

## MDGS, ECONOMIC PERFORMANCE AND GOVERNANCE: A BROADER PERSPECTIVE

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*"Far too many people in far too many places live through the daily crises that challenge our common humanity — the despair of an empty stomach; the thirst brought on by dwindling water; the injustice of a child dying from treatable disease or a mother losing her life as she gives birth."*

- President Barack Obama's Address  
to the UN General Assembly, 2009

### Abstract

*We present the MDG project in a broader and global perspective. We concentrate on poverty reduction, the overarching goal among the MDGs, and mortality rates as affected by economic performance and governance. We first present the face of global poverty through time and space highlighting where progress has been made and where shortfalls have remained. We then discuss the origins of the MDG worldview as a response to the apparent failure of the "trickle down" philosophy and its roadmap, The Washington Consensus, highlighting the usual conflict between "growing the pie" and "sharing the pie" and their relative effect on poverty reduction. We then illustrate the fundamental relationships in a series of structural flow charts that differentiate between the two polar approaches. In the MDG view the state must directly bring about inclusive growth preferably through improved budget allocation. Finally, we explore the relationships bearing on poverty incidence and mortality rates empirically through cross-country regression analyses bearing out the structural relationships. While plain total budget growth may be bad for MDGs, growth in the share of social expenditure is good for MDGs.*

### I. Introduction

The Millennium Development Goals (MDGs) of the United Nations drawn up in 2000 set to reduce by half of the 1990 level, the proportion of people living under one US dollar (now adjusted to a dollar twenty five) a day by 2015, as the first among eight goals. The latter has been elaborated into 30 sub-goals and 60 indicators. We will deal mostly only with the major goals. Most of the other six goals, being strong correlates of poverty reduction, suggest that if the first is achieved, these others would also be, if with some determined effort at income redistribution and transfer, come within touching distance. Even before the current crisis, progress in this goal had been slow and the prospect of achieving the MDG goals bleak in most LDCs,

apart from East Asia where some 755 million people have moved out of poverty from 1981 to 2005. Without China's singular success in poverty reduction, however, the number of people living under \$1.25 a day actually rose from 1.1 to 1.2 billion from 1981 to 2005 (UNDP, 2010, *Rethinking Poverty*). The gains have been fairly concentrated among the BRICS countries.

Achieving the MDG targets has become even more formidable for LDCs in the post-global crisis world. The global economic turmoil set back the meager advances already achieved. The joint ADB-UN report "*Achieving the Millennium Development Goals in an Era of Global Uncertainty*" (2010) estimates that 21 million people have been pushed below the poverty line by the global downturn in the Asia-Pacific region alone. But some claim (World Bank's Robert Zoellick, 2009) about 89 million people worldwide have been pushed back below the poverty line of \$1.25 a day. Since the global contraction turned out to be more severe, the rise may be much steeper. The severe economic straits facing the OECD countries will make further progress more difficult for many developing countries. For one, destination countries face a reduced capacity to absorb LDC exports in the face of diminished DC incomes. For another, there is possibly a reduced appetite for export of capital from the developed world in the face of labor and capacity surplus in the home front.

## **II. The Face and Distribution of Global Poverty**

### **A. Poverty Reduction as the Overarching Goal of the MDG Challenge Project**

There are 8 Millennium Development Goals (MDGs), the first of which is poverty reduction (to halve the 1990 level poverty incidence). Poverty reduction is the drop either in the absolute number of poor people or in poverty incidence. Poverty incidence measures the proportion of the population falling below an adopted poverty line which in current convention is \$1.25 per day. This is not a perfect measure and certainly, not uncontroversial, but it is pithy and easy to remember. There is a very high correlation between poverty incidence (MDG 1) and the bad performance in MDG 2 (Primary Education), MDG 4 (Child Mortality), MDG 5 (Maternal Health) and MDG 7 (Sustainable Environment). Infant mortality, in particular, is so very highly correlated with poverty incidence; the former is sometimes used as proxy for the latter. Likewise, very low educational levels are very highly correlated with poverty incidence. Of course, there are MDGs where poverty incidence has almost no bearing. Such, for example, is

women empowerment in some countries where for religious or cultural reasons (say, Saudi Arabia or in some ethnic minorities in otherwise very affluent Europe), discrimination by sex has remained very severe despite the affluence. On the whole, however, it is no coincidence that poverty reduction is the number one MDG; advance it and most of the rest will meliorate, if at different speeds. We now turn to the faces of poverty.

☛ We now turn to the faces of poverty.

