

Human development and inequality: The importance of social expenditure

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Abstract

The Human Development Index (HDI) developed by the United Nations Development Programme (UNDP) is a composite and multidimensional index of a country's economic and human development (UNDP, 2020). The HDI is considered a broader measure of development than the Gross Domestic Product per capita by combining information on health, education, and income of the population. In this sense, the HDI has been a relevant indicator for numerous public debates on national priorities. However, one of the main limitations of the HDI is that it does not consider the distributional dimension, i.e., how a country's achievements in health, education and income are distributed among the population. Therefore, it is possible to have a country with a higher HDI than another, but in which the benefits of development are concentrated in a few sectors of the economy and not in the whole society. Also, it is possible to have a country that improves the HDI suffering at the same time the detriment of the development of broad sectors of society (Foster et al., 2005). Consequently, to measure human development more comprehensively, the UNDP presents the inequality-adjusted HDI. Under conditions of perfect equality in the distribution of achievements, the HDI is equal to the inequality-adjusted HDI, but falls below it in the presence of inequality (in any of its three dimensions: health, education, and income). The UNDP indicates that adjusting the level of the world HDI for inequality would reduce it by 20%. Moreover, it is indicated that countries classified as having a very high level of HDI lose less from inequality than countries with a lower level of HDI (UNDP, 2018). Such a difference between countries

reflects the gap in inequality of opportunity in access to health, education, and income disparities.

Note that high inequality can have negative consequences for social cohesion and the quality of institutions and policies, which in turn can slow progress in human development (UNDP, 2018). In this sense, the capacity of governments to improve human development is one of the main concerns of society, with public spending on health, education and social protection probably being one of the main instruments to increase economic growth, promoting income equality, reducing poverty and, as a consequence, improving human development and the quality of life of their citizens (Barro, 1991; Chu, 1995; Paliova et al., 2019; Sen, 1999).

In this vein, our paper empirically analyses to what extent public social spending affects the loss of human development due to inequality for a broad sample of 82 developed and developing countries during the period 2010 – 2021. Specifically, we focus on the impact of public spending on health, education, and social protection on the loss of the Human Development Index (HDI) and its components (life expectancy, education, and income) due to inequality. To this end, we use panel data analysis to identify the determinants of the loss of human development due to inequality between countries and over time. Our empirical evidence shows the crucial role of social protection expenditure in reducing the loss of human development due to inequality. Additionally, we find that a higher (lower) level of quality of governance is associated with a higher (lower) reduction in loss of human development due to inequality. The results have clear policy implications since they help to identify what changes in the size and composition of public expenditure could reduce the losses in human development of the countries caused by inequality.