Recent Reports

World Development Report 1997: The State in a Changing World, Oxford University Press for the World Bank, Washington DC, 1997, 265 pages, IR£17.50

The economics of the end of history

The theme of the 1997 *World Development Report – The State in a Changing World* – is in certain respects a continuation of last year's theme – *From Plan to Market.* Both are written from a liberal economic perspective and embody the consensus view that in the post-Communist era, this is the only policy game in town.

The notion that after the fall of the Berlin wall the world moved to a situation where liberal democracy would become the dominant form of state governance was the thesis of a very controversial article and book by Francis Fukuyama, *The End of History and the Last Man.* Fukuyama explored the idea that liberal democracy may constitute the "end point of mankind's ideological evolution", and that there may be a coherent and directional history that leads much of humanity to this end-point. However, he questions whether the prosperity promised by liberal democracy, if it should universally come to pass, would be likely to co-exist in equilibrium with many complex aspects of human personality.

As I read through *The State in a Changing World*, I became increasingly aware of a need to place its essentially technocratic exposition within a political and philosophical framework. Perhaps it is not an over-simplification to suggest that the Report provides the economic justification for *The End of History*? Hence, I was surprised to note that while Fukuyama's latest book, *Trust*, was listed in the extensive bibliography, *The End of History* was not!

Of course, international institutions like the World Bank are not in the business of stirring up controversy: rather, they are in the business of designing and implementing consensus policies around the world, blending altruism with pragmatism. These policies are directed at the poorer countries, i.e., those presently not members of the OECD – the club of wealthy countries. Its publications are often written by large teams of experts and express a collective consensus rather than an individualistic opinion. With important documents like the *World Development Report*, they usually come with the stamp of approval of the chief of the organisation (in this case James Wolfensohn, the World Bank President, who provides a succinct and lucid two page Foreword). They always have an Overview section (pp. 1-15), where the basic conclusions and policy implications are stated in short and simple terms for those too busy, or unwilling, to read the details. Indeed, the details, when they come (pp. 16-193), are often something of an anticlimax. In the densely argued text, their initial effect can be numbing as data and theory are marshalled to support the analysis and the inexorable policy conclusions.

The main ideas in this year's Report can be easily stated. The dramatic post-World War II expansion of the role of the state in developed and developing countries has been well documented, using indicators such as government expenditure as a percentage of GDP or public sector employment as a share of total employment. However, the role and effectiveness of the state has increasingly been called into question in recent years. The economic failure of the former Communist countries has obliged them (with very few exceptions) to abandon central planning by the state and embrace market economics, often incurring horrendous transition and dislocation costs in the process. Even in the mixed public-private economies of the OECD, the fiscal crisis in the welfare state has led to a rolling back of the boundaries of the state in favour of market-driven solutions such as privatisation. However, the prospect that this process should continue and lead eventually to "minimalist" state governance systems is held to be as misguided and dangerous as central planning was. Indeed, in those countries where the state effectively ceased to function, the result was usually a catastrophic collapse into anarchy and brutal disorder, such as occurred in Afghanistan, Liberia and Somalia. Even Europe is not free from such problems, as shown by the experiences of Albania and the former Yugoslavia.

The Report suggests two general principles as a framework for guiding policymakers towards effective state governance. First, the state should focus on activities that are commensurate with its capabilities and not over-extend itself. Second, the state should not be permitted to "fossilize": rather, a constant effort should be made to reinvigorate public institutions, encouraging flexibility and preventing arbitrary and corrupt behaviour. The Report elaborates this two-part strategy by drawing on examples ranging over many countries and many decades (and even centuries!), seeking to isolate common features of successful states. The key conclusion is that the state is central to socio-economic development, but as a partner, catalyst and facilitator rather than as a direct provider of growth.

As a first priority, the state should first try to get the fundamentals of good governance right. These include establishing the rule of law, providing basic social services and infrastructure, protecting their vulnerable citizens and the natural environment, and creating an economic policy climate where enterprise can thrive. The Bank's data show that the poorest performing regions (particularly in Latin America, sub-Saharan Africa and the Commonwealth of Independent

States (CIS) are also the ones where these core priorities are neglected.

