline.

What are the possibilities of more rapid progress in the face of these and other constraints? In an attempt to compare approaches to poverty alleviation, Ahluwalia, Carter, and Chenery have simulated income growth and the numbers of absolute poor over the next 20 years for a large sample of developing countries (Ahluwalia, Carter, and Chenery, 1979, Tables 3 and 9). If the trends of the past 20 years—a period of relatively rapid growth of income—continue, the number of absolute poor in 2000 would be at about the same level as in 1960. This represents rapid progress in one sense, since the proportion of the poor would fall from 50 per cent to 20 per cent of the population of developing countries. However, since this result would be achieved only by a reduction in absolute poverty in middle-income countries that offsets the rising numbers in the very poor countries, it is not a long-term solution.

The reduction in poverty will have to come from one of three sources: improved distribution, accelerated growth, or a more rapid decline in population growth. Improved distribution is particularly important in many middle-income countries, such as those in Latin America (where income is quite unequally distributed), but some acceleration of growth is essential in the poor countries of Africa and South Asia. Although there are some short-term tradeoffs between growth and distribution, in the longer term it is more likely that all three types of policy will be mutually reinforcing. Even within restrictive limits to capital transfers, the industrial countries can considerably improve the outcome by giving greater priority to poverty alleviation in allocating aid among countries (Edelman and Chenery, 1977).

These projections lead to the conclusion that although the elimination of poverty is much more difficult than is sometimes suggested, it remains a plausible goal for international policy. One of the principal means to this end would be accomplished if the tendency of the poor to lag behind the higher-income groups in the process of development could be eliminated. There is increasing acceptance of the idea that international efforts should be more directly focused on reducing poverty in order to offset this tendency of the international system. Enough examples of how this result can be accomplished have been cited in economic systems ranging from socialist to free enterprise to suggest that it is a feasible objective.

This conclusion leaves several fundamental issues unresolved. To what extent should poverty alleviation replace the principle of self-help as a guide to international action? To achieve this objective, will it not be necessary to establish enforceable standards of performance to assure that the benefits actually reach the poverty groups? The new emphasis on poverty alleviation does not resolve these old dilemmas in the field of international economic cooperation. It may even accentuate them.

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Mahbub ul Haq

An international perspective on basic needs

The concept of providing for the basic needs of the poorest has been widely misunderstood. The author briefly reviews some of the misconceptions, and discusses how a wide variety of development strategies can be used to reduce the prevalence of absolute poverty. These include programs for human resource development which aim to increase the productive potential of the poor, and the provision to them of additional public services. International donors can assist developing countries in carrying out such strategies, but the final choice of policies, and the ultimate responsibility, remains with the individual country.

"Basic needs" is fast becoming an endangered code word. To some, the concept of providing for the basic needs of the poorest represents a futile attempt to redistribute incomes and provide welfare services for the poor without stimulating corresponding increases in their productivity to pay for them. To others, it identifies the ultimate objective of economic development which should shape national planning for investment, production, and consumption. To some, it conjures up the image of

a move toward socialism, and whispered references are made to the experience of China and Cuba. To others, it represents a capitalist conspiracy to deny industrialization and modernization to the developing countries and thereby to keep them dependent upon the developed world. To still others, it is a pragmatic response to the urgent problem of absolute poverty in their midst. It is amazing how two such innocent, five-letter words could mean so many different things to so many different people.

It is possible that "basic needs" has become such a code word that it is impossible by now to restore a meaningful perspective on this issue without abandoning the code word itself. That should not be too much of a loss. What needs to be protected is the objective, not the word. A redefinition is needed of the objective of development as increasing the income-earning capacity of the poor, both through greater national production and through the extension and the redistribution of public services.

It should be recognized, too, that terms like "basic needs strategies," "basic needs sectors," or "basic needs projects" are misleading. They confuse an ultimate goal with intermediate means. Many different activities can help meet basic needs and reduce absolute poverty—from building infrastructure to constructing a health dispensary. The indirect impact of some policies may be just as important as their direct impact. This confusion between ends and means lies at the heart of the current heated international debate on basic needs. An attempt is made in this article to clarify some major issues in this debate and to offer an international perspective on the role of basic needs in the development effort.

Misconceptions about the concept

The concept of basic needs brings to any development strategy a heightened concern with meeting the consumption needs of the whole population, particularly in the areas of education and health, but also in nutrition, housing, water supply, and sanitation. In formulating policies aimed at reducing poverty, a good deal of attention has generally been paid to restructuring patterns of production and income so that they benefit the poor. But similar attention has not been devoted to their needs for public services.

It should be recognized, however, that basic needs is not exclusively a welfare concept. Indeed, one of the major conclusions of recent World Bank studies is that sufficient empirical evidence exists to demonstrate that improved education and health often make a major contribution to increased productivity (see *World Development Report, 1980*).

The pursuit of basic needs is not a distinct development strategy in itself. It is a major goal of development which can be, and has been, achieved through a variety of development strategies. However, the explicit adoption of this goal as an important development objective involves gearing production, investment, and income policies to meet basic needs in a cost-effective fashion and according to a specific time frame.

These are issues that have been concerning the World Bank for some time, and the previous articles in this series have reported on the findings of the Bank's studies on meeting basic needs in different areas and different spheres of activity (see box). Specifically, the Bank has studied the application of the basic needs approach in particular countries and in certain sectors—health, education, water, nutrition, and housing. The studies also attempted to understand the linkages between the application of this concept to particular sectors, and its effects on growth in an economy.

Increasing productivity

The only way that absolute poverty can be eliminated on a permanent and sustainable basis is to increase the productivity of the poor. But this concern with direct methods to increase the productivity of the poor needs to be supplemented, for at least four reasons.

- First, education and health are required, besides machines and land and credit, to contribute to a higher level of productivity. Most poor people have limited access to such public services as education, health care, and water supplies which they need if they are to break out of the vicious circle of low productivity and poverty.
- Second, many poor people have no physical assets—neither a small farm nor a small industry. They are landless or urban poor. The only "asset" they possess is their own two hands and their willingness to work. In such a situation, the development of human resources through education and health programs is essential to increase their productivity.
- Third, it is not enough to enable the poor to earn a reasonable income. They also need goods and services on which to spend it. Markets do not always supply wage goods, particularly public services. Expansion and redistribution of public services becomes essential if basic needs are to be met.
- Finally, it may take a long time to increase the productivity of the absolute poor to a level where they can afford at least the minimum bundle of basic needs for a productive life. In the interim period, some income groups—particularly the bottom 10 to 20 per cent—may need short-term subsidy programs.

Third World suspicions

So the implications of the Bank's work on how to reach the very poor in a society are quite clear: both increasing their income-earning capacity and meeting their basic needs are essential. But ultimately the decision to try to reduce poverty, and the choice of a development strategy, rests with the country concerned, and not with any outside institution. In this context, the suspicion with which Third World negotiators in international forums regard the concept of basic needs has to be examined seriously, particularly since one of the principal objectives of their national development plans is to meet basic needs.

It is always difficult to separate myths and reality in a debate like this. But some of the reasons for the disenchantment of the Third World negotiators with international discussions on basic needs can be identified.

To begin with, the negotiators suspect that the developed countries are belatedly becoming concerned with basic needs because they think it will mean providing less assistance. In fact, current official development assistance (ODA) levels may have to be at least doubled in real terms if significant progress is to be made in meeting the basic needs of the absolute poor over the next two decades, and if the problems of transition are to be cushioned in the recipient country so that the programs will


Giuseppe Franchini

Mahbub ul Haq

a Pakistani, holds graduate and Ph.D. degrees from Cambridge (England) and Yale (U.S.A.). He is Director of the Policy Planning and Program Review Department of the World Bank. Before joining the Bank, Mr. Haq was the Chief Economist of the Planning Commission of his own country. He is associated with a number of intellectual forums and is regarded as a leading thinker, writer, and spokesman on international economic issues. His most recent publications include The Third World and the International Economic Order *(Overseas Development Council, Washington, D.C., 1976) and* The Poverty Curtain *(Columbia University Press, 1976).*

not inflict a totally unacceptable price on the rich and powerful sections of society. But few donors have indicated their willingness to provide more assistance while they advocate the adoption of a basic needs approach by the developing countries. The real assurance on this issue can come only from the rich nations; they should commit themselves to specific targets for raising the level of their assistance to support programs which provide basic needs for the majority of the poor in the Third World within a reasonable period of time.

Third World negotiators also suspect that the current stress on basic needs will be used to deny assistance to them for infrastructure, modernization, or industrialization. This again reflects a confusion between ends and means. Basic needs is an objective, not a specific route toward development. Developing countries may well establish steel mills, or any other industry, and still remain consistent with their aim to reduce poverty so long as the benefits of the consequent growth are channeled to the poor. So the support of the donors for such projects should be based on their judgment of whether the overall development plans and policies of the country concerned are consistent with the objective of meeting basic needs, rather than on an evaluation of individual projects.

There is also suspicion that emphasis on basic needs will divert ODA from some middle-income countries to the poorest countries. Such a diversion, in fact, would be a logical development. At present, 55 per cent of bilateral ODA is still allocated to the middle-income countries, which contain only 20 per cent of the global population of absolute poor. If ODA were to be reallocated according to a basic needs criterion, it would have to be diverted to the poorest nations. The impact of such a diversion could be cushioned, however, by enabling the middle-income countries to have a greater and more assured access to the capital markets of the developed countries and by channeling ODA increasingly through multilateral institutions. The International Development Association (IDA), for instance, could use more funds and has the advantage that professional criteria are applied in determining its country allocations. Over 90 per cent of IDA resources are allocated to the poorest countries already, compared to 45 per cent of ODA through bilateral channels.

A further concern of the Third World negotiators is that the donors will intervene more in the internal economic and political management of their countries under the convenient banner of auditing basic needs programs. This is a delicate policy area to discuss with any semblance of objectivity. In a way, there is always some degree of policy intervention by the donors: its objectives and form may change over time. But the heart of aid diplomacy is for officials in donor countries to identify the point beyond which policy intervention becomes counterproductive. Perhaps a distinction has to be made here between a donor's signals on overall policy, which are generally more acceptable to recipient countries, and specific project and policy conditionality and detailed monitoring, which are far less acceptable. For instance, overall policy signals can make clear that additional assistance will be given to those countries which commit themselves to giving higher priority to basic needs. There is an additional consideration: in general, performance auditing by multilateral institutions, such as the IDA, or special arrangements for participatory monitoring, as was the case with the Marshall Plan, are more acceptable than similar action by bilateral donors. In any case, the developed countries will have to be very careful about the extent and form of policy intervention they can usefully apply at a time when the developing countries are seeking greater equality, independence, self-reliance, and participation in international decision making and when they are in the least receptive mood for such intervention.

Finally, there is an overwhelming concern on the part of the Third World negotiators that the current debate over basic needs may be used by the developed countries to divert attention from the North-South dialogue on the New International Economic Order. There is a concern that the advocacy of basic needs will be used by the donors to tell the developing countries to reform their own national priorities before they question the inequities of the international system. Moreover, the basic needs debate is concerned exclusively with resource transfers while the dialogue on the New International Economic Order includes discussion of areas such as trade, credit markets, technology, and multinationals. A parallel can be drawn here to attempts at achieving equality of opportunity at the national level: if the poor are to achieve greater equality of opportunity, they need not only resource transfers but also a restructuring of various institutions and markets. Any conflict between basic needs and the New International Economic Order begins to fade if basic needs is accepted as a priority objective which should be met both by reforming the national and the international orders and by the more automatic provision of additional financial support for the developing countries.

Concrete targets to meet basic needs can be set and implemented only in specific national situations.

A constructive approach

What can be done at the international level to support the adoption by the developing countries of a strategy that will provide for basic needs of the poor?

As a start, it may be useful to note what has *not* succeeded so far at the international level. Many United Nations conferences in recent years have attempted to set specific dates for meeting global targets in the fields of education, health, water supply, nutrition, and housing. Although this has certainly helped to create greater awareness of the magnitude and urgency of the particular problems, these global targets have had little operational significance. Concrete targets to meet basic needs can be set and implemented only in specific national situations. Moreover, the costs of individual global targets are generally assessed by totaling the costs of each sector analyzed in isolation. This leads to inflated aggregates which do not take the cost-reducing impact of sectoral linkages fully into account. Furthermore, these global targets are often not fitted into any consistent, overall development strategy for the developing world, so that they often do not make much sense when pursued at a national level. Further, the dates for their achievement are generally a matter of arbitrary choice.

In order to incorporate goals for meeting basic needs into an operational program, three distinct steps are necessary. First, all developing countries should formulate their own national development plans for meeting the basic needs of their population over a defined period of time. Naturally, the priority that each society gives to meeting basic needs and the time frame within which it plans to achieve this objective will vary widely, depending on its stage of economic development, resource base, and political and social compulsions. International targets should be derived as an aggregation of these national plans, and not as independent estimates.

IBRD/IDA lending by sectors

(In fiscal years)

	1970		1980 (Preliminary)		Average annual growth 1970–80
	In millions of 1980 dollars	In per cent	In millions of 1980 dollars	In per cent	In per cent
Sectors of lending					
Infrastructure[1]	3,784	58.3	4,090	37.2	0.8
Sectors directly linked to increasing the productivity of the poor	**506**	**7.8**	**3,352**	**30.5**	**20.8**
Production sectors					
"New style projects"[2]	166	2.6	2,053	18.7	28.6
"Basic needs programs"[3]	340	5.2	1,299	11.8	14.4
Other production sectors[4]	2,197	33.9	3,558	32.3	4.9
Total	**6,487**	**100.0**	**11,000**	**100.0**	**5.4**

Source: World Bank.

Note There is some overlap between various categories. Also, all lending has varying degrees of impact on poverty, directly or indirectly The table is only illustrative to bring out the major shift in sectoral emphasis over time.

[1] Includes communications, energy, power, transportation, and tourism

[2] Includes rural development and small-scale industry projects where over 51 per cent of the total benefit is directed to poverty target groups

[3] Includes education, population, health, sites and services, and water supply

[4] Includes agriculture (excluding rural development), development finance companies, industry, technical assistance, and nonproject lending

Second, each national development plan should identify the range of national and international policies needed to assist in meeting the basic needs of their poor people according to the country's own specific timetable. The International Development Strategy for the 1980s, which is currently being formulated, should fully reflect these policy options. In particular, it should focus on those international actions which are vital for the success of these national plans—whether these are additional resource transfers or changes in the prevailing international trade and monetary system.

Third, the international community should commit itself to a much higher level of support for the efforts of the developing countries if absolute poverty is to be eliminated in a manageable period of time. In fact, a coherent international development strategy, based on the priorities of national development plans, can give specific content to the changes in the international environment which are needed to meet certain defined development objectives.

Issues for the World Bank

What are the implications of this discussion for the policies of the World Bank itself?

Over the past 12 years, the Bank has switched its sectoral priorities so that an increasing proportion of its lending is now committed to sectors directly contributing to the objective of poverty alleviation. The proportion of such projects and programs in the total lending program has risen from 8 per cent in fiscal year 1970 to 30 per cent by fiscal year 1980 (see table). Thus, over the last decade, resources devoted by the Bank to programs of increased productivity of the poor have increased about four times as fast as the Bank's overall rate of expansion. However, there is considerable scope for further adjustment within sectors. For example, only 14 per cent of the benefits from water and sanitation projects are believed to go to the absolute poor. The share of basic education in total Bank lending in the education sector at present is estimated at 25 per cent.

Greater emphasis on the objectives of alleviating poverty and meeting basic needs has some important implications for the lending procedures of the Bank, particularly for operating costs and sectoral lending. It is a characteristic of many projects and programs that are aimed at meeting basic needs that operating costs are high in relation to capital costs. Some financing of incremental operating costs is already being done by the Bank. In agricultural extension projects, for example, the Bank includes the salaries of extension workers in the costs of the projects. Practices have varied, however, among sectors; in education, for example, this type of operational financing has been limited.

The Bank has recently generalized this approach by making eligible for financing any incremental operating costs required for the implementation of education and training projects. Specifically, this includes financing of incremental costs of teachers' salaries and materials, which in many instances is a more effective way of expanding or improving education than an exclusive preoccupation with buildings and equipment. The financing of such incremental operating costs by the Bank will not extend beyond the implementation period of the project. The Bank will also satisfy itself that these incremental operating costs can be financed subsequently by the government concerned.

A greater Bank role in providing for basic needs also suggests some movement toward sector lending. Sector lending can be defined in general terms: it means that a donor provides a certain amount of resources for the implementation of a set of projects conceived within a satisfactory sector strategy. Sector lending, therefore, presupposes the existence of national institutions that are capable of implementing coherent sector strategies and of handling various aspects of project work. This condition has not often been met in the social sectors.

The Bank will adopt an explicit policy of creating and developing institutions in education, health, water supply, and so on, that can, over time, be relied upon to make good use of sector loans. At the same time, the Bank will expand its sector lending in the relevant sectors of education, nutrition, water supply, sanitation, and housing in those countries in which adequate institutional bases already exist.

Primarily a national decision

This discussion has concentrated on the international implications of adopting basic needs as the principal objective in national development plans. In the final analysis, however, the initiative for adopting such an objective rests entirely with the developing countries. The weight they give to this objective is their choice. The international community cannot be far ahead of the national governments. It can offer help. It can give the right signals in lending policies. But it can neither define nor dictate basic needs targets. It is a national decision, in the light of each country's own political and economic compulsions, the accumulating pressure of their absolute poverty, and the quiet footsteps of political revolutions that their governments hear in the dark distance. Without a national commitment to eliminating such poverty, no amount of international concern can succeed in providing for the basic needs of the world's poorest.

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World Bank
Headquarters:
1818 H Street, N.W.
Washington, D.C. 20433, U.S.A.
Telephone: (202) 477-1234
Cable address: INTBAFRAD
WASHINGTONDC

European Office:
66 avenue d'Iéna
75116 Paris, France

Tokyo Office:
Kokusai Building
1-1 Marunouchi 3-chome
Chiyoda-ku, Tokyo 100, Japan