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METHODS OF EVALUATION OF THE CONTRIBUTION OF
HEALTH PROGRAMS TO ECONOMIC DEVELOPMENT

Comments on Dr. Wilfred Malenbaum's Paper

"Accelerating Economic Growth and Improving
National Health in Underdeveloped Countries"

by

Dr. jur. Milic Kybal
Inter-American Development Bank

COMMENTS ON DR. WILFRED MALENBAUM'S PAPER

"Accelerating Economic Growth and Improving
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Dr. jur. Milic Kybal^{1/}

I have read Professor Malenbaum's paper with great interest, and his presence at this meeting is indeed fortunate. For the members of the Directing Council, his paper has interest because it points up the principles and assumptions underlying all government investment policy and, more specifically, all public health programs, for economists, because he examines the theories of economic growth and emphasized the role of the human factor in the growth process. At the same time, Professor Malenbaum reveals that the divergencies among economists are certainly greater than among physicians -- not only when it is a question of facing up to problems as broad as those of economic development, but also in the degree to which they recognize that the solution lies in interdisciplinary approaches. When economists are in close agreement -- above all on questions of development -- it is perhaps because more data and more studies of many aspects of the problem are still required.

Before discussing the theories examined by Professor Malenbaum, I should like to observe that his paper is devoted principally to the relations between two factors -- health, and its principal consequence of population growth in particular, on the one hand, and economic development on the other. He does not examine directly the central theme of methods of evaluating the contributions of health programs to economic development. In the present state of economics and statistics, it would be difficult to make a precise quantitative evaluation of such contributions. In addition, I suppose that a quantitative expression is not particularly necessary because public administration -- and we are dealing with that subject -- is not an exact science.

Limiting ourselves to essentials and simplifying considerably, we see that the theories of economic growth are grouped in two schools. One emphasizes the material factors of growth, and particularly the volume of investment; the other emphasizes the human element.

^{1/} The comments of Dr. Kybal, Coordination Officer of the IADB, are presented in a personal capacity and do not necessarily represent the official position of the Bank.

The first school, represented especially by Higgins, Leibenstein, Rosenstein-Rodan, and in part also by Nurkse, refers to economies in what could be called "low-level equilibrium," that is to say, in which production increases at the same rate as population. In these conditions, it is assumed that there is no way to escape from this no-progress level without injecting a massive dose of investment from abroad. Essentially, this is a "Malthusian" theory because it implies that an improvement in health, which is translated into an increase in population, simply diminishes the country's chance to escape from its position.

Professor Malenbaum is not a partisan of this theory, and mentions certain considerations which raise doubt as to its validity. Among them we may recall two: First of all, economic development has historically been accompanied by a rapid rise in population, which suggests that the improvement of health is a positive factor in economic growth; secondly, the stock of capital goods is not a limiting factor for the economic utilization of the labor force, because even in the poorest countries the existing capital stock is not fully utilized.

I would go farther than Professor Malenbaum and say that the "Malthusian" school of economic growth did not arise from observing the realities of Latin America, and that, with perhaps a few minor exceptions, it has neither applicability nor adherents in this region. It is a fact that today this school is based mainly on observation of certain Asian countries which are characterized by overpopulation with respect to the available arable land. Perhaps Professor Malenbaum devotes so much attention to this school because of his own acquaintance with India as evidenced by his book "Prospects for Indian Development."

The situation which the "Malthusian" school considers to be typical of underdeveloped countries -- that is, the no-escape point at which they find themselves, expressed by the concept of the low-level equilibrium trap -- can hardly be applied to any Latin American country. It is sufficient to recall that in the past decade, from 1950 to 1959, the gross product of the region rose by 50 per cent. An increase of this magnitude certainly is not a sign of economic stagnation. It is true that product per-capita rose only 20 per cent, but this figure, from a relative point of view, is rather satisfactory. During the same decade the population of Latin America rose some 30 per cent, more than that of any other major geographic region of the world.

The development of Latin America is in fact following a very different course than in the other two major underdeveloped areas of the world, Asia and Africa. On the average, Latin America is much closer to what Rostow called the take-off stage -- the point in the development process after which an economy can progress rapidly and continuously under its own power. It can be observed that some Latin American countries have already entered this phase. On the other hand, the conditions for economic growth are so different

in different parts of the world that it would be arbitrary to formulate a theory of development and claim that it was of general application. The more general and universal a theory is, the less is its usefulness as a guide for development policy.

In spite of this, however, it might be asked whether the Alliance for Progress and the pledge of the United States to provide a substantial amount of aid to Latin America does not represent a vindication of the "Malthusian" school and of its emphasis on a "big push". In reality this is not the case for a number of reasons. In the case of Latin America it is not a question of getting countries from the no-escape point, but rather of speeding up an advance which has already been going on for decades; it is also a question of reducing the gap which separates Latin American economic levels from those prevailing in the industrial countries. In addition it should be noted that the \$20 billion envisioned in the Charter of Punta del Este for the decade of the 'sixties can hardly finance more than 10 per cent of the gross investment in Latin America. It is a matter of fact that the amounts required for a "big push" in any major region of the world would be such that there is no chance at all of their just being there one day. Suffice it to note that even the most successful "big push," the Marshall Plan, financed no more than 3 per cent of the total investment in Europe in those years.

On the contrary, it can be said that the Act of Bogota, the Alliance for Progress, and the documents of Punta del Este are inspired by theories that emphasize the human factor. They consider that the improvement of health and of educational levels is the basis for the economic and social development of Latin America. This has been pointed out clearly by Professor Malenbaum. It is sufficient to quote a phrase from the Group of Experts on Planning Economic and Social Development in Latin America (page 4) where it is stated that improvements in health "are desirable in themselves... [and] are an essential prerequisite for economic growth."

I should like to add a few further observations on the paper. One relates to the idea of Dublin, Lotka, and Spiegelman (in "The Money Value of Man") that the expense of raising a child to the age when he becomes economically productive are in reality an investment. In the specific case of the United States, they came to a figure of \$10,000 for a family with \$2,500 annual income. If one could in fact estimate the corresponding figures for underdeveloped countries and consider them as investment rather than as consumption, we would come to the conclusion that in Latin America the investment is far higher than the 17.5 per cent of gross national product which was estimated to have been reached in the decade just past. This also brings us to the conclusion that the concepts of national income and other forms of national accounting, as they have developed to satisfy the needs of industrialized countries, do not reflect equally faithfully the reality of underdeveloped countries. In the latter, the non-money sector,

which includes many activities for the maintenance of health, is not adequately represented. The clear result is that it is more difficult to identify and to give due importance to certain activities not connected directly with the production of goods, including all those related to health.

Another consideration which arises from Professor Malenbaum's paper relates to manpower and the stock of capital goods. We have noted that, in contrast to the assumptions of the Malthusian school of development, capital goods are not fully utilized even in the poorest countries. On the other hand, in the study of the problem it is not necessary to consider manpower as a homogeneous quantity. If it is certain that there is unemployment in some places and underemployment almost everywhere, the same cannot be said for all classes of workers. In general, there is a surplus of unskilled manpower in the underdeveloped countries and a shortage of skilled labor. This clearly presupposes a level of physical efficiency which is not possible in the absence of good health. The process of industrialization requires certain minimum standards of health and education, and it is in this area that we can find a close relationship between health and economic development.

A final comment: Just as manpower cannot be considered a homogeneous quantity, neither can investment. Homogeneity is only found in public investment, where public resources can be invested without distinction for any given purpose. This is not in any way true for investment in the private sector. It is for this reason that certain activities, particularly in the fields of health and education, must mainly (and in some countries almost exclusively) be developed by means of public investment. The practical consequence of this is that any public investment in projects which could have been undertaken by private enterprise--factories, for example--is made at the expense of the educational and health levels of the country.

It is perfectly possible that in Asia and Africa private investment is so small that it cannot contribute to the development of the economic infrastructure nor to the creation of certain basic industries. This is not quite the situation in most of Latin America, where private enterprise is more vigorous, as much because of its resources as its initiative. In many sectors of Latin American economies, public investment does not appear as the only solution and, consequently, the resources of the Government can be concentrated on those activities, particularly health and education, which depend most on public funds. Foreign aid for these essential activities of the public sector, incorporated in the recent Inter-American instrumentalities, represents something novel in international economic relations. It will certainly require an enlarged role for the specialized agencies such as the Pan American Health Organization.