However, even if we accept the *Report's* analysis that poor state credibility leads to poor economic performance, the causes and effects of this are perhaps not as transparent as one is led to believe. For example, if one looks at the aid transfers that small EU member states like Ireland, Portugal and Greece receive to promote "cohesion", these are simply massive compared with the per capita aid transfers that the developed world gives to developing countries. Are we surprised that where there is little hope, dysfunctional states flourish? Is it not a little disingenuous to attribute all of the huge welfare gap that opened up between the East Asian countries and sub-Saharan Africa over the period 1964-92 to state policies, state size and state capability, together with an "unexplained" factor (page 32)?

The second Report theme – reinvigorating state institutions – is a challenging and searching attempt to address a perennial problem, stated first by Juvenal (*sed quis custodiet ipsos Custodes*?), and by James Madison in 1788 at the time of constitution-making in the USA as the need for the state to "control itself". Mechanisms discussed include the design of effective rules and restraints, making use of competitive pressures, and (using Hirschman's terms) encouraging *voice* over *exit*.[1]

The overarching forces of globalisation, sometimes regarded as a threat to developing countries, can act to reinforce the actions of effective, disciplined states to foster economic and social well-being. Nevertheless, about half of the developing world's population has not yet benefited from the post-1960 rise in the volume of international trade and capital flows. Indeed, even moves towards protection of the global environment pose searching questions for the consequences of faster energy-intensive development in poorer countries at a time when the developed world is directly or indirectly responsible for most of the world's pollution. Thus, when the Bank writes that: "Deep distributional conflicts and constraints embedded in state institutions are at the heart of the explanation for so many countries' failure to reform" (page 13) one cannot help but think that the criticism is misdirected.

Throughout the Report there are many tables and graphs illustrating the contrast between seven broad regional groupings: OECD, South and South-East Asia, Middle East and North Africa, Central and Eastern Europe, Latin America, sub-Saharan Africa and the CIS. Typically, only the first two groupings (OECD and South and South-East Asia) show up

1. The concepts of "voice" and "exit" were first used by Albert Hirschman. They develop the idea that in many situations there is a wide range of economic processes for the efficient unfolding of which both individual, economic action (via exit) and participatory, political action (via voice) have important constructive roles to play. However, LDCs have little or no "voice" on the world stage (certainly none at the table of the "Big-7"). Worse, in the post-Communist era, "exit" is no longer a feasible option.

as desirable places in which to live and conduct business. The need for reform that the *Report* examines is directed mainly at the remaining five regional groupings. As a statement of fact, one cannot dispute this call for reform. However, for all its broad historical sweep, I cannot help feeling uneasy about the geo-political context of such advice.

Consider the *Report's* analysis of what it calls the "crisis of statehood" in sub-Saharan Africa (pp. 162-163). Chief among the obstacles to reform is the struggle between "traditional" forms of governance and "modern" forms of government, often leading to high expenditure on a dysfunctional military. Against this background, the *Report* calls for "a thorough reform of the machinery of state, so that it can deliver quality public services and facilitate private activity rather than impede both". But since most of the resources for such reform must come either from trade or aid, can the OECD countries come to the issue with clean hands? The grudging trade agreements concluded by the EU with South Africa – granting limited access for South African produce through the high tariff barriers that protect "fortress Europe" – and the very modest aid levels compared with intra-EU transfers, are nowhere mentioned. What is the hope for fundamental reform in poverty-racked developing countries if the world order continues to be so myopic and so ungenerous?

John Bradley

Human Development Report 1997, United Nations Development Programme (UNDP), Oxford University Press, New York, 1997, 245 pages, npg

The UNDP published its first annual *Human Development Report* in 1990. The first Report was seen as a response to the disappointing failure of so many countries during the 1980s to sustain earlier progress in human development. Indeed for many developing countries the economic crises of the 1980s and the reaction of the industrial North meant an actual reversal of earlier gains in human development. Subsequent Reports have built on the major theme of the 1990 publication: "the question of how economic growth translates – or fails to translate – into human development". The meaning and measurement of human development have been constantly questioned and explored since the first Report. The concept of human development has been expanded beyond basic needs to emphasise the sustainability of the development process and the importance of issues such as gender, environment and globalisation have also been highlighted.

