CHAPTER 1

INTRODUCTION

1.1 Principle and Rationale of Study

Since the United Nations Development Programme (UNDP) emphasizes on world human development and established Human Development Index (HDI) to rank countries around the world. The majority of nations have turned to focus on human development on not only on economic growth. But most of them fail to increase the HDI or raise their people standard of living. Over the decade, they still face a fluctuate trend of HDI. UNDP report 2003, mentioned on the consequence of corruption in terms of critical Human Development dimensions. According to the surveyed 95% said that corruption is a widespread problem. The main causes, found that there are low salaries, poverty, crumbling moral and social values, mismanagement, financial pressure, poor governance, and uncontrolled economic liberalization. So that corruption is also a main cause of failure to achieve development goals.

As the three objectives of development, to increase availability and distribute more of basic needs for life-sustaining, to raise levels of human well - being such as providing better education, greater attention to human value, and to expand the range of economic and social choices (Sen, Todaro, V. Berg, 1998). The importance of human development as human capital accumulation could be of benefit for an economy.

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Table 1.1:	HDI and	l its Com	ponents, 1990
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90	exp at	Life ectancy birth years)	Adult literacy rate (%)		Real GDP per capita (PPP \$)		Average of the three	Human Development Index
		index		index		index	`	
1. Niger	45	0.90	14	0.98	452	0.77	0.884	0.116
2. Mali	45	0.92	17	0.94	543	0.71	0.857	0.143
3. Burkina Faso	48	0.83	14	0.99	500	0.73	0.850	0.150
4. Sierra Leone	42	1.00	30	0.80	480	0.75	0.850	0.150
5. Chad	46	0.88	26	0.85	400	0.81	0.843	0.157
6. Guinea	43	0.97	29	0.81	500	0.73	0.838	0.162
7. Somalia	46	0.89	12	1.00	1,000	0.51	0.800	0.200
8. Mauritania	47	0.86	17	0.95	840	0.57	0.792	0.208
9. Afghanistan	42	0.99	24	0.87	1,000	0.51	0.788	0.212
10. Benin	47	0.85	27	0.84	665	0.64	0.776	0.224

(Source; Human Development Report 1999)

As in HDR 1990, the theme of this report is that growth is necessary to reach goals of human objectives. It's important to study how this growth translates into successes or failures of human development in different societies. Some countries achieved high level of human development at modest levels of per capita income. While other countries failed to translate their high levels of income into commensurate levels of human development or they still have low levels of human development. There are several indicators, that reflect the quality of life including; life expectancy at birth, the mean year of schooling, and the infant mortality rate (Maddison, 1992). These three measures reflect the levels of health and education and are the two main parts for raising standard of living. For example see the table 1.2 below;

	Per capita real	Life ex	pectancy	Mean years of schooling		Infant mortality	
0	GDP	at	birth			rate	
Country	(US\$,1992)	Male	Female	Male	Female	inte	
Bangladesh	720	57	59	3.1	0.9	77	
Core d' Ivoire	1,134	53	55	2.9	0.9	84	
Nigeria	1,152	51	55	1.8	0.5	78	
Zaire	353	49	54	2.4	0.8	90	
Romania	2,565	65	73	7.4	6.6	22	
Italy	16,229	75	81	7.4	7.3	6	
Netherlands	16,898	75	80	10.4	10.8	5	

Table 1.2: Comparison of the Components of Well – Being between countries

(Sources; Pritchett, Hendrik 2005)

As you see in the table 2, since 1992 even though Core d' Ivoire had a higher level of income than Bangladesh it also had a poorer level of health and a lower of mean years of schooling than Bangladesh too. Thus only the higher numeric of income cannot measure a human's quality of life within a country (UNDP, Barro 1990, Panudulkitti, 2008).

Various theoretical models include human capital as a factor of production and assess the accumulation of human capital as an element of the growth process. The accumulation of human capital is an important part of the development process, and this accumulation is influenced in major ways by public programs for schooling and health. Also important are government policies that promote or discourage free markets, including regulations of labor and capital markets and interventions that affect the degree of international openness. Thus, the higher the stock of human capital for a follower country leads to the higher the follower country's growth rate (Romer, Nelson and Phelps 1966).

Some countries have success to reach improvements in the Human Development Index from 1980 to 2010. More than 3.376 billion people in 16 different countries, accounting for more than 49 percent of the world's population, benefited from development improvements of 50 percent or more. As shown in Table 1.3,