## B. The Official Numbers

In this section, we present the state of global poverty, its trends, and its distribution in space. We adapt a set of tables and figures from UNDP's *Rethinking Poverty* (2010) which came out early this year. The observations are as shown on Table 1 which lists the major regions of the world, and their shares in the number of people living below \$1.25 a day across selected years from 1981 to 2005. The total number of poor people in the developing world fell by about 500 million from 1981 to 2005 (bottom row of the table). There was a large drop of about 300 million between 2002 and 2005. Another large drop was recorded for the years 1990 to 1996 (about 200 million). These years were ones recording rapid economic growth in East Asia and the Pacific. The largest drop in the share in total number was recorded for East Asia and the Pacific which had 56 percent of the world's poor in 1981 but only 23 percent in 2005. Sub-Saharan Africa's share rose from 11 percent to 28 percent in the same period. We now examine the total number and the proportion of people living under the poverty line in different regions as shown in Figures 1A and 1B below.

**Table 1. Regional shares in number of people in the world living under \$1,25 per day (%).**

Region	1981	1984	1987	1990	1993	1996	1999	2002	2005
East Asia and the Pacific	56.50	52.39	47.81	48.16	47.09	37.57	37.44	31.61	22.97
Eastern Europe and Central Asia	0.37	0.32	0.28	0.50	1.12	1.32	1.43	1.35	1.26
Latin America and the Caribbean	2.21	2.89	3.04	2.37	2.33	3.15	3.23	3.64	3.35
Middle East and Northern Africa	0.72	0.64	0.69	0.53	0.55	0.64	0.68	0.64	0.80
South Asia	28.91	30.28	33.09	31.94	31.17	35.89	34.72	38.42	43.26
Sub-Saharan Africa	11.27	13.48	15.09	16.49	17.74	21.43	22.50	24.33	28.37
Total (per cent)	100	100	100	100	100	100	100	100	100
Total number of poor (millions)	1 896.2	1 808.2	1 720	1 813.4	1 794.9	1 656.2	1 696.2	1 603.1	1 376.7

Source: World Bank, Development Research Group. 2009. *Through UNDP's Rethinking Poverty (2010)*.

Figure 1A shows the total number of the poor for various major regions and years. Note that the largest reduction in poor people occurred in East Asia and the Pacific from 1981 to 2005 (-655 million) while the largest rise was in Sub-Saharan Africa (+176 million). South Asia also contributed to the rise during the period (+50 million).

Figure 1B shows that the proportion of poor people has been falling. The proportion of poor people in the world actually rose in Sub-Saharan Africa while it fell fastest in East Asia and the Pacific.

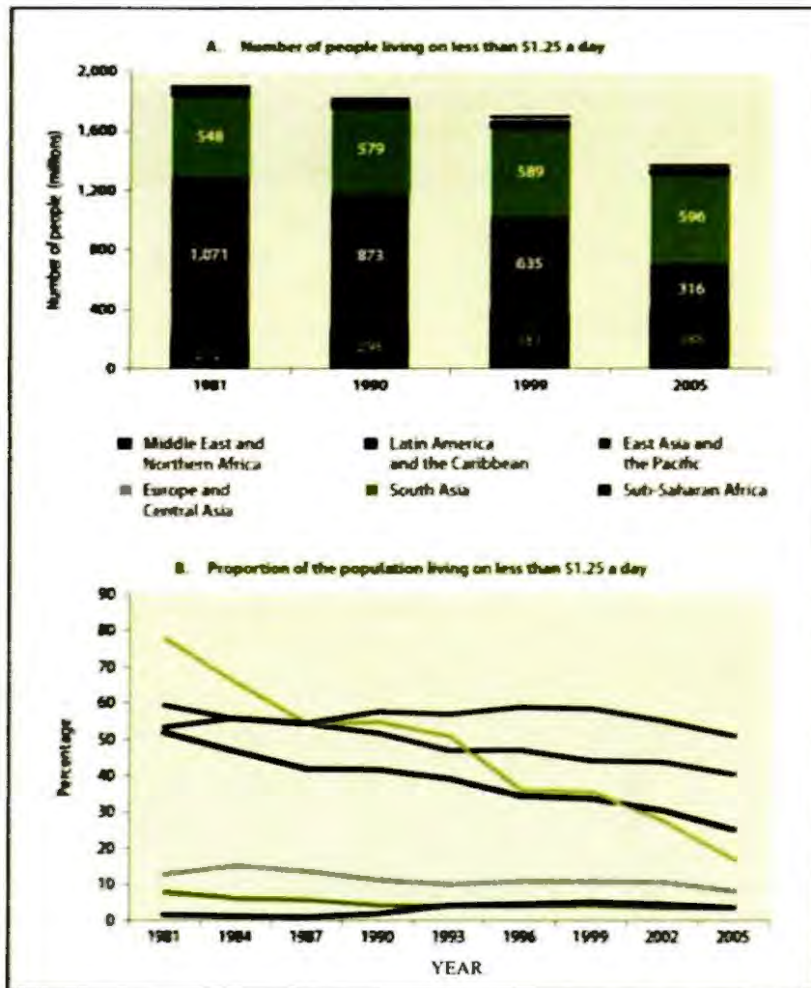


Figure 1. Global and regional trends in extreme poverty, 1981-2005.

Source: *World Bank, Development Research Group (2009), through UNDP's Rethinking Poverty (2010).*

Table 2 shows the performance of the major regions relative to MDG targets. East Asia had already attained the target 10 years ahead of schedule but this has been set back by the Global Recession. South Asia and Sub-Saharan Africa recorded the largest shortfall by 2005. Again, the Great Recession has surely raised the shortfall here and elsewhere.

**Table 2. Progress made in reducing poverty by half at the regional level, over the period 1990-2005.**

	East Asia and the Pacific	Eastern Europe and Central Asia	Latin America and the Caribbean	Middle East and Northern Africa	South Asia	Sub-Saharan Africa
<b>Percentage living on less than \$1.25 a day</b>						
2005	16.8	3.7	8.2	3.6	40.3	50.9
1999	35.5	5.1	10.9	4.2	44.1	58.4
1990	54.7	2.0	11.3	4.3	51.7	57.6
2015 target	27.4	1.0	5.7	2.2	25.9	28.8
Change needed to achieve the target	*	-2.7	-2.6	-1.4	-14.5	-22.1
<b>Annual rate of change (percentage)</b>						
1990-2005	-7.6	4.2	-2.1	-1.2	-1.6	-0.8
1990-1999	-4.7	11.0	-0.4	-0.2	-1.7	0.2
1999-2005	-11.7	-5.2	-4.6	-2.6	-1.5	-2.3
Rate needed to achieve target from 2005 level	*	-12.3	-3.7	-5.8	-4.4	-5.5
<b>Percentage point change</b>						
1990-1999	-19.2	3.1	-0.4	-0.1	-7.6	0.8
1999-2005	-18.7	-1.4	-2.7	-0.6	-3.8	-7.5

Source: *World Bank, Development Research Group. 2009. Through UNDP's Rethinking Poverty (2010).*

- The general observations from these official numbers are the following:
- Global poverty reduction is concentrated in regions which have experienced rapid economic growth (East Asia and the Pacific);
  - In these countries, poverty reduction was most rapid when the economic performance was most rapid (say, the early to mid-90s and the first six years of this century);
  - In regions where the economies were stagnant, poverty incidence stayed put or even rose (Sub-Saharan Africa);
  - The big question as far as the Economic Community is concerned is how to account for the pattern of poverty incidence across space and time.

### C. Accounting for the Global Poverty: Trickle-Down vs. MDG (Preferential Option for the Poor) View

The United Nations Millennium Development Declaration in 2000 represented a paradigm shift in the thinking about social welfare and how to achieve it. Prior to 2000, the dominant paradigm guiding the pursuit of human development was, by and large, if articulated in guises less stark, the “trickle-down effect.” This philosophy, largely articulated by economists, was: Mind the economy and social welfare will follow. Poverty reduction follows economic growth. The viewpoint has even a roadmap attached to it: The Washington Consensus (Williamson, 2000). This is a package of economic policies most likely, in the eyes of mostly Washington-based observers, to engender rapid economic growth. In the words of UNDP (2010): “This so-called Washington Consensus promoted the idea of sound monetary policy and fiscal prudence as the pillars of macroeconomic policy and argued the case for privatization and limited government, extolling as well the virtues of globalization, epitomized by free trade and unrestricted capital movements...Achievement of low inflation and balanced budgets (and, later, opening of the capital account) became the core conditionalities in the IMF rescue packages, as the World Bank pursued structural adjustment (trade liberalization, financial deregulation and privatization) through loan agreements.” (UNDP, *Rethinking Poverty*, 2010).

Figure 2 shows the structural flow of the “trickle-down effect” of the Washington consensus (WCI variety): MDGs are enhanced by poverty reduction engendered by income growth/employment creation which in turn is enhanced by state provenance. The state does not directly intervene in enhancing MDGs. The state merely empowers income growth which in turn delivers poverty reduction and other MDGs as outcome. Note that the directional arrow means “enhances” or “engenders.”

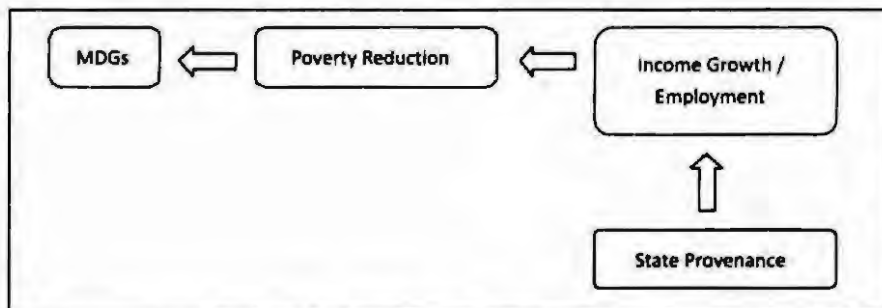


Figure 2. Advancing MDGs: Trickle Down (WCI)

This is not a completely wild concoction. There is plenty of cross-country evidence that poverty incidence, *ceteris paribus*, falls with a rise in average per capita income. Dollar and Kraay (2002) have marshaled the evidence in favor of the positive growth-poverty reduction nexus. But even if this were true, "growing the pie" has proven more elusive than the Washington Consensus roadmap appeared to construe it. As shown by previous tables and graphs, poverty reduction has concentrated on certain countries and regions which managed to grow rapidly. Growth has eluded many other regions. As the World Bank (2005) review of the 1990s experience itself admitted:

*"Macroeconomic policies improved in a majority of developing countries in the 1990s, but the expected growth benefits failed to materialize, at least to the extent that many observers had forecast. In addition, a series of financial crises severely depressed growth and worsened poverty... Both slow growth and multiple crises were symptoms of deficiencies in the design and execution of the pro-growth reform strategies that were adopted in the 1990s with macroeconomic stability as their centerpiece."*

Economic growth and the Washington Consensus seemed to have come together only for a small subset of countries, largely in East Asia and Chile in Latin America. Although there is no question that a greater reliance on the market was what worked wonders in China, the Asian tigers, and Chile, and now in Vietnam and India, the claim of a Washington Consensus DNA for the East Asian experience is not without detractors (Chang, 2006; Rodrik, 2004). Indeed, a stable macroeconomy with low inflation and sustainable fiscal deficit can describe an economy "devoid of aspiration" or one characterized in the same way that it can describe a rapidly growing economy. It is, for example, compatible with a declining or very low investment rate. This latter unfortunately describes many countries, including the Philippines. The conundrum seems to boil down to a widely recognized concern, governance.

To remedy the massive oversight, the Washington Consensus package of policies was augmented with governance and institutional agenda such as property rights, contract enforcement and proper regulatory regimes (The Washington Consensus II). Easy to enumerate but a formidable challenge lurked here: How do we acquire good quality institutions? Is there a ready cookbook by which this is done? This, despite the utmost exertions of the best minds, remains a very lively arena of social science thinking and research (Rodrik, 1999; North, Wallis and Weingast, 2009). Figure 3 demonstrates an elaboration of the trickle-down view as reflected by the Washington Consensus II: the state provenance is directed to providing soft and hard infrastructure as well as the proper property rights and regulatory environment which enhance the market, lowering risk and the cost of doing



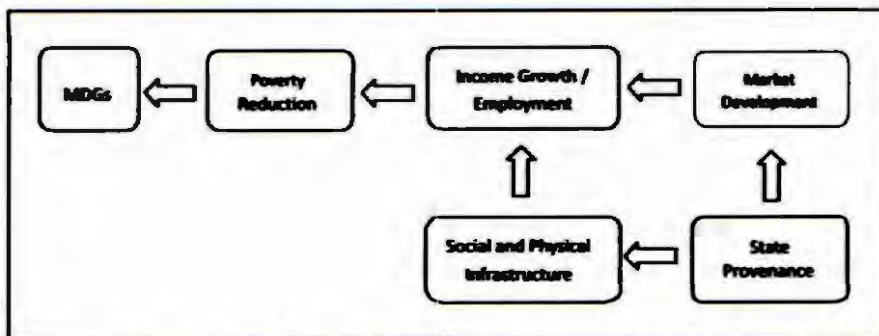


Figure 3. Advancing MDGs: The Washington Consensus II, TD and Public Goods.

business and thus, speeding up economic growth and poverty reduction and the other MDGs.

And then there is the no small matter of income inequality which one observer has called “The Missing MDG”: there is also ample cross-country evidence that, *ceteris paribus*, poverty incidence rises with greater income inequality (Banerjee and Duflo, 2002; Kanbur and Lustig, 2000). Unfortunately, rapid economic growth often associates with higher income inequality. This is the now famous Kuznets Hypothesis (also known as the Inverted U Hypothesis since it posits that income inequality will first rise before it begins to fall as per capita income rises). As a case in point, the rapid growth in China has been accompanied by rising, some say indecently so, income inequality. Most policy levers that promise to raise per capita income also raise income inequality (Kanbur, 2002; 2003). Policymakers must make the choice without knowing exactly how poverty incidence will respond in the net. In the pre-2000 era, there was a ready embrace of policies or regimes that maximized growth in the hope that the trickle-down effect will be strong enough to swamp the adverse effect of rising income inequality on poverty reduction. This was the tack taken in most East Asian tigers and now it seems China. The overall reduction in poverty incidence in this region served to confirm the belief. However, the essential conflict remains. The impact of income growth and reduced income inequality can be shown in Figure 4. This figure shows the effect of a rise in per capita income and a reduction in income inequality on poverty incidence. It is possible for income inequality to rise while income is rising. The potential conflict between income growth and income equality is only one possibility that reflects potential conflict among the MDGs. Indeed, the pursuit of rapid economic growth to effect rapid poverty reduction (MDG 1) may run into natural environment degradation (MDG 7) or may entail the regime of low wage, child labor, anti-unionism and long hours which degrade MDG 2 and MDG 4. Thus, the big difference between the “trickle down” and the MDG

view is that the latter asserts that a country should not pursue growth at the expense of MDG-defined social welfare. The MDG view ran into two important reality checks: one is the People's Republic of China (PRC) up to 2009 and the other was the boom years prior to the global crisis (2001-2006). We examine both.