The UNDP has pioneered research into the development of a number of new statistical measures of human development which go beyond per capita income measures. These include the human development index (HDI), the gender related development index (GDI), and the gender empowerment measure (GEM). The HDI measure has allowed comparisons and ranking across countries of some of the most important dimensions of human development including life expectancy, educational attainment and real GDP (in purchasing power parity dollars). The GDI and GEM measures on the other hand have allowed global ranking of gender inequality in terms of human capabilities and participation in key decision-making areas of political and economic life. The two gender indexes show that no country treats women as well as men. There is no doubt that these measures and accompanying statistics have helped place human progress and deprivation in concrete perspective.

The 1997 Report introduces a new measure, the human poverty index (HPI). The HPI is an attempt to bring together in one index different features of deprivation in the quality of life in order to arrive at an aggregate measure of the extent of poverty in a community. The HPI concentrates on deprivation in three essential elements of human life already reflected in the HDI: longevity, knowledge and a decent living standard. The three different variables used are:

1. Vulnerability to death at a relatively early age measured by the percentage of people expected to die before age forty.
2. Exclusion from the world of knowledge, reading and communication is measured by the percentage of adults who are illiterate.
3. Lack of a decent standard of living is measured by a composite of three variables; the percentage of people without access to health services and safe water together with the percentage of malnourished children under five.

Whereas HDI focuses on progress in a community as a whole – and masks the unequal distribution of that progress – HPI concentrates on the situation and progress of the most deprived groups in a community. The HPI value indicates the percentage of the population affected by the above three deprivations. Therefore countries such as Trinidad and Tobago, Cuba, Chile, Singapore and Costa Rica with HPI of less than 10% have reduced poverty to the point where it affects less than 10% of the population. Countries at the bottom whose HPI exceeds 50% include Niger, Sierra Leone, Burkina Faso, Ethiopia, Mali, Cambodia and Mozambique. Comparisons of HPI and income poverty measures reveal that some countries such as Cote d'Ivoire and Egypt have done better at reducing income poverty whereas others such as China, Costa Rica, Kenya, Peru, the Philippines and Zimbabwe have done better at reducing human poverty. Similar comparisons of HPI and HDI also reveal contrasts in some countries that should be useful to policymakers – where a country's HDI ranking is higher than its HPI one, more attention should be paid to human development for the most deprived. It should also be noted that most countries at the bottom of the HPI rankings also rank near the bottom of the HDI. It is worth pointing out that the HPI is only measured for developing countries and indeed the HDI fails to delineate between Northern countries with vast differences in wealth and the distribution of its benefits. As a global agency the UNDP Report should look at ways of globalising its measures.

Chapter two of the Report charts very uneven progress in reducing poverty. While there has been a dramatic reduction of poverty in this century – income poverty has fallen faster in the past 50 years than in the previous 500 – there are still 1.3 billion people living on less than one dollar a day. The Report provides some stark figures on poverty across the world.

The chapter chronicles the huge disparities and inequalities in basic human capabilities between North and South, rich and poor, men and women, urban and rural areas, developed and underdeveloped regions and different ethnic groups. These encompass deprivation in years of life, health, housing, knowledge, participation, personal security and environment. It also notes the very rapid rise in income poverty in Eastern Europe and the countries of the Commonwealth of Independent States (CIS) as they struggle to make the difficult transition from centrally planned to market economies. In the past decade 120 million people (one third of the population) have seen their incomes fall to less than 4 dollars a day in these countries. By the early 1990s more than 100 million people in industrial countries were income poor, judged by a poverty line of 50% of median adjusted disposable income and by 1995 35 million people were unemployed.

Having attempted to measure and define poverty in its different dimensions the Report sets out an agenda of poverty eradication. Different priorities are outlined for developing countries in dealing with the problems of low and negative economic growth. Among these are the promotion of pro-poor growth policies and measures to combat environmental degradation. Prevention of the spread of AIDS, acceleration of the demographic transition in certain countries and the development of conflict prevention and resolution processes are also seen as vitally important. It is recommended that a poverty eradication strategy be underpinned by strengthening the abilities of the poor and empowering them to fight poverty. Building up poor people's assets – both tangible and intangible – is an important part of this process. Policy and institutional level change will be required to ensure access for the poor to economic, health and educational resources.

The authors are in no doubt that the above strategy is dependent upon a favourable global environment as well as political commitment and change at national level. They address the issue of globalisation as it affects poor countries and poor people. The challenge is to identify policies which enable poor people to participate in markets on more equitable terms. The Uruguay Round of the GATT

(General Agreement on Tariffs and Trade) is expected to result in an increase in global income in the order of $212-$510 billion through greater efficiencies, higher rates of return on capital as well as increased trade. However, these gains will not, in general, benefit the least-developed countries and sub-Saharan Africa in particular. Least-developed countries have seen their share of world trade halved in the past two decades while their terms of trade have decreased by 50% in the past 25 years. Their plight was not helped by the Uruguay Round negotiations which left intact many forms of protection for industry and agriculture in the rich North whilst virtually ignoring issues of vital concern to poor countries such as the management of primary commodity markets. The Report suggests different options for least developed countries to combat the negative effects of globalisation, such as regional trading groups, co-ordinated negotiating and bargaining policies and so on. The authors note that in the end poor countries have less power than rich countries in international negotiations. The chapter concludes by suggesting that there is a major need for further study into the links between globalisation and poverty. However, it is stressed that this fact should not be used as an excuse to delay implementation of basic measures to combat and ultimately eradicate poverty.

At an economic level much is known about what is needed to eliminate poverty. Employment led growth, access to credit, land redistribution, investment in basic social services, promotion of the informal sector and sound macro-economic policies are some of the recommended policy options. However, without real political commitment it is not possible to promote pro-poor policies. The Report recognises the need for a political strategy to drive necessary change. Such a strategy would encompass three core elements including the political empowerment of poor people, partnerships for change involving all actors in society and an enabling and responsible state. Examples are given from India, Kenya, Brazil, Norway and South Africa to illustrate how these strategies can work for the benefit of poor people.

A vibrant civil society involving NGOs, trade unions, and community groups must exist, support and undertake positive collective action by the poor. Indeed broad and diverse support is needed throughout all sectors of society in order to promote successful pro-poor policies The role of the state is also crucial in the whole process of poverty eradication. This is particularly so in an era of structural adjustment when so many governments have slashed expenditures on social services. The Report is highly critical of countries which have introduced user fees for health services without effective means testing where people cannot even afford the lowest fees. As the Report highlights: "a poverty eradication strategy requires not a retreating weak state but an active strong one, and that strength should be used to enable the poor rather than disable them", p.101.

The final chapter restates the various actions needed to eradicate poverty.

- Empowerment of individuals, households and communities;
- Strengthen gender equality;
- Accelerate pro-poor growth policies;
- Improve the management of globalisation;
- Promote an activist role for the state;
- Provide international resources and support to deal with special situations such as that existing in sub-Saharan Africa, conflict resolution, debt relief and the spread of HIV/AIDS.

The costs of eradicating poverty are quantified at 1% of global income and 2-3% of national income. Cuts in military spending, with the savings channelled to poverty reduction and pro-poor growth, would go a long way towards meeting this cost. The 1948 Universal Declaration of Human Rights stated that everyone has the right to a standard of living adequate for the health and well-being for themselves and their family, including food, clothing, housing, medical care and education. This commitment, the authors suggest, has been made more specific by the plans of action adopted by the eight global conferences which have taken place in the 1990s. Only time will tell whether poverty eradication is attainable and whether poverty can be relegated to history. This Report would make a very valuable contribution to the attainment of this goal if its policy prescriptions were acted upon at national and global level. Sadly it is not within the power of the UNDP, who commissioned it, to ensure that this will happen. Furthermore, as Myrdal observed, it has never occurred in recorded history that a privileged group, on its own initiative and simply to give reality to its ideals, has climbed down from its privileges and opened its monopolies to the underprivileged.

Bernard Daly

The State of the World's Children 1997, UNICEF,
Oxford University Press, 1997,
107 pages, Stg£6.95

The latest in UNICEF's annual series of reports on *The State of the World's Children* focuses on child labour. Over 250 million children around the world work, in rich as well as poor countries, and the Report paints a graphic picture of the appalling working conditions which many of them endure. The discussion is framed in terms of the Convention on the Rights of the Child, adopted by the UN General Assembly in 1989 and subsequently ratified by nearly all countries – the exceptions being a curious collection of two including the USA. That Convention includes a number of articles relevant to child labour, including the obligation on governments to protect children "from economic exploitation and from performing any work that is likely to be hazardous or to interfere with the child's education, or to be harmful to the child's health or physical, mental, spiritual, moral or social development" (Article 32). The Report sees the Convention, and its perspective firmly founded in children's rights, as a powerful instrument against child labour.

The Report warns against simplistic analyses of the problem and solutions arising from them, such as reliance on trade sanctions and consumer boycotts. It argues that these will not affect most children at work because only a small percentage are in export industries, and in any case may harm instead of help children by driving them into even more hazardous work or deeper into poverty. Any programme to eliminate child labour must therefore provide reasonable alternatives for child workers. The Report outlines a strategy which aims to release children immediately from the most damaging situations, such as bonded labour and prostitution; rehabilitate those children through provision of special education; provide greater protection for those who cannot immediately be released from work; and finally ensure that new generations of children are not driven into the most hazardous forms of work.

Improving primary education is given a key role – 23% of primary school age children in developing countries are not attending school. This will involve investing resources to raise quality and reduce financial barriers to participation, and providing non-formal education for those already at work. Legislative protection at national level and improving its enforcement are also seen as important. Transnational corporations can neutralise efforts by national governments to improve working conditions by simply moving the jobs elsewhere: there have however been some successes in persuading both transnational and national corporations to adopt codes of conduct. The Report notes the fierce debate raging at international level over whether a social clause should be included in the rules of the World Trade Organization laying down minimum standards of corporate behaviour – but interestingly, UNICEF takes no position on this issue in the Report.

The Report is a little schizophrenic in places, for understandable reasons. While at one point denouncing as a myth the notion that child labour will never be eliminated until poverty disappears, at another it emphasises that "enabling poor families to lift themselves out of the pit of powerlessness is a fundamental factor needed to bring about long-term change" (p.61). Similarly, in reviewing the historical experience of Western countries, the Report emphasises that child labour was reduced in part by combining legislation and its enforcement with compulsory education, but also recognises that rising family incomes were an important factor. The other factor which the Report acknowledges as contributing to the decline of child labour in the West is technological improvement which made children's labour less useful to employers. Somewhat surprisingly it makes no attempt to star-gaze as to whether technology, now changing more rapidly than ever, is likely to have a similar impact on a global scale in the future.

Brian Nolan

World Drug Report
United Nations International Drug Control Programme,
Oxford University Press,
332 pages, npg.

Why a World Drug Report? is the first question raised in this Report. The answer given by the authors is simple – "the illicit drug cycle encompasses developing and industrialised countries alike ..... no nation, however remote a corner of the globe it occupies, however robust its democracy, is immune to the adverse consequences of drug abuse and trafficking, although countries whose social and institutional fabric is weak are particularly vulnerable"

This is the first report of its kind and it looks at all stages in the illicit drug cycle. In general, it aims to raise public awareness on what is an enormous and a very complex problem. Specifically the Report aims to "de-sensationalise" the drugs issue, provide concrete analysis of what is known of the drugs industry, point out the areas where information is scarce or unreliable and where further research is necessary. From a public policy perspective the Report also sets out to help the reader evaluate alternatives to the existing situation.

Given the vast amount of material which is written on many aspects of the drugs trade, it is hard to imagine that there is a serious dearth of reliable information on it. Yet this is the case and the Report gives a number of reasons for this. These include the "clandestine nature" of the drugs trade which makes research difficult. Another reason is the system of data collection and analysis. The Report stresses the problems caused by the "wide divergencies in the definition of terms and methodologies". The impact of the lack of appropriate and accurate information has, according to the Report, created "a vacuum which all too often is filled by an unsubstantiated hotchpotch of myth and anecdotal evidence".

In addressing this information gap the Report begins with a look at some very basic information, first of all giving the World Health Organisation definition of the word "drug" together with definitions of the terms "dependence" and "abuse". Information is also provided on the types of drug subject to international control. The Report then moves on to give an overview of the global drugs trade looking at trends in illicit production, trafficking and consumption. There are also specific profiles of the situation in eight countries (Australia, Colombia, Italy, Pakistan, Sweden, Thailand, United Kingdom and USA).

Why do people take drugs? The Report looks at many possible answers using information from researchers working in a broad range of disciplines and gives a synthesis of a number of the theories put forward including: those centred on the personal or individual factors which may predispose a person to abuse drugs and those centred on family and social influences. Mention is also made of drug use within certain traditional ceremonial and religious structures, making the point that many of these traditional patterns have now broken down. This section of the Report also looks at how people quit their drug-taking habit but points out that much more research is needed on this issue. A person's social and family environment is one reason for becoming involved in drug abuse. In turn that abuse has major consequences for the abuser's own health, their family and the society where they live. The *UN Drug Report* devotes a whole section to looking at these consequences with particular emphasis on *health issues* such as HIV/AIDS and hepatitis and the impact of drug use in the *workplace*, pointing out that there is little scientific evidence to analyse this. The other major consequence examined is *crime*. Studies from many countries are mentioned but in the end the Report cautions against making direct links between drug use and crime – "the causal relationship between illicit drug use and crime defies simple analysis".

The reason why drugs are produced and sold is very simple – profit. These profits are so enormous that the drugs business is rightly referred to as an industry. Securing accurate information on the financial value of this industry is difficult because "economic analysis of an underground economy is necessarily problematic". Many studies suggest that the industry has a turnover of between US$300 billion and US$400 billion. Putting these figures in context the Report points out that "a US$400 billion turnover would be equivalent to approximately eight percent of international trade. In 1994 this figure would have been larger than the international trade in iron and steel, and motor vehicles, and about the same size as the global trade in textiles". The profits accruing from the trafficking of illicit drugs are such that they are scarcely affected by large scale seizures. To illustrate this the Report refers to another study carried out by UNDCP (1997) which "conservatively estimates that at least 75 per cent of international drug shipments would need to be intercepted in order to substantially reduce the profitability of drug trafficking".

The authors point out that an industry of this size obviously has the potential to influence governments and distort national economies. They refer specifically to the problems caused by money laundering: "it undermines the integrity of the financial system and this, depending on the extent and the rapidity of the loss of confidence, can have devastating consequences at national and international level". The authors further point out that "....large-scale movements of illicit sector capital, particularly in small economies, can disable a government's ability to plan and control monetary policy".

Starting from the global nature of the illicit drug trade the Report devotes two chapters to the need for policies and strategies to deal with the many problems caused by the production, trafficking and abuse of drugs. It does not offer a blueprint for a solution but it highlights the issues to be considered when formulating policies and designing strategies. Accurate information, co-ordination between the relevant agencies, sustainable economic alternatives for producer communities and prevention of the onset of abuse are among the issues highlighted.

This Report contains a wealth of interesting and accessible information on all aspects of the illicit drug trade. Its publication is timely as the United Nations General Assembly will hold a Special Session in June 1998 to discuss the problem of drugs consumption and production globally. This event promises to be of equal importance for drugs issues as Rio and Beijing were for the environment and gender. The challenge for the 1998 session, like preceeding events, will be to ensure that action is taken after the discussions.

The *Drug Report* will be of particular interest and value to any group or organisation involved in policy formulation or in the implementation of programmes to deal with the prevention and treatment of drug abuse. This group includes the Cabinet committee on social inclusion and drugs (including local development), chaired by An Taoiseach Bertie Ahern TD. Indeed the issues raised in the Report are as relevant for Ireland as for any of the countries profiled in it.

Kate O'Brien