THE ECONOMY OF HUMAN RIGHTS
EXPLORING POTENTIAL LINKAGES BETWEEN HUMAN RIGHTS AND ECONOMIC DEVELOPMENT

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The 2030 Agenda for Sustainable Development reaffirms that social, environmental and economic development are mutually interdependent. Policy making for sustainable development involves fostering a virtuous cycle, where these aspects reinforce rather than undermine each other. The purpose of this paper is to contribute to a better understanding of how such a virtuous cycle can be achieved between social and economic development. More specifically, the paper explores the relationship between human rights and economic development.

It is commonly accepted that economic development has tremendous importance for human rights. It generates revenues, jobs, services, infrastructure and technology that are needed for human rights to be realised. And at the same time, economic development, when pursued irresponsibly, can have significant negative impacts on the human rights of workers, citizens, local communities and consumers. However, the reverse relationship – the importance of human rights to economic development – is less well understood. Human rights are the right thing to do in normative terms, but are they also the smart thing to do in economic terms? How does the human rights situation matter to the economic development of a given society? What human rights policies are particularly effective in improving economic institutions and decision-making? And what is the cost of inaction?

The purpose of exploring these links is not to argue that human rights is the only path to sustained economic development for all countries at all times. Rather, the purpose is to better understand how countries can use human rights-related policies and reforms to enhance their economic development. This line of enquiry is not intended to reduce human rights to an economic tool. Human rights must be upheld regardless of economic gain. However, the ability of countries to do so is constrained by the resources available to them. As such, resource mobilisation is not just an economic concern, it is also a key human rights concern.

The paper explores the linkages between economic development and four human rights-related aspects of social development: economic inequality; human development; institutions and governance; and conflict and political instability. The research reviewed yields little support for the widely held assumption that there is a trade-off between human rights and economic development or that human rights is a cost that one must put off until sufficient wealth has been generated. Rather, the indications so far are that the sequence works the other way around. Human rights-related factors present themselves as assets that can in several respects precondition and enable economic development. In
other words, it can be argued that human rights should be seen as an active part of the growth model, rather than merely a passive outcome of it.

The findings add to our understanding of the interdependency between human rights and economic development, which lies at the core of the 2030 Agenda. Human rights need economic development, but the reverse is also true; and a number of sweet spots exist where human rights policies can positively contribute to economic development.

Based on a review of existing research in economics, development studies and related fields, the paper finds evidence that the four social development aspects covered – economic inequality, human development, institutions and governance and conflict and political instability – are causally linked to economic growth. In other words, they may serve as proxies for understanding the contribution of human rights to positive economic development.

Economic inequality and economic growth
A recent IMF-study found that an increase in the Gini coefficient from 37 to 42 (corresponding to the difference between Spain and Argentina or Tanzania and Uganda) decreases GDP growth by 0.5 percentage points on average.

There is widespread evidence that, at least above a certain level, inequality negatively affects economic growth. Moreover, the studies reviewed in the paper point to the conclusion that rising inequality mainly operates through its negative effect on institution-building and human capital formation. Given the high level of inequality in and between many societies, the promotion of human rights, in particular social and economic rights, is likely to lead to a more equal distribution of resources and opportunities.

Human development and economic growth
Studies of the links between female education and labour productivity, have found a one-percent improvement in female years of schooling to be associated with a 0.37 per cent increase in GDP per worker.

Human capital formation is a significant growth determinant. But there is more to it than that. Studies have found that the relationship between human development and economic growth is subject to two self-reinforcing cycles: A virtuous cycle, in which improvements in human development lead to higher economic growth, which further promotes human development; and a vicious variant, in which weak human development depresses economic growth, which in turn further undermines human development.

Research points to the near-impossibility of moving from growth-lopsided development into the virtuous cycle, indicating that growth without human development is unsustainable in the long run. This has clear implications for the sequencing of policy, in that human development must be strengthened before a virtuous cycle can be achieved. This indicates that promotion of human rights, such as the rights to education, health, food, water, housing and social protection, are key to triggering a virtuous cycle between
human development and economic development, and that such promotion policies should be sequenced as part of the growth model and not just a result of it.

**Institutions, governance and economic growth**

_There is a positive linkage between institutions and governance on the one hand and economic growth on the other. Studies find that institutions 'trump' everything else when it comes to explaining income levels._

Effective and accountable institutions and governance are found to be among the most robust determinants of growth alongside macro-economic, geographic and demographic factors. Human rights standards and principles related to property rights, freedom of information, public participation and accountability are particularly conducive to effective and accountable institutions and governance.

**Conflict, political instability and economic growth**

Per capita GDP growth is significantly lower in countries with higher political instability, defined as the propensity of the government to collapse. Studies have found that for every extra cabinet change per year – used as an indicator of political instability – the annual growth rate of a country was reduced by 2.39 percentage points, on average. Another study found that countries experiencing civil war have their growth rate diminished by 0.01–0.13 percentage points, whereas inter-state conflict lowers it by 0.18–2.77 percentage points. This effect appears to be amplified in non-democracies, low-income countries and African countries.

A branch of conflict research has come to the conclusion that, rather than individual-level inequality, it is _group-based or so-called horizontal inequality_ that acts as a crucial driver of violent conflict. This view is supported by statistical studies and case studies, which have found deeper economic and social inequalities to be associated with a significantly higher risk of conflict. Other studies have found that horizontal inequalities in education, civil service employment, unemployment and, most strongly, child mortality are positively related to the occurrence of ethnic-religious violence.

Consequently, it can argued that the promotion and protection of human rights related to discrimination and inequality hold significant potential to address some of the root causes of conflict and instability. In particular, the promotion of human rights may lower the risk of conflict by ensuring equal and non-discriminatory access to social services and political participation, and by providing vulnerable groups with mechanisms of accountability and grievance redress.
1 INTRODUCTION

The purpose of this working paper is to explore the economy of human rights, i.e., the instrumental importance of human rights to economic development across four selected pathways: economic inequality, human development, institutions and governance, and conflict and political instability. These themes have been selected due to the assumption of positive potential linkages, and due to the fact that they are often referred to in human rights debates and programming efforts. Other themes could have been explored like natural resource management and climate change, but we have only selected four in this initial work. The intended audience of the working paper are human rights engaged scholars and actors, but we also hope to engage a broader audience of global governance constituencies and actors.

Along with other students of development, we see economic growth not as an end in itself, but as one among several possible means to achieving inclusive social goals. The broad-based Sustainable Development Goals represent more legitimate foundations of development and human rights efforts than a goal defined merely by economic growth. The integration of human rights as an instrument of implementing the sustainable development goals is, therefore, relevant, partly because human rights are already imbedded in the formulation of the SDGs, but also, instrumentally, because such integration may lead to a quality of economic growth, which is both more effective and legitimate.

However, the proposition that social development and human rights related efforts are good for economic growth is still debated. The most recent scholarly debate of this nature is set on the scene of India’s economic policy in a discussion between Jagdish Bhagwati and Arvind Panagariya on the one hand and Amartya Sen and Jean Drèze on the other. Where the former scholars hold up economic growth as a panacea for India’s poverty, Drèze-Sen argue for a state-led redistributive effort of economic

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1 On terminology: Throughout the working paper, when examining and discussing the generic theme of the paper, we refer to economic development indicating that the nature of change which is of interest in the working paper is not only economic growth, but also forms of economic transformation. However, when discussing the specific analytical points of the working paper including the pathways under review, we refer to economic growth in order to follow the terminology used in the analyses that we refer to.
transformation. Given that these and similar debates are still ongoing, and given historical examples such as China’s accomplishment in terms of economic growth in recent decades or South Korea’s during the 1960s and 1970s, both while simultaneously exerting forms of non-respect for human rights, our intention is not to argue that a human rights-based approach to economic growth is the only pathway. Our intention is to explore whether it may be a realistic pathway, which will also be consistent with the implementation of the SDGs. As such, our work is based on mainly descriptive statistical data, but our purpose is defined normatively.

The work takes place in a development context, where human rights is one of several force fields driving national and international development agendas. The 2030 Sustainable Development agenda represents global development drivers of change around poverty, social change, equality, inclusive growth, planetary sustainability including climate change, and accountability and peace. A fundamental objective of the 2030 agenda is that these drivers should be indivisible, meaning that no single one of them can be pursued at the expense of another. The 2030 Agenda places distinct emphasis on generating the means with which to implement the Sustainable Development Goals through public and private finance, taxation, debt relief, foreign direct investments, trade, and economic partnerships. This aspect is further unpacked in the Addis Ababa Agenda of Action on Financing for Development, which points to nine areas where new initiatives are crucial.

The present paper links human rights to discussions concerning the means of implementation for the 2030 Agenda. By showing how human rights-related aspects of social development may contribute to economic growth, the paper places human rights as an enabler that can help generate the means of implementation for sustainable development.

The relationships between human rights and economics can be understood in at least two ways. First, environmental protection, peace building, and economic growth are all factors that precondition or enable human rights protection and fulfilment. Second, however, the relationship can also work the other way in that human rights can enable progress related to these development drivers.

On the one hand, human rights can be seen as the intrinsic aim of development, implying that the very purpose of development is to protect and fulfil human rights. In this “accountability approach”, development is a right with accompanying duties and the human rights-based approach to development is seen as the right thing to do. In the second approach, human rights are seen as a means of development, implying that

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2 These positions are represented in Bhagwati and Panagariya (2014), respