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# THE HUMAN DEVELOPMENT RACE

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—*Executive Summary*—

# **The Human Development Race**

Improving the Quality of Life  
in Developing Countries

Marc M. Lindenberg



An International Center for Economic Growth Publication

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# Preface

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

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

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

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

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

Nicolás Ardito-Barletta  
General Director  
International Center for Economic Growth

Panama City, Panama  
October 1993

# Summary of Conclusions

In *The Human Development Race*, Marc Lindenberg invites readers to watch the race for human development that took place between 1965 and 1987. He describes the race as the struggle of developing countries to improve their citizens' chances to lead long and healthy lives, to acquire knowledge, and to gain access to the resources needed for a decent level of living. He then attempts to identify the special characteristics of countries that finished the race at the top of the pack. Lindenberg started by giving a general view of ninety developing countries in the human development race. Then he concentrated on six Central American countries. His conclusions were as follows:

1. The high human development performers shared six important characteristics. They began the human development race in 1965 with a relatively high-quality human resource base. They were more likely to be in East or Southeast Asia. They were less linguistically and ethnically diverse than their neighbors. During the actual race (1965–1987) they were more politically stable. They used more outwardly oriented economic policies. And they spent substantially more on health and education as a percentage of gross national product (GNP) than did low and medium performers.
2. Developing countries were not prisoners of their context. High performers in the human development race proved to be no more handicapped than low performers by contextual constraints like population density, natural resource endowments, or external shocks.
3. Appropriate economic and social policies were key in-

redients in high human development performance. The economic and social choices of the winners of the human development race were quite different from those of the losers. For example, high human development performers spent an average of 1.7 percent more of their GNP per year on education and health than low performers every year between 1965 and 1987. In fact, of the six key characteristics of high human development performers, only a country's geographic location is not subject to policy intervention.

Optimism about the role of policy in human development must be tempered with a heavy dose of realism. Paradoxically, the factors most easily subject to policy intervention like exchange rates and social spending had less potential to affect human development than factors like political stability or linguistic homogeneity. Unfortunately, less is known about how to strengthen political institutions and increase ethnic harmony than about devaluing currencies and increasing social spending. Furthermore, the factors that were least subject to policy intervention, like a country's location or previous human development status, at least in theory, would have yielded the largest human development gains per unit of change had it been possible to influence them.

So although policies matter, the process of policy reform is much slower than optimists would hope. Stable political environments and consistent long-term commitments proved to be much more important than quick doses of economic and social reform.

4. The list of high human development performers gives no edge to either formal democracies or nondemocracies. While the existence of democracy or nondemocracy at a national level did not matter much in high human development performance, the winners and losers in the human development race had substantially different underlying governance structures. Governance structures are defined

as the combination of institutions and rules that manage the relations within and among civil society, political society, and the state.

The governance structures of most high human development performers showed certain similarities. These countries pursued outwardly oriented growth based on market mechanisms. They had strong leadership and high levels of resource commitment and innovation in the area of social policy. Their government spending was between 20 and 30 percent of GNP. They had at least medium levels of political and civil rights regardless of regime type. They promoted mechanisms for two-way communication between citizens and governments even when formal democracy did not exist. Finally, they had high policy continuity and low political instability for long periods of time.

5. Few countries were able to maintain the pace of their human development improvements in the 1980s. The world recession of 1982 and the oil price shocks of 1978 changed the nature of the human development race. Every runner had to slow down and make corrections.

In light of the evidence that high human development performers implemented consistent policies over a longer period of time, under conditions of low political instability and relatively clear rules of the game, it is hard to imagine why the push for rapid simultaneous political and economic liberalization became popular in the 1980s. During the 1980s, some countries began to pursue political liberalization, others attempted economic liberalization, and still others took double-shock medicine, pursuing both strategies at once.

Those who embarked on economic and political reform in the 1980s did achieve some positive results. Unfortunately, the single- and double-shock policies also had their negative consequences. Some countries stopped inflation by wrenching their economies into deep recession

from which they have yet to recover. Most managed effective stabilization without fostering a real structural adjustment. Narrow-minded policy advisers sometimes led an indiscriminate attack on the state that left it too weak to promote either adjustment or human development.

It is too early to say who lost less in the 1980s. The list of countries reputed to have achieved successful economic or political adjustment in this difficult period, however, has a disproportionate number of high human development achievers from the 1965–1980 period. Perhaps they were more capable of living off the social margins created by their earlier high human development policies.

6. The human development experiences of 1965–1980 offer the following lessons:
  - Developing countries are not prisoners of their context.
  - Economic and social policies and policy makers do make a difference in the human development race. There are plenty of specific policy lessons to learn from countries that have reduced infant mortality, increased literacy, and restructured their economies successfully.
  - Policies to reduce political instability and cultural impediments to development have the potential to yield great benefits if they can be designed realistically. Policies must, however, be crafted based on individual circumstances.
  - The postponement of human development investments has serious consequences for human development performance decades in the future.
  - Behind the successful human development perform-

ers in the past were high-performance governance structures that included elements like active promoter rather than provider or producer states, outwardly oriented economic strategies within a market context, an active role in social policy, at least medium levels of political and civil rights, and low levels of political instability. It is worthwhile to consider how such structures might be built elsewhere.