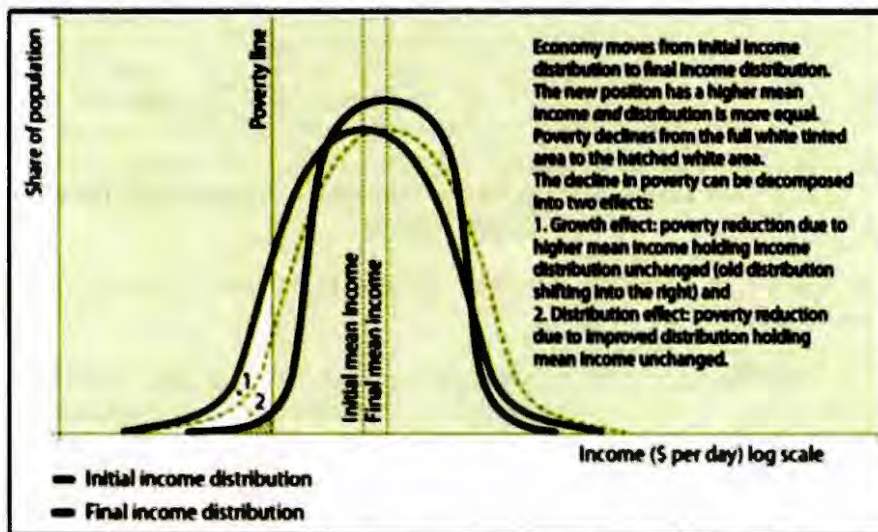


Figure 4. Decomposition of poverty reduction into growth and composition effects.

Source: Khan (2009), through UNDP's *Rethinking Poverty* (2010).

The PRC has been the bedrock of the “grow the pie” view. Maximum growth with maximum employment creation was the way to push the poor out of poverty. This was successful as about 400 million people got graduated. The success was earned by relatively low wages, long hours, an undervalued yuan and a dim official attitude of labor strikes as a way of inducing wage increases. Income inequality also grew rapidly. Of late and in the wake of the global crisis and rising prices, there has been exciting news out of the PRC: strikes and labor unrests, hitherto unheard of in China, have begun to surface. Honda and Sony have agreed to grant up to 50 percent increases in wages. To preempt further unrest, many regions in China are raising the minimum wage rate from about 30 percent to 50 percent. One of China's advantages, as investment destination, was the low wage and the absence of labor strikes. Now the picture is changing. Here we have an illustration where the state policy of maximum employment creation (thus no strikes, undervalued yuan and market-determined and labor-surplus weighted wages) ran into the headwind of demand for more equitable distribution of the economic surplus and had to catch up (the minimum wage adjustments). It is possible that the Chinese authorities allowed these rapid

wage adjustments so that the global demand for a yuan appreciation may abate as real wage rise has the same effect of reduced competitiveness abroad and higher spending locally. Still and all, the PRC of the last twenty years constituted a bastion and comfort of the “grow the pie” worldview.

The other is the run-up to the Great Recession in 2008. In the years from 2001 to 2006, the record had not been bad for trickle-down. Global growth seemed to have been raising all boats. In particular, growth in China was pulling along other resource supplying economies. Observes the UNDP's *Rethinking Poverty* (2010) of the period:

*“Since the adoption of the United Nations Millennium Declaration in 2000, many countries in Africa and Latin America have seen rapid economic growth, often benefiting from higher commodity prices. Most developing countries achieved macroeconomic stability, and their public finances achieved some degree of balance, after two decades of austere adjustment programs. Global financial markets were awash in liquidity, with investors ready to invest in developing-country debt and equity. Foreign direct investment (FDI) was also rising strongly, especially in resource-rich countries, as mining companies raced to take advantage of higher mineral commodity prices. Strong growth in China and India helped further to bring down global poverty rates, not only in their own economies but also in the economies of their main trading partners.”*

The optimistic assessment echoed Addison (2009, p. 174): “For those convinced that economic growth offers the main route to poverty reduction, that the market mechanism works wonders, and that the poor always benefit from globalization, the world looked good.” Trickle-down seemed to get a new lease on life.

The optimism reversed again in the wake of the great global market failure that started with the sub-prime crisis in the USA and the subsequent Great Recession. The global financial and economic crisis, coming on the heels of the food and energy crises, forced a return to the widespread 2000 Millennium Summit disdain for trickle-down. As the 2010 UNDP Report *Rethinking Poverty* put it, “...The dominant growth-based paradigm which underpinned poverty reduction strategies in the past two to three decades has come under serious scrutiny.” The trickle-down effect proved ephemeral and reversible. There was a need for the government to become more directly involved in the delivery of pro-poor outcomes which the market cannot deliver.

Figure 5 shows the flow of causation in the “preferential option for the poor” worldview: State provenance now has the additional responsibility of directly advancing the MDGs besides empowering the market and economic growth via social, market and physical infrastructure. This direct government intervention in favor of MDGs is done in several competing ways (more below).

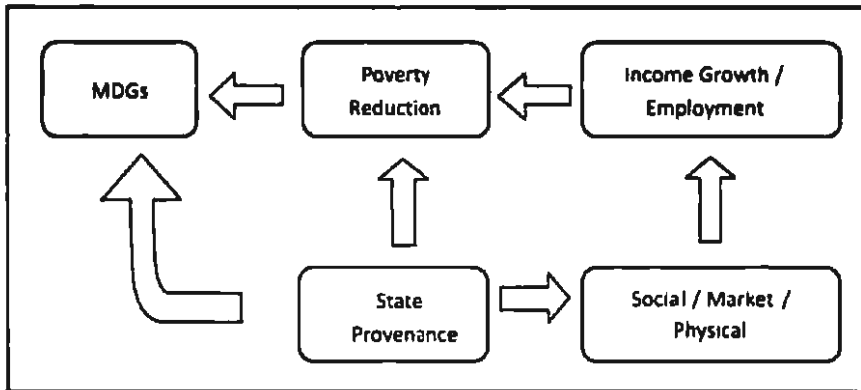


Figure 5. Advancing MDGs (Post-2000): Preferential Option for the Poor

Figure 6 below shows an elaboration of the “preferential option for the poor” view: state provenance is directed not only to social, market and physical infrastructure but also towards redistributive policies to improve the safety net system and income distribution which enhance poverty reduction.

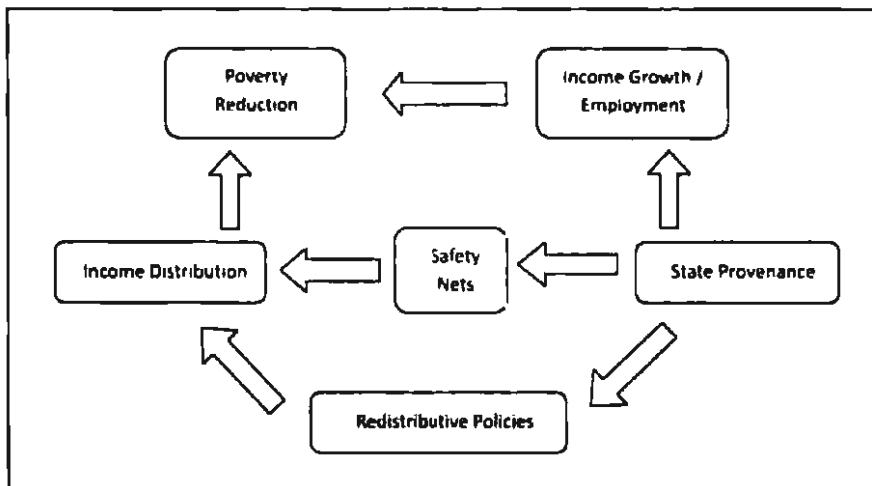


Figure 6. Advancing Poverty Reduction

In regions other than East Asia and the Pacific, the trickle-down belief has proved overoptimistic. The market economy designed to build up economic surplus is not equipped to engender better income distribution and social protection. Improved income distribution and safety net provision come about by conscious choice of the government preferably using the budget allocation process. Therefore, the best poverty reduction episode comes about when the economy is growing rapidly and the state uses taxation and budget allocation to target the very poorest in society (China in the next decade of the 21st century seems to be headed in this direction).

Thus, the MDG view differs from the trickle-down in two fundamental aspects: (i) Economic growth, as a strategy for poverty reduction, must not be pursued at the expense of other MDGs (thus inclusive and sustainable growth); and (ii) The state must directly be involved in seeing to the achievement of those other goals since the market will not by itself deliver them.

### **III. Evidence from Some Cross-Country Studies**

#### **A. Poverty Incidence**

To test the relationships identified in the previous section, we present results of cross-country regressions from Fabella and Fabella (2009) on poverty incidence. We are interested in the effects of variables we have identified so far: per capita GDP, the Gini coefficient (income inequality), government consumption expenditure, inflation (as proxy for macroeconomic instability), regulatory quality (as proxy for governance). Fabella and Fabella (2009) used the data set used by Asra, Estrada, Kim and Quibria (2005), generously shared by one of the authors (G. Estrada). Data for developed and transition countries are excluded. Naturally, for some countries, many more observations are available than for others. Only one end-of-the-period observation per 5-year interval is used. Data availability for other variables dictated that the period covers only 1975-1995.

As dependent variables, we use "Poverty Incidence" at the end of each 5-year period. The independent or explanatory variables used are:

- (i) Initial Conditions: Per capita GDP, Population, Gini Coefficient, Poverty, Infant Mortality and Life Expectancy, all at the beginning of the period ( $t-5$ );
- (ii) Policy Variables Macro: Government Expenditure, Inflation; and Micro: Openness (all averaged over each five year interval);

(iii) Governance Variable: Regulatory Quality;

(iv) Regime Variable: Voice and Accountability.

The empirical specification is the following:

$$\text{Poverty} = \alpha_1 + \alpha_2(\text{Initial Conditions}) + \alpha_3(\text{Macroeconomic Policy Variables}) + \alpha_4(\text{Governance Variables}) + \alpha_5(\text{Interactions}) + \epsilon_t.$$

There are several problems associated with cross-country regression especially their use in policy guidance for individual countries. These problems are generic to the method and not just to the work at hand. However, it must be observed that alternatives to the cross-country regression method that answer the objections are scarce at best and have their own peculiar problems. Table 3 reproduces the regressions.

It is clear that increased per capita GDP (economic growth) reduces poverty incidence while increased Gini Coefficient (income inequality) raises poverty incidence. However, population levels have no effect. These results are as we hypothesized them earlier. Among the macroeconomic variables, Government Expenditure as a percent of GDP is positive and significant for poverty incidence. It appears that a rise in government expenditure by itself is bad for poverty incidence. This mirrors the result in the literature that a rise in government consumption is negative for growth (Barro, 1998). Inflation is, however, not significant. Thus, it is not the case that inflation increases poverty incidence. Both the governance variables are significant but exhibit different signs: Regulatory Quality is negative and significant but Voice and Accountability is positive and significant for poverty incidence. The signs exhibited by the governance variables are in agreement with the literature. It is clear that Openness is negative and significant through all these regressions. It appears that even controlling for the powerful explanatory contributions of governance and institutional variables, policy variable Openness maintains its importance for lowering poverty incidence.

**Table 3. Cross-Country Panel Regression Results - Dependent Variable: Poverty Incidence.**

<i>Regression</i>	1	2	3	4	5	6
<i>Initial Conditions</i>						
Per Capita GDP	-35.16214 (-25.53)	-34.48731 (-24.64)	-34.32376 (-23.97)	-34.59381 (-24.86)	-34.48752 (-24.55)	-30.92138 (-19.49)
Population	0.2480351 (0.47)	-0.49568 (-0.78)	-0.5173524 (-0.81)	-0.7686869 (-1.18)	-0.4685172 (-0.68)	0.0493064 (0.08)
Gini Coefficient	0.4382615 (4.16)	0.4172122 (3.99)	0.4273101 (4.02)	0.3495693 (3.13)	0.4179399 (3.97)	0.3350502 (3.25)
<i>Macroeconomic Policy</i>						
Government Expenditure	0.420911 (4.54)	0.4790966 (5.00)	0.4869139 (5.02)	0.4561736 (4.74)	0.4795572 (4.98)	0.5092521 (5.54)
Inflation	0.4437018 (0.76)	0.0384235 (0.06)	0.1096094 (0.18)	0.2275394 (0.37)	0.0477593 (0.08)	-0.0654551 (-0.11)
<i>Quality of Governance</i>						
Regulatory Quality	-10.49419 (-4.81)	-10.17581 (-4.71)	-12.20096 (-2.94)	-10.19683 (-4.75)	-10.21961 (-4.62)	-12.09853 (-3.09)
Voice and Accountability	6.656287 (4.32)	6.428373 (4.22)	6.410761 (4.19)	10.61281 (3.63)	6.449174 (4.18)	6.706742 (4.64)
Openness		-0.0679092 (-2.03)	-0.0734592 (-2.13)	-0.0628755 (-1.91)	-0.0585722 (-0.59)	-0.0879732 (-2.69)
Openness x Regulatory Quality			0.0341853 (0.57)			0.0631859 (1.11)
Openness x Voice & Accountability				-0.080682 (-1.67)		
Openness <sup>2</sup>					-0.0000575 (-0.10)	
<i>Regional Dummy</i>						
South Saharan Africa						9.369964 (4.11)
Constant	281.9079 (16.86)	293.3781 (16.82)	291.858 (16.50)	301.7725 (16.73)	292.5826 (15.22)	257.9006 (13.83)
Observations	141	141	141	141	141	141
R-squared	0.9142	0.9168	0.9170	0.9186	0.9168	0.9265

Source: Fabella and Fabella, 2010.