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	UDI	29	2191	5		%HDI
	Dopk	Country	Dopulation	UDI 1090	HDI 2010	Change
	2010	Country	Fopulation	HDI 1980	HDI 2010	1980-
	2010		(1)		62,	2010
1	138	Nepal	28,951,852	0.210	0.428	104%
2	160	Mali	13,796,354	0.165	0.309	88%
3	129	Bangladesh	156,118,464	0.259	0.469	81%
4	89	China	1,330,141,295	0.368	0.663	80%
5	134	Benin	9,056,010	0.264	0.435	65%
6	119	India	1,173,108,018	0.320	0.519	62%
7	114	Morocco	31,627,428	0.351	0.567	61%
-8	101	Egypt	80,471,869	0.393	0.620	58%
9	125	Pakistan	184,404,791	0.311	0.490	58%
10	167	Niger	15,878,271	0.166	0.261	57%
11	81	Tunisia	10,589,025	0.436	0.683	56%
12	166	Burundi	9,863,117	0.181	0.282	56%
13	152	Rwanda	11,055,976	0.249	0.385	55%
14	108	Indonesia	242,968,342	0.390	0.600	54%
15	84	Algeria	34,586,184	0.443	0.677	53%
16	154	Sudan	43,939,598	0.250	0.379	52%
17	153	Malawi	15,447,500	0.258	0.385	49%
18	98	Botswana	2,029,307	0.431	0.633	47%
19	137	Papua New Guinea	6,064,515	0.295	0.431	46%
20	165	Mozambique	22,061,451	0.195	0.284	46%

Table 1.3: Largest HDI% Increase 1980 - 2010

(Sources; Global Sherpa, UNDP, CIA World Factbook 2010)

These countries are the samples of the success ones in growing HDI which is the indicator that indicates their peoples' well – being. On the other hand, there are another group of countries which failure to reach the improvements in HDI. As shown in the Figure 1.1 below,

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Figure 1.1: National Trends in the Human Development Index 1980 – 2011 (Source; UNDP)

According from figure 1.1 shows that these countries has unsustainable trend of HDI growth. Although many countries have been received grants and lots of aid from international institutions and from richer countries to the target countries but most of these recipient countries, which have been supported continuously, do not achieve their annual development goals.

The institution that plays the important role of development is the Government, the role for improving human quality of life. As mentioned earlier, levels of human development should depend on education, health, and income. So an increase in Government expenditure on these 3 dimensions as endogenous growth should lead to an increase in human well - being. Government invests as public investment and allocates resources through their policy and projects. Thus, Government is also important for providing and distributing public goods and services in order to promote social welfare.

Actually the delivery of health care services is secured by both public and private providers and nongovernmental organizations. But the role of government is often to steer the overall health development by designing health policies and programmes, securing essential public health functions and regulating the delivery of health services. Governments have to provide health care services, including public goods such as promotive and preventive services and hospital care (WHO 2006).





Source: World Bank

Figure 1.2 shows trend of total global expenditure for health care in a share of GDP has risen over last decade. An increase in health expenditure results in an increase in life expectancy at birth which relates to people has longer and healthier lives. Moreover, more efficient medical services can decrease the infant mortality rate that is considered in the human development index.

On the other hand, government expenditure on education, investment on schooling, giving scholarships, etc., implies that there is an increase in knowledge of

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human capital, which provided for the population, more people such as the poor can access the education services that are provided by the government. Thus, as a result of government spending on education a country will get more skilled labor, increased higher knowledge for human capital and an increase in the literature rate that indicates people who able read and write as education index (HDR, 1990).

As government is an important institution for providing public goods, the basic needs for people within country, or investing for the necessary infrastructure, they require a large budget to support their projects. One source of revenue for the government is taxation. Therefore, the amount of taxes levied becomes part of the government budget. To illustrate more, if a government has a huge budget (revenue), they are able to plan policy with a great project on public investment in order to raise human welfare and standard of living (G Duff, 2004).





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These two figures show trends of GNI per capita and tax revenue in High Income countries, Upper Income countries, Lower Income countries and Low Income countries. Most of groups of countries which categorized by levels of income have the similar trends in both of GNI per capita and tax revenue. While as the GNI per capita trends does not accompany with tax revenue trends. Actually, it is clear that GDP per capita follows the same trend as tax revenue. This makes sense. As individual productivity increases (GDP per capita) the associated tax revenue should also increase (Tashtey, Jacobson 2011, Republican 2012).



Figure 1.5: World Trend in Government Spending Source: World Bank

The graph above shows there was a declining trend of government spending during 2000 to 2007. In fact, there are international grants transferred to recipient countries in order to support these countries to achieve development goal.





Figure 1.6 shows net ODA (official development assistance) transferred, groups of countries divided by income (excluding high income countries), ODA consists of disbursements of loans and grants. Since 1975 trends of net ODA received were increasing until before 1995 the trends were declining. The main purpose of ODA is to promote economic development and welfare in countries. As a result in an increase in government expenditure on goods and services, people well – being should be increase as well. But accordance with figure 1.5, the contrast with the purpose of international aid to help country to achieve goal through government spending or government investment has shown by the declining of government spending.

This could be the cause that makes many countries do not reach development goal. Furthermore, many countries in developing countries have failed to reduce poverty which is one of Millennium Development Goals, to reduce poverty and hunger, that UNDP have motivated developing countries and least developed countries to achieve (UNDP, 2003).

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Pagion	Share	(percent)	Number (millions)	
Region	1990	1999	1990	1999
Sub-Saharan Africa	47.7	46.7	242	300
East Asia and the Pacific	27.6	14.2	452	260
Excluding China	18.5	7.9	92	46
South Asia	44	36.9	495	490
Latin America and the Caribbean	16.8	15.1	74	77
Eastern Europe and Central Asia	1.6	3.6	7	17
Middle East and North Africa	2.4	2.3	б	7
Total	29	22.7	1,276	1,151
Excluding China	28.1	24.5	916	936

Table 1.4: Worldwide, the number of people living on less than 1\$ a day barely changed in the 1990s

Source: World Bank, UNDP (2002)

According to table 1.4 it shows the declining share of people in extreme poverty, even though one of the Millennium Development Goals is to reduce poverty and hunger, but these levels of poverty remain high. Nevertheless a large number of grants fail to reduce poverty in order to achieve the goal.

To recognize the chronic problem which has obstructed national development in developing country is corruption for a century. Public sector corruption is commonly defined as the misuse of public office for private gain (USAID 1999). Many empirical studied show that there is a surprised relationship between corruptions and level of government spending that a huge government project which requires a lot amount of government expenditure induces more corruption (Shleifer and Vishny, 1993). This makes the real amount of money spent on that project less than the actual amount and this is the cause of the poor quality in goods and services provided by government through the citizen (Muaro 1996).

There is a non-government organization, Transparency International, has established and published an annual index which indicates corruption in that country that is Corruption Perceptions Index, a comparative listing of corruption worldwide. The value of index starting from 0 to 10 means most corrupt (0) to least corrupt (10).





From figure 1.7 shows example of values of CPI in Thailand Vietnam and Canada during 1997 to 2008. Canada can be represented as a group of high development countries and both of Thailand and Vietnam can be represented a group of developing countries whether of them still have values of CPI vary over the time.

There probably are some factors that cause the failure for achieving the development goal in some countries. Thus, this research aims to study the effects on the level of human development from various causes of economic variables by including the effect of corruption.

Tanzi and Davoodi (1997) founded that corruption negatively effects growth by increasing public investment while reducing productivity of the investment, increasing public investment that is not accompanied by its current expenditure, and reducing quality of existing infrastructure and finally corruption lowers government revenue used to finance productive projects. Moreover, growth effects in the role of public spending which has the corruption behind it. Corruption increases public investment, and corruption reduces the returns to public investment and has a negative impact on economic growth (Haque 2007).

As mentioned earlier, people can have better education and health through government investment on health care services and on public education. Thus, government has a role to improve human capital in order to make national potential and productivity human capital and lead to economic growth outcome.

The relationship of variables in this research, there are many factors related to each other and that have a final impact on human development. A demonstration of how a government effects human development; A government plans a good policy and creates projects to promote welfare in the society then finances expenditure through government budget which comes mainly from taxation. So lines from population to Government are flows of taxes. And the line from government to population represents government's spending in three projects of health, education, and income. Thus, the success in government projects may lead to higher quality of life, the goal of human development.

Furthermore, the important part of this study is study the relationship between corruption and human development. According to Tran 2012 shows the two-way relationship between corruption and human development is mutual-relationship leads to multiequilibria situation



Figure 1.8: Two-way Relationship between Corruption and Human Development **Source:** Ngoc Anh Tran (2012)

In figure 1.8 vertical axis is corruption control (CC) and horizontal axis is human capabilities (HC). Red curve indicates the effect of HC on CC. From the starting point, an increase in HC does not improve in CC. For instant, in least developed countries with low human capabilities when 1% increase in human capabilities of population does not effect on the level of corruption but when HC increasing continuingly then the slop of red curve increasing steeply. At this state increase in a portion of HC affects large increase in CC or means a huge reduction in corruption.

1.2 Purpose of the Study

The purpose of the study is to find out the correlation between corruption and economic variables and the interacting on human development including the corruption effect which may have one-way or two-way relationship with Human development.

1.3 Advantage of the Study

1.3.1 This thesis will be useful to people who are interested in the global corruption rate over the last 10 years and its correlation on other economic variables.

1.3.2 This study results will be support in researches of social development which concerned with the problem of corruption and will be useful to be a guideline for policy planning.

1.3.3 Increase the awareness of corruption as a serious problem. If there is a result of this study it is to highlight the great effect on economic variables and human development and hopefully help find a solution for this problem.

1.4 Scope of the Study

Scope the assumption of the study that there are economic variables and corruption index which affect the levels of human development, the effects can be direct or indirect to human development.

Set up the data set of Economics variables and collect the data Corruption Perception Index (CPI), growth rate of government expenditure (EXPG), tax revenue (TAXREV), gross capital formation (GCPF), Human Development Index (HDI), mean years schooling (MYS), growth rate in ratio of girls boys in education (RGBG), life expectancy (LIFE), growth rate of health expenditure (HEXG), growth rate of improved sanitation facilities (IPSFG), growth rate of urban population (UBPG), growth rate of unemployment (UMG), growth rate of Gross National Income (GNIG) and Human Development Index (HDI), each data collected observations (annually) at the time period from year 2000 to 2010, with selected 59 countries around the world. And the size of population is the selected 59 countries ranked from CPI based year 2000, starting from the highest score.



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