



Composite Indicators of Development

Comparing countries' **GNP (or GDP) per capita** is the most common approach to assessing their level of development. But higher per capita income in a country does not always mean that its people are better off than those in a country with lower income, because there are many aspects of human well-being that these indicators do not capture. (Can you give some examples? See Chapter 2.) Seeking a better measure of development success, experts use different methods of integrating data on average incomes with data on average health and education levels. These methods make it possible to assess a country's achievements in both **economic development** and human development (see Chapter 1).

Development “Diamonds”

Experts at the World Bank use so-called development diamonds to portray relationships among four socioeconomic indicators for a given country relative to the averages for that country's income group (low-income, lower-middle-income, upper-middle-income, or high-income). **Life expectancy at birth, gross primary (or secondary) enrollment, access to safe water,** and GNP per

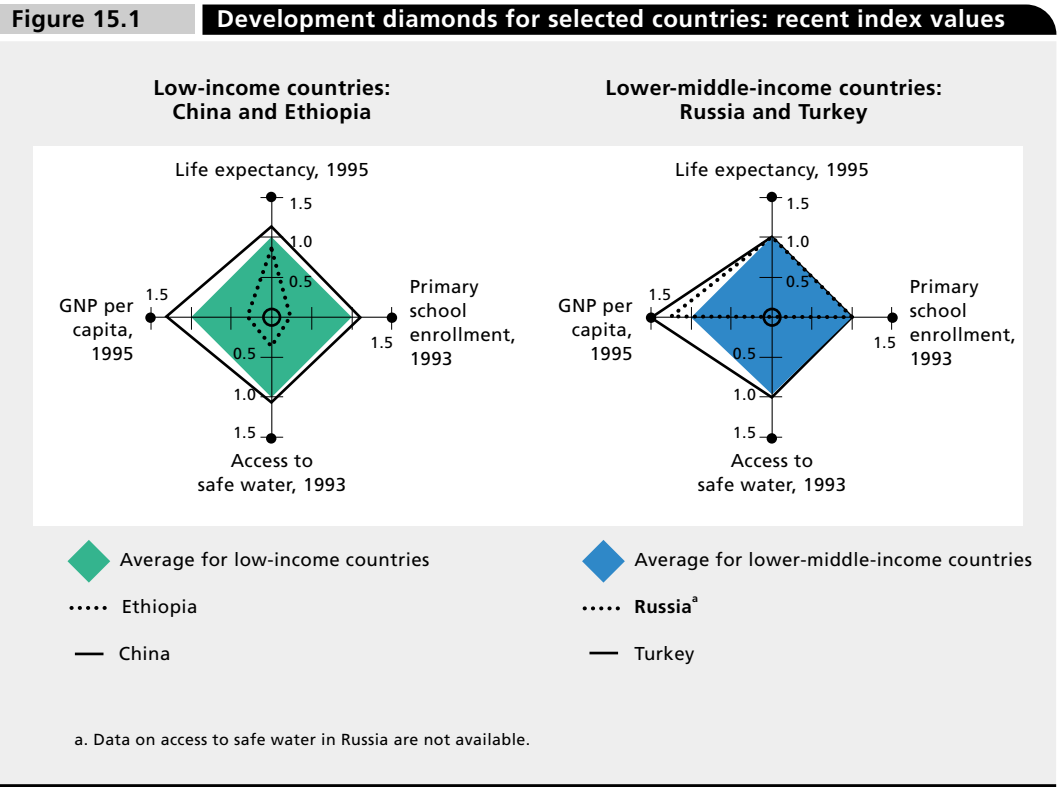
capita are presented, one on each axis, then connected with bold lines to form a polygon (Figure 15.1). The shape of this “diamond” can easily be compared to the reference diamond, which represents the average indicators for the country's income group, each indexed to 100 percent (see green and blue diamonds). Any point outside the reference diamond shows a value better than the group's average, while any point inside signals below-average achievement.

Russia's development diamond has a triangular shape because data on the percentage of its population with access to safe water are unavailable in the World Bank. Think of another indicator, possibly more important for former Soviet Union countries, that you would use to compare levels of development. Use an indicator from the Data Tables at the back of this book to complete the development diamonds for Russia and one or two other countries of your choice.

Note that the development diamonds for China and Ethiopia, and Russia and Turkey were constructed using indexes based on average indicators for two different groups of countries—low-income and lower-middle-income (see Figure 15.1). This approach makes it impossi-

Can you suggest a better way to measure countries' development (than those described in this chapter)?

How can countries use their wealth to more effectively benefit their people?



ble to visually compare the development achievements of these two pairs of countries. This is one of the main disadvantages of this methodology—that it cannot in practice be used to compare countries in different income groups

Human Development Index

United Nations experts prefer to use the human development index to measure a country's development. This composite index is a simple average of three indexes reflecting a country's achievements in health and longevity (as measured by life expectancy at birth), education (measured by **adult literacy** and combined

primary, secondary, and tertiary enrollments), and **living standard** (measured by GDP per capita in **purchasing power parity** terms). Achievement in each area is measured by how far a country has gone in attaining the following goal: life expectancy of 85 years, adult literacy and enrollments of 100 percent, and real GDP per capita of \$40,000 in purchasing power parity terms. Although highly desirable, these goals have not yet been fully attained by any country, so the actual indicators are expressed as decimal shares of the ideal.

The advantage of the human development index relative to the development diamond method is that it allows coun-

tries to be ranked in order of their achievements in human development. In the recent ranking, based on 1997 data, the top five countries were Canada, Norway, the United States, Japan, and Belgium. The bottom five countries were, Sierra Leone, Niger, Ethiopia, Burkina Faso, and Burundi. The top five developing economies were Singapore, Hong Kong (China), Brunei, Cyprus, and the Republic of Korea.

The disadvantage of the human development index is that it does not allow us to judge the relative importance of its different components or to understand why a country's index changes over time—whether, for example, it happens because of a change in GNP per capita or because of a change in adult literacy.

The human development index ranking of some countries differs significantly from their ranking by real GNP (or GDP) per capita (Table 15.1). The difference between a country's human development ranking and per capita income ranking shows how successful it

Table 15.1 Differences between rankings by GNP per capita and by the human development index

<i>Country</i>	<i>Rank by real (PPP\$) GNP per capita, 1995</i>	<i>Rank by index of human development, 1995</i>	<i>Real GNP per capita (PPP\$) rank minus human development index rank</i>
Kuwait	4	54	-50
Pakistan	96	138	-42
United Arab Emirates	24	48	-24
Russia	62	72	-10
United States	2	4	-2
Tajikistan	128	118	10
Canada	12	1	11
Finland	21	6	15

is (or isn't), compared with other countries, in translating the benefits of economic growth into **quality of life** for its population (see Data Table 4). A positive difference means that a country is doing relatively better in terms of human development than in terms of per capita income. This outcome is often seen in former socialist countries and in the developed countries of Europe. A negative difference means the opposite. The most striking examples are Kuwait and Pakistan (see Table 15.1).