- Beware of simple recipes like liberalize or reduce the role of the state. In cases where the state has been a weak regulator, it will be necessary to strengthen its capacity. Tailor solutions based on current human development status, governance structure, and the existing barriers to reform.
  - Finally, achieving high human development performance takes time and patience. Double-shock policies have not normally been part of the portfolio of high human development performers. Instead, the process from which high human development policies have emerged was a gradual one, often involving decades. It included the managed, as well as evolutionary, formation of a triangle of values, coalitions, and institutions that formed the foundation of high-performance governance structures. These structures, in turn, proved capable of selecting and implementing creative human development policies.
7. This study shows convincingly that policies cannot even reach the agenda for approval without solid political coalitions that have a strong commitment to human development policy values. They cannot be successfully implemented without the institutional infrastructure necessary to make them work. The failure to consider the institutional foundations of development can lead to gross, humanly costly miscalculations about strategies for policy reform. Proponents of wholesale macroeconomic

policy reform appear surprised when people and institutions do not respond to the market forces supposedly unleashed by their reforms. They are even more surprised when citizens throw the reform governments they advise out of office.

Still, extreme pessimism is not the appropriate response either. Between 1965 and 1987 and before, many governments did in fact think systematically about how to overcome barriers to more rapid change, and they built upon their understanding of their cultural and institutional context to speed reforms. While macroeconomic and social policy changes such as adjustments in exchange rate policy or increases in social spending had less potential impact on human development performance than immutable factors and than we might have hoped, they still can and do make an important difference.

# An Overview of *The Human Development Race*

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

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

According to those enamored with their performance, these little dynamos adopted a different medicine—outwardly oriented, export-led economic strategies—and achieved sustained high levels of economic growth accompanied by improved income distribution in the 1960s and 1970s. They weathered the shocks of the 1980s with less economic hardship and political turmoil than their unfortunate neighbors.

Although there was considerable tactical diversity among the tigers,

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

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

*The Human Development Race* aimed to shed light on the following questions:

- What have been the characteristics of high human development performers?
- Is there evidence that policy choice and implementation have been as important as external factors like world economic cycles or internal contextual factors like size or natural resource endowments in performance?
- What role has the state played, and how important have regime type and political and civil rights been in this process?
- How much of a wave of rapid economic and political liberalization really took place in developing countries in the 1980s?
- How have countries that have ridden this wave achieved higher rates of growth and performance or is it too soon to tell?

- Finally, what lessons if any might be drawn for development for the next decade?

The study addressed these questions through two different research approaches: (1) an analysis of ninety developing countries as a group and in cross sections, and (2) a deeper historical study of six Central American countries.

### **Measuring Human Development**

This study uses a definition of human development derived from the United Nations' Human Development Report 1990, which created a human development index (HDI) based on the equal weighting of three factors: (1) real per capita gross domestic product (GDP) adjusted for purchasing-power parity, (2) literacy, and (3) life expectancy. Although this concept has its limitations, it gets to the heart of what many people in the world value for themselves and their children. It combines economic and social factors as people actually do when they think about their own lives.

Using the HDI, Lindenberg examined the determinants of human development performance among ninety developing countries, looking at internal contextual factors, policies, and external factors. He concluded that high human development performers were characterized by six common threads. First, they began the period with a relatively high-quality human resource base. Second, they were more likely to be in East and Southeast Asia. Third, they were less linguistically and ethnically diverse than their neighbors. Fourth, they had a highly stable internal political context during the period. Fifth, they pursued more outwardly oriented economic policies. And sixth, they had higher levels of investment in education and health programs.

Although big data set analysis helps identify common threads in human development performance, there is still much it does not reveal. It does not explain, for example, how the initial human capital base was formed, what region really means, whether political repression or regime type were relevant to human development performance, why policies promoting an outward orientation stimulated high human

development performance, and what social investments really matter. Lindenberg explored these questions by looking at the role of regime type, political rights, and political instability.

### **Regime Type and Economic Performance**

There continues to be serious controversy about the role of democracy in fostering economic growth and turning ailing economies around. For national movements and newly formed governments, the question is hardly an academic one. Many argue that authoritarian forms are superior to democracies in bringing about economic stability in developing countries. Others respond that such findings are based on limited analyses of a few Latin American and Asian cases. To address this issue, Lindenberg attempted to answer four questions:

- Did the developing world become more democratic between 1960 and 1990?
- Did democratic countries perform as well economically as their nondemocratic counterparts?
- Were democratic countries as likely to initiate and successfully implement economic adjustment programs as nondemocratic ones, particularly in the 1980s?
- How did countries implementing double-shock policies—simultaneous economic and political reform—perform?

He found that since 1960 developing countries have not only made increasing use of democratic forms, such as competitive elections, but they have also expanded political and civil liberties. For example, between 1973 and 1989, the proportion of developing countries holding competitive democratic elections for top officials increased from 19 percent (of ninety-three countries) to 41 percent. The most dramatic changes occurred in Asia and Latin America.

Although the overall number of democratic regimes increased be-

tween 1973 and 1989, there was no evidence to support politicians' claims that democracy has won the day. For example, in the 1980s 18 percent of all authoritarian regimes collapsed, a figure only slightly higher than the 13 percent collapse rate for democratic regimes. In the global figures, the demise of democratic regimes in Africa helped cancel out the statistically significant collapses of authoritarian regimes in Latin America and Asia.

Of the years under consideration, the period of greatest world economic crisis was 1982–1988. In this period democratic regimes grew more rapidly and redressed their external imbalances more effectively than did their authoritarian counterparts. If one takes into account, however, the differences in the external shocks experienced by these two groups of countries, their performance is not significantly different. Old democracies, however, outperformed both new democracies and nondemocracies.

Democratic regimes were as willing to initiate World Bank- or IMF-sponsored adjustment efforts as were their authoritarian counterparts. Although such programs posed risks for regime stability, both democratic and nondemocratic regimes survived equally well during the implementation process. Democracies also performed at least as well economically as did the authoritarian regimes.

Although it was frequently recommended to leaders in the Soviet Union, Eastern Europe, and the developing world, simultaneous economic and political opening turned out to be quite difficult to manage. The eight countries involved in simultaneous structural adjustment and regime transition turned out to be poorer overall economic performers than either structural adjustment participants with no regime transitions or nonstructural adjustment participants in general.

The contention, therefore, that a strong, authoritarian hand is needed to reverse economic chaos has not been borne out. While democracies must contend with greater political vulnerability than more authoritarian forms of government, they may be bolstered by greater resilience, superior flexibility, and a broader political base, which allow them to institute changes more readily.

Democracy in fact played a constructive, but mysterious role in helping some countries outperform their nondemocratic counterparts economically between 1965 and 1987. Perhaps democracy is a rough

surrogate for a complex set of economic, political, and civil rights that form part of the overall governance structure in which individual confidence, economic growth, and restructuring actually take place. It may be that regimes that were not formal democracies but that were high human development performers also had participative mechanisms that allowed them to adjust their policies based on useful feedback from key elements of the population.

### **Governance Structures and Human Development**

Societal governance structures can be defined as a combination of institutions and rules that manage the relationships within and among civil society, political society, and the state within a country. These structures determine, for example, on what basis individuals can organize themselves in civic life, how they will participate in selecting political leaders, and whether the public sector will be responsive to their wishes. Alfred Stepan's conceptions of these elements of governance structures are particularly useful. Stepan views civil society as the arena where individuals organize to advance their social and civic interests. Political society is the arena where the right to govern is contested. The state can be thought of as a mediating mechanism between the other two arenas. The conception of governance structure used here is the overall set of relationships that Stepan's state attempts to manage.

Where democratic governance structures exist, civil society, political society, and the state are highly developed and differentiated and have strong two-way communication channels. In totalitarian societies the state, political society, and civil society are fused. A single party directs political society and dominates the state and civil society. Authoritarian societies are hybrids in which political society and the state overlap but are not fused. A single party dominates, but minority alternatives are permitted as long as they do not threaten the ruling party. Civil space is permitted, especially for business activity. Some highly managed two-way information flows are allowed and serve as pressure valves, permitting the regime to adjust its economic and political strategy without losing control.

The governance structures of high, medium, and low human de-

velopment performers are quite different. The high human development performers had five enduring features that distinguished them from other countries. First, there were virtually no totalitarian states in the high performance group. Second, while fewer than half were democracies, two-thirds had some form of two-way communication channel between political and civil society that permitted corrective adjustments when there were problems. Third, the state in these high human development performers was neither a weak and passive institution nor an immense, coercive, overly dominant producer with an enormous public enterprise sector. Instead the majority of the high human development performers were active promoters of outwardly oriented economic institutions. Fourth, the state was not dormant in social policy either. It was a leader in basic education, technical education, and primary health care delivery. Fifth, while levels of political and civil rights expanded during the period, this occurred with lower levels of political instability and regime turnover than in the medium and low performers.

Why might this dynamic governance structure have served as a human development catalyst? The creation of civil space even within authoritarian regimes provided an arena from which a dynamic private sector could emerge. The long-term guarantee of at least some civil space under relatively stable economic and political rules encouraged confidence that permitted the private sector to expand. The presence of more than minimal political rights provided channels for dissent and policy correction even though it did not permit open competitive selection of national leaders. The economic leadership of these promoter states encouraged private initiative. The social investments built a human capital base, and the political channels allowed an increasingly educated population to pressure government for the maintenance of its social investments. Finally, the requirements of competing in a global economy reinforced the continued growth of differentiated, interactive civil, political, and state institutions.

The governance structures of medium and low human development performers looked quite different. Feedback channels among civil society, political society, and the state were less developed or nonexistent. Many of the medium performers were interventionist producer states with large public enterprise sectors that choked off individual initiative, shielded their citizens from competitive pressures, and

closed their ears to constructive policy criticism. Low human development performers often had regulator states that hardly reached the large mass of their rural, subsistence agricultural populations. They maintained repressive controls, however, on the groups they did reach.

Given the performance of political and economic reform in the 1980s, policies must be adjusted in light of the lessons about the underlying conditions of high human development performance from earlier decades. It may be more productive for developing countries to adjust their governance structures to achieve high human development performance rather than diving into a program of simultaneous economic and political liberalization. If high performers like Costa Rica and Mexico, Botswana and Cameroon, and Korea and Thailand want to maintain their continued path of high human development, they must make their public sectors smaller, more dynamic in promoting private initiative, more client-oriented and efficient, capable of competing in high-quality service delivery, and effective in providing service to special groups others cannot reach successfully.

In the medium human development performers, the state must be converted from a heavy-handed, highly intrusive producer that spent far more than 30 percent of GNP to a smaller, more efficient promoter of economic and social activity. If human development is to take place in the small, regulator states that have been low human development performers, they must build basic capacity rather than dismantle it. Three major reorientations must take place. First, the conditions must be created that will transform the state's allegiance from service to a small group into service to the nation. Second, a series of actions must help change the public sector from a regulator or rent seeker to a catalyst for development. Third, scarce resources must be used efficiently to begin to build the human capital base. Ironically, all of these tasks may require spending more public funds on education and health, for example, rather than cutting back as the global recipe requires.

The former totalitarian societies with centrally planned economies face special problems in the development of new structures of governance. They confront the long-term tasks of building institutions that respond to market signals and empowering people to solve problems in organizations. Macroeconomic policy reform without long-term institutional development is doomed to fail.

### **Context, Policies, and Human Development in Central America**

The large data set analysis used until now has two weaknesses. First, it shows little about how policies and context interacted to stimulate or impede human development at the country level. Second, human development performance was sufficiently varied by geographic region to make global comparisons of limited use. To overcome these difficulties, Lindenberg examined context, policies, and human development in six Central American countries: Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua, and Panama. These six countries have sufficient similarities to make them an ideal subregion for the study of human development performance. They are populated by 25 million citizens of a similar colonial, cultural, and racial heritage. The bulk of the population is Catholic and shares both cultural and political institutions heavily influenced by Spanish colonial rule and a more recent North American overlay. While there are ethnic and racial differences within Central America, the differences are not nearly as great as those found in other regions of the world. The economic structure of these countries is also remarkably similar. All have been exporters of products like bananas, cattle, coffee, cotton, and sugar. In addition, they are mostly small countries with between 3 and 5 million inhabitants in 1991 (with the exception of Guatemala, with 9 million).

In spite of their similarities, these countries have an important difference: They include two high human development performers (Costa Rica and Panama), three medium performers (Guatemala, Honduras, and Nicaragua), and one low performer (El Salvador). How could countries with so much in common end up with such widely different human development performance records?

Some observers see Central America as a prisoner of world economic cycles. Others argue that economic policies have allowed the high performers to reduce the risk of economic downturn due to external shocks. Analysis of economic performance in Central America shows that external shocks were indeed a key threat to sustained economic growth and employment in small, open export economies like those in Central America. Yet this tiny region was not as trapped by the constraints imposed by world economic cycles as the early dependency theorists might have suggested. Certainly external factors like terms of

trade and prices for traditional export products helped shape the parameters within which the Central American economies performed. But within these parameters national policy makers and producers experimented with different economic strategies to mitigate the worst effects of external shocks. The most successful strategy relied on highly diverse products, markets, and sectors.

### **Regime Type, Political Instability, and Human Development in Central America**

Since the 1930s Central America has been highly sensitive to external economic shocks. There is general evidence to support the thesis that world economic crises have helped set off cycles of Central American economic crisis and political instability. While the effects of these shocks have been mitigated by changes in economic strategy, the shocks have been a more important determinant of political instability than any other factor like population density or ethnic composition of the population with the exception of initial regime type.

The region's periods of instability triggered by economic shocks have been accompanied by high levels of leadership rotation, social discontent, and repression, which have added up to political instability in five of the six countries. Usually these conditions have ended after a new set of military rulers has taken control of the government. In the military periods that have followed, new economic strategies have generally helped the region adapt to the new cycle of world economic growth and have resulted in Central American economic growth. This growth, however, in virtually all countries but Costa Rica and Panama has not been accompanied with conscious attempts to improve income distribution or develop mechanisms for the peaceful transfer of power from one group of rulers to another. Thus, the seeds of discontent for the next crisis cycle have been planted during the period of stable military rule.

During the periods of economic growth with military rule, external manifestations of social discontent have diminished or been otherwise controlled. Eventually, repressive measures have been lifted. These periods have usually lasted until the next world economic collapse

helps to set off a new cycle of Central American economic and political instability.

How might such cycles be broken? First, if periods of economic growth in the region have coincided with less political instability, social discontent, and repression, then making Central America less sensitive to external shocks, by, for example, diversifying products and markets, may be a useful first step. Economic performance alone, however, has not been enough to guarantee high levels of investment in human capital, lower levels of social discontent, and the absence of political instability. Violence levels, coups, and levels of repression stayed high even in periods of economic growth in most countries. They simply became even higher in crisis periods. Why did some governments opt for social investments and peaceful participation mechanisms for managing citizen demands while others did not?

### **Historical Roots of Human Development Performance in Central America**

To account for the differences in human development performance, Lindenberg compared the characteristics of the two highest performers, Costa Rica and Panama, with those of the two lowest, El Salvador and Guatemala, focusing especially on Costa Rica and Guatemala.

Differences in human development performance can be viewed on three levels. First, the Central American countries made different policy choices. Second, these choices were the result of different underlying governance structures. Finally, the governance structures were founded on different prevailing policy values, political coalitions, and implementing institutions. Each of these levels is worth exploring.

**Policy choices.** From the 1930s through the 1960s, Costa Rica developed a legal framework for its public health outreach system and an institutional infrastructure to deliver critical services. It made major investments in urban water and sewerage systems; antimalaria, vaccination, and inoculation campaigns with broad coverage; and health education programs. Its social security system included 80 percent of

the population by 1980. In the 1970s Costa Rica made major new investments in rural health.

The situation in Guatemala was much different. In the period from 1930 to 1965, Guatemala developed the legal and institutional basis for urban health coverage but did not follow through with major health investments or key programs. Investments in urban water and sewerage systems yielded some benefits, but Guatemala's poor health performance between 1930 and 1965 reflects a policy largely of neglect. Investments in rural health infrastructure and preventive health programs simply did not take place.

The educational achievements of the top and bottom performers also differed substantially. By 1980 Guatemala still had not achieved the 60 percent literacy goal attained by Costa Rica in 1930. As late as 1980 only half of Guatemala's adults could read, while more than 90 percent of the Costa Rican population was literate. While both countries had established free, universal, compulsory primary education in their constitutions by 1880, successive generations of Costa Ricans allocated resources to implement these programs while the Guatemalans did not. The education system was repeatedly reformed and extended through the 1980s.

Although Guatemala introduced liberal reform plans similar to those of Costa Rica, it allocated insufficient resources to put them into practice on a large scale, particularly for the majority, rural, non-Spanish-speaking communities. Furthermore, in Guatemala the reform periods alternated with even longer periods of reversal by conservatives, who resisted change and upheld traditional values.

**Underlying governance structures.** The governance structures of Costa Rica and Panama, the two high human development performers in Central America, were similar to those displayed in other global high performers. Costa Rica, like about a third of the high human development performers, maintained an established democracy with high levels of political and civil rights. Panama, like two-thirds of the high human development performers, rarely used democratic forms to select top leaders, particularly between 1965 and 1987, but maintained at least medium levels of political and civil rights, which provided some avenues for other levels of popular feedback and participation.

Like other high performers, Costa Rica and Panama remained “promoter” rather than “producer” states; they spent 20–30 percent of GNP on public activities and played an active role in stimulating private sector initiative for much of the 1965–1987 period. Compared with their lower-performing neighbors, both pursued more export-promoting economic policies, maintained more open, market-oriented economies, and spent larger percentages of GNP on health and education, at least until the late 1970s.

These two countries, however, also had some important differences from other global high performers. Because neither country maintained high levels of defense spending, they were able to allocate more resources to social expenditures. Costa Rica disbanded its army in 1948. Panama abolished its military in 1904. Its national defense force was redeveloped, but spending was low compared with other countries because the U.S. military had assumed much of the responsibility for Panama’s defense.

A second important difference was that Panama, particularly between 1965 and 1987, was not as politically stable as most of the global high human development performers. If it had followed the trends of other politically unstable countries, it would have stayed among the ranks of the medium or low human development performers. It escaped low performance probably because it had several long periods of stability, in the early 1900s and between 1950 and 1968, when human development performance accelerated. Furthermore, major human development advances occurred during the 1970s, a time of stable authoritarian continuity.

The governance structures of El Salvador and Guatemala mirrored many of the characteristics of other low human development performers. They rarely used democratic forms for governance. They had lower levels of political and civil rights than their neighbors and few mechanisms for popular participation, even at lower levels of government. The levels of repression and violence in these countries were among the highest in the region.

They did maintain market economies and attain high levels of GDP growth for much of the period, but they operated small regulator states whose public spending averaged 11–14 percent of GNP. They spent little on health and education and, as described earlier, made little

effort to reach their rural populations with services. Part of the profile of a regulator state included low fiscal deficits and low debt and debt-service levels.

Although both economies were open and export oriented, of the six countries, Guatemala was the least open to international trade, primarily because of its large rural, indigenous subsistence sector. Because of the high population density and the scarcity of land in tiny El Salvador, the rural population was intimately connected to the export economy as plantation labor but tied to a system that made few social investments. This situation left labor and the poor highly vulnerable to world economic cycles.

### **The Foundations of Governance Structures**

It is not enough to say that the Central American high human development performers were more successful because they had different policies or that they had different policies because they had different governance structures. High human development performance depends on three factors:

- articulated human development policy values that have been translated into programs
- strong coalitions that emerge through changes in the social structure to provide support for the initial policy choices, resource allocation, and sustained commitment
- a solid institutional infrastructure for implementation

**Costa Rica.** Even if the original settlers in Costa Rica had been passionately committed to the policy values of political and religious domination and economic exploitation, the requirements of their physical survival forced them to develop a radically different social structure from that of their neighbors in Guatemala. Costa Rica had few Indians to enslave or convert and no gold or minerals. Only those willing to work hard for a living stayed alive.

There was little stratification among Spanish officials and between large and small landholders. There were virtually no tradesmen. A military caste was not in evidence, because there was little to conquer in this poor region. Because of the absence of cheap Indian labor, settlers had to work the land themselves. As a result landholdings were smaller. Since it took more than three months for letters to reach Costa Rica from Guatemala, the Spanish administrative capital, citizens had to solve problems on their own. Cooperative labor was necessary for roads and basic infrastructure. As late as 1800 the social structure was remarkably unstratified and homogeneous compared with the rest of Central America.

These economic conditions and the resulting social structure probably helped transform initial values of dominance and economic extraction into those of egalitarianism and independence moderated by necessary cooperation. The circumstances also gave rise to traditions of local self-governance and horizontal as opposed to vertical structures.

Costa Rica's institutions were small, weak, decentralized, and participative. Costa Rica's capital, Cartago, had a rudimentary colonial administration with virtually no budget or tax base. Just as in Guatemala, one of the chief institutions was the church, but it was far from the central authority structure.

Coffee sales financed Costa Rica's human development achievements in the nineteenth and twentieth centuries. Between independence in 1821 and the mid-1850s, Costa Ricans, driven by economic stagnation and the continued threat of poverty, found methods for growing and harvesting coffee plants on a large scale that altered their social structure and government institutional network. They overcame major bottlenecks in the production system, like poor infrastructure, unreliable transportation, and inadequate credit. They established direct links with European markets, formed key alliances with European banks and marketing channels, and became the largest exporter of coffee in the region. And they laid the groundwork for major improvements in education that would form the foundation of later human development achievements.

The values reflected in this process of change are instructive. Interdependence and cooperation among producers continued. The state actively encouraged private initiative, even in the colonial period, and experimental entrepreneurial responses.

The requirements of the new coffee production system resulted in greater social stratification among Costa Rica's racially homogeneous population. The increased demand for coffee motivated farmers to increase acreage and resulted in a new group of relatively large farmers. Because of labor shortages, however, there were limits to the size of farms. Labor shortages were sufficiently great that even large Costa Rican coffee farmers worked directly in their production as well as in other activities. As a result they knew more about the problems of their workers than Guatemalan landowners. They also involved themselves directly in politics and civic organizations.

At the same time the production of smaller farmers was needed to meet demand. Thus, the smaller farmers grew and prospered as well.

The new social structure continued to reinforce egalitarian values and mutual interdependence, not because these were attractive abstract ideas, but rather because they were necessary for the production system to succeed. Coffee production could not have expanded without a healthy, motivated labor pool. Nor could it have functioned without small farmers who had enough education to manage their coffee operations. They needed not only agricultural skills but also basic literacy and math ability. It is not surprising therefore that legislators approved policies to improve primary education.

By 1900 Costa Rica's peculiar dynamics of coffee production and its series of liberal administrations had strongly reinforced cooperative and egalitarian traditions. These values were translated into the key elements of a national democratic political system in the first half of the 1900s. In 1898 Costa Rica had its first free indirect presidential elections. Political reforms such as secret ballot, women's suffrage, direct elections, and the civil code followed. With two brief exceptions, the country has maintained a democratic electoral process for the selection of national leaders.

At the same time new elements in the international economy and political system stratified the social system. For example, the growth of foreign investment in the banana plantations created a new set of worker-foreign owner relationships based more on conflict than on collaboration. New unions for public workers and teachers also emerged.

Downturns in the international economy and the more competitive

international coffee market made it more difficult for the system to produce sufficient benefits for peons as well as for small and large farmer-owners. With these new economic conditions and the Great Depression of the 1930s, new ideologies like socialism and communism became more attractive.

These circumstances helped produce the crisis and revolution of 1948. The government of Rafael Angel Calderon Guardia refused to cede power after it had apparently lost the 1948 elections. Jose Figueres Ferrer led a revolution, abolishing the army and turning power over to the elected president. Although Figueres's coalition included large coffee growers, it adopted many social reforms and expanded the role of the state. It moved to limit further social stratification based on wealth through nationalization of the banking and insurance systems and promoted more equitable allocation of credit to both large and small farmers. It championed both the education reforms and improvements in the health system. Finally, it substantially increased the state's role in economic as well as social development.

During the 1960s and 1970s, Costa Rica made major commitments to expanding rural primary health care and improving rural health and education conditions, allocating additional resources from the economic boom of that period.

**Guatemala.** Guatemala was a traditional hacienda-based society, founded on the policy values of religious and political domination and exploitation of economic resources. Political domination permitted the development of institutions for extraction of wealth. Since gold and minerals were scarce in Guatemala, other means of economic extraction had to be found. The subjugation of the local population permitted the Spanish Crown to assign Spanish settlers large tracts of land called haciendas. Since labor was needed to work in the haciendas, economic institutions were developed to provide a continued source of such labor. Simple slavery of Indians was replaced by more sophisticated systems like *encomienda*. *Encomienda* was cheaper than slavery because the Indians had to support themselves through subsistence agriculture as well as supply labor to the Spanish hacienda owners. Later the system was replaced with an even more sophisticated system called

*repartimiento*, which assigned Indians to specific tasks, usually public works. This system, with its abuses, became equivalent to forced labor.

The strong church infrastructure pursued religious domination reinforced through church control of the formal education system. Although a limited number of people learned to read, write, and do basic arithmetic, education was predominately religious. Educators thought it unnecessary to teach the Indians anything but simple concepts of Catholicism.

The values and institutions of Guatemalan society reflected a highly stratified social structure based on economic, political, and ideological function. It was strongly reinforced by language and racial differences between Indians and Spanish colonial settlers.

The development of coffee production altered Guatemala's social structure, as it had in Costa Rica. In Guatemala, however, it served only to reinforce social stratification and the values of dominance and economic extraction that had prevailed earlier. When Guatemala began to experience labor shortages, producers reacted differently from in Costa Rica. Instead of relying on smaller farms and cooperative strategies among larger and smaller farmers and laborers, the Guatemalan landowners and the government found new ways of extracting more cheap labor from the indigenous population.

Guatemala did pursue liberal reforms, but they never attracted the political coalitions necessary to allocate enough resources for real national impact during periods of liberal rule. Then, in periods of conservative rule, the policy ideas were reversed.

By the 1900s Guatemala was controlled by traditional landowning families in alliance with key military leaders. The military was the best-organized institution, and its major function was not so much national defense as social control. Shifts in leadership based on realignments within the military and the traditional upper class often signaled ideological shifts between the liberals and conservatives. Regardless of liberal or conservative dominance, however, there was insufficient commitment to democratizing the society or making major social investments. Thus, public delivery systems remained woefully inadequate while private systems functioned effectively for the traditional elites.

In the early 1900s many of the same economic pressures that Costa Rica experienced helped to stratify Guatemala's social structure fur-

ther. The government gave major concessions to the United Fruit Company, which began banana production. A new group of rural workers sprang up. Urban workers unions and professional associations were formed. Social and communist ideologies became more attractive. Political instability mounted at the beginning of the Great Depression.

A combination of social pressure and U.S. support for anticolonialism and emerging democracies at the end of World War II permitted a new social coalition to form, resulting in the revolution of 1944. A postwar economic downturn made social grievances more acute. A coalition of young army officers, students, urban professionals, and trade unionists helped bring down President Jorge Ubico when he refused to hold elections. A coup followed, a new constitution was drawn up, and Dr. Juan Jose Arevalo was elected.

This new coalition promoted health and education reforms. Jacobo Arbenz, who followed Arevalo as president, nationalized the United Fruit Company's railway and plantations. He passed a land reform act and promised a series of additional reforms. His domestic opponents as well as the United States feared what they believed was communist infiltration in the hemisphere during the height of the new Cold War with the Soviet Union. As a result the CIA backed a coup led by Castillo Armas in 1954. Armas and his successors steered a course of economic development with few social investments, which continued until the late 1960s.

In the 1960s and 1970s Guatemala made formal commitments to new health and education policies, but the reform process was halted by the diversion of resources owing to the earthquake of 1976.

### **Central American Double-Shock Transitions in the 1980s**

In 1978 a new transition began in Central America. Triggered by the worst world recession since the Great Depression, it was accompanied by tremendous violence and disruption in all countries. Eventually, all Central American governments responded with double-shock policies of economic adjustment and political opening.

The transitions took three forms. The first type of transition, a regime-led one with a high degree of social consensus, was begun in

Costa Rica. Its challenge is to further define a successful new economic strategy and to modernize Costa Rica's model of democratic participation. This modernization, however, continues to take place on a solid foundation forged particularly after the 1948 revolution.

In Nicaragua and El Salvador new governance structures emerged through negotiated agreements among key coalitions representing a relatively broad spectrum of ideologies and social groups. Society-led movements overturned earlier governments, but no single internal group proved capable of imposing its will on the others. Power relations were altered precisely because these military stalemates led to negotiated political settlements with broad support. Finally, the Guatemalan and Honduran transitions were military regime-led adjustments negotiated with a narrow spectrum of groups, which left elements of the traditional business, civil elite in a predominant position. These transitions may do nothing more than repeat the old cycle of Central American military and civil realignment. For example, key participants in the Guatemalan transition of the 1980s lament that their nation again postponed a social realignment that would allow for more power and participation from below. Former Honduran and Guatemalan military leaders warn of the continued independence of the armed forces in their societies.

### **Speeding Up the Transition Process for High Human Development Performance**

In the first part of this study, Lindenberg offered an optimistic message: He said that policies did make a difference in human development performance and that countries could at least loosen their contextual bonds to promote human development performance. A closer examination of the Central American countries reveals a more somber message. In fact, high-performance human development governance structures are built upon values, coalitions, and institutions that take years, and even centuries, to form. Scholars are still trying to sort out exactly what might help consolidate the transition process. Although there are no rules for speeding up transitions, one can at least identify

the barriers and suggest policy interventions that might help overcome them. Each country, however, must identify its own problems.

Although each country has a different set of barriers to transition, these barriers can be clustered into five areas:

1. *Barriers in the institutional context.* The institutional context may be thought of as the cluster of complex rules that govern the interactions among civil society, political society, and the state. Nonexistent or imprecise rules of the game continue to be a serious barrier to transition. The presence of formal rights and the absence of real, enforceable civil, political, and economic rights, for example, result in low levels of confidence.
2. *Barriers in civil society.* Although civil society did not flourish in Central America under authoritarian rule, citizens were permitted to form business, labor, and private associations to promote their civic interests. Liberalization in the 1980s permitted an expansion of civil society, but not without some serious problems. First, when the government restricted opposition political parties, civic organizations like business chambers had filled the vacuum. With the opening of political life, leaders of these civic groups had trouble accepting a more restricted role and a less confrontational style. New organizations also lack the skills and experience to develop strategies, structures, and processes to allow them to be self-sustaining and to have real impact. Most groups, including the business pressure groups, have yet to serve as a source of policy ideas, legislation, and debate.
3. *Barriers in political society.* The new democratic transformations permitted an expanded role for political parties but created a new set of problems. In societies where a strong political party, like the National Sandinista Liberation Front (FSLN) in Nicaragua or the Democratic Revolutionary party (PRD) in Panama, dominated political life for a decade, it was hard for new parties to

compete on a level playing field. In addition, modernizing old parties has been a major bottleneck in the transition.

4. *Barriers within the state: legislatures, executive branches, and judicial institutions.* The assignment of more dynamic roles to legislatures and the judiciary put tremendous strains on these antiquated institutions. For example, many newly elected officials had virtually no experience in the legislative process, critical analysis of national priorities, or evaluation of programs and budgets. Furthermore, procedures for conducting government business had to be invented as democratization advanced. Many Central Americans noted that the pressures of guaranteeing a fair, open civil and political process put special strains on the judiciary.
5. *Barriers within the state: ministries and government programs.* The transitions will only be as successful as the ability of new governments to define coherent plans for economic and political development and to carry them out efficiently and fairly. With the exception of Costa Rica, new governments have not been effective in defining an economic strategy to generate growth, employment, and more equal income distribution. Key ministries have not had the talent to perform policy analysis or implement programs effectively.

The list that follows offers ideas for overcoming these barriers to stimulate leaders and policy makers who believe their countries have particular transition problems. Each country, however, must craft its own solutions based on its particular situation.

### **Institutional context.**

1. Complete the constitutional reforms that establish the separation of powers and the basic rules for democratic government.

2. Formalize the guarantee of basic civil, political, and economic rights.
3. Ensure the legal recognition of new civic and political groups.
4. Promote the resolution of conflicts through pacts, dialogue, and discussion rather than through violent conflict.
5. Keep international attention focused on regional advances and also on abuses.
6. Use the United Nations and regional organizations to help monitor peace agreements and the transition process.
7. Promote education reforms that favor problem solving and awareness of basic rights. Promote basic education.

#### **Civil society and civic organizations.**

1. Stimulate the formation of new civic organizations and community-based problem solving.
2. Provide training and technical assistance to help new organizations define strategy and programs and to build their capacity to be dynamic, self-sufficient organizations.
3. Encourage civic organizations to put pressure on government to be responsive.
4. Stimulate civic and private organizations to provide programs that force government to be competitive and more service oriented.

#### **Political society and political parties.**

1. Support electoral laws that make the election process clear, transparent, and efficient. Rely on international experience and monitoring when fairness may be an issue.

2. Encourage redistricting to ensure fair representation of citizens by politicians.
3. Promote the professionalization of political parties. Rely on world experience in party development.
4. Provide technical assistance to build capacity within the parties to define policy options and debate these options openly.

**The state: legislatures, executive staffs, and the judiciary.**

1. Use the best demonstrated world practices to design executive, legislative, and judicial procedures.
2. Provide training in policy design, budgeting, program evaluation, and the legislative process to newly elected officials.
3. Promote the establishment of professional analytical executive and legislative staffs.
4. Support an independent judiciary. Protect judges from intimidation.
5. Combat corruption.

**The state: ministries and government programs.**

1. Encourage the search for economic strategies that stimulate balanced growth, generate employment, and invest in the human capital base.
2. Promote public sector reform to help develop a smaller, but more dynamic, client-responsive public sector.
3. Strengthen civilian control of the military.
4. Identify and implement the best demonstrated practices in social service delivery systems.

While there is no road map for a successful transition to high human development, adoption of some of these proposals, where they apply to specific country situations, might increase the probability of reaching the destination.

## About the Author

Marc M. Lindenberg is currently the senior vice president for programs of CARE, an international nongovernmental organization, which provided more than \$400 million in emergency relief and human development programs in forty-one developing countries in 1992. To join CARE, he took a leave of absence from his position as a lecturer in public policy at Harvard's John F. Kennedy School of Government, where he received the Manuel Carballo Award for Excellence in Teaching in 1989. He is the author of numerous books on problems of international development, such as *Managing Adjustment in Developing Countries* (with Noel Ramírez), *Central America: Current Crisis and Future Prospects* (with Jorge Domínguez), *Managing Development: The Political Dimension* (with Benjamin Crosby), and *Public Budgeting* (with Fremont Lyden), as well as many articles. From 1981 to 1987, he was the rector of the Central American Institute of Business Administration (INCAE) in Costa Rica. He completed his B.A. degree in political science at Oberlin College (1967) and his M.P.A. and Ph.D. in comparative and development administration at the University of Southern California.

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