## B. Infant Mortality and Public Health Expenditure

In Section III, we discussed the need for direct government intervention in MDGs. Among the intervention strategies is the direct one via the government budget allocation process. One such direct budget intervention is the public health expenditure. This has a direct bearing on health outcomes of which MDGs 3 and 4 are examples. Bernido-Fabella (2010) has explored, using cross-country LDC data, the impact of public health expenditure as percent of GDP (PHE) and governance indices (Kaufman et al., 2003) on mortality rates. We cite here only the results for infant mortality. The control variables are per capita income (country income level), the Gini index (GI), adult female literacy rate (AFL), and governance indices (government effectiveness (GE)), control of corruption (CC), all lagged values. Note that a negative sign means lower infant mortality and thus, a salutary outcome; a positive sign means bad outcome. Table 4 gives the results.

Table 4. Multiple Regression Results. Dependent Variable: Infant Mortality (IMR).

Independent Variables	Model 1	Model 2	Model 3	Model 4	Model 5
Constant	(20.768)***	(17.688)***	(17.374)***	(19.946)***	(19.774)***
PHE	-0.485 (-6.356)***	-0.302 (-3.527)***	-0.344 (-3.788)***	-0.334 (-3.942)***	-0.388 (-4.485)***
Country Income Level	-0.241 (-3.236)***	-0.156 (-2.126)**	-0.176 (-2.303)**	-0.163 (-2.183)**	-0.188 (-2.442)**
GI	0.231 (6.219)***	0.189 (5.154)***	0.206 (5.530)***	0.185 (4.914)***	0.205 (5.351)***
AFL	-0.166 (-3.011)***	-0.230 (-4.232)***	-0.233 (-3.944)***	-0.241 (-4.250)***	-0.224 (-3.744)***
GE		-0.266 (-3.938)***			
CC			-0.189 (-2.704)***		
PHE x GE				-0.224 (-3.506)***	
PHE x CC					-0.142 (-2.266)**
R-Square	.856	.874	.865	.871	.863
Number of Observations	117	117	117	117	117

Source: Bernido-Fabella (2010), Ma, Cristina, 2010. *The impact of public health expenditures and quality of governance on health outcomes: a cross-country analysis. Unpublished monograph.*



PHE has a significant and negative effect on infant mortality; this effect is hardly diminished with the addition of governance. Thus, even with poor governance, a rise in public health expenditure share reduces infant mortality. This is a case of direct government intervention in MDG enhancement via the budget process. A rise in per capita income lowers infant mortality as expected (as it reduces poverty); a rise in income inequality raises infant mortality as expected; a rise in adult female literacy also reduces infant mortality. All the governance indices have a negative effect on infant mortality also as expected. These results also demonstrate that the MDGs are closely interlinked (MDGs 3 and 4 with MDGs 1 and 2).

### V. Summary

In the paper we endeavored to put the MDG enterprise in a broader context of economic development thinking. The dominant paradigm of development used to be the "trickle-down" view where social welfare will be served by simply improving the growth prospect of the economy. Thus, the state's paramount duty is to enable economic growth. In the market economy tradition, this meant providing the best environment where market players operate. This had its own policy roadmap called the Washington Consensus. While there were some singular triumphs attributed to this view (some will point to the East Asian miracle and now China, India and Vietnam as paragons), there is an ongoing debate as to the Washington Consensus DNA of these successes. Furthermore, the Washington Consensus, even the augmented version, seemed to have fallen short as recipe for growth in other regions. Thus, by the turn of the century, there was a well-defined dissatisfaction regarding the Washington Consensus. First, a more equitable income distribution may not automatically issue out of even dynamic markets, and bad income distribution negatively impacts the MDGs. Secondly, rapid growth may fail to be inclusive, may entail the degradation of the natural environment and, thus, may fail to be sustainable in the long run.

The 2000 UN Millennium Development Declaration represented the embodiment of an alternative view to the trickle down. This involved a different role for the state: the state must additionally show its hand in the attainment of the MDGs since the market by itself will fail to deliver inclusive and equitable outcomes even when it delivers higher economic surpluses. We illustrate in a series of figures, the structural flows that reflect first the "trickle-down, its elaboration" and then the MDG alternative. The central message is the role of the state and the unacceptability of non-inclusive growth, however rapid. We then argued the case for direct state interventions in the form of tax-financed budget-based reallocation to provide social protection. Finally, we provided evidence of many structural

relations with cross-country regressions on poverty incidence and infant mortality. We show in particular that per capita income growth reduces poverty incidence, income inequality rise is bad; good governance and openness of the economy are good for poverty reduction. We also showed that while income per capita and female literacy each reduces infant mortality, income inequality increases infant mortality. Likewise, good governance reduces infant mortality. Finally, a rise in the share of government expenditure in health lowers infant mortality.

The role of economic growth and good governance cannot be downplayed in the pursuit of success in poverty reduction and in other MDGs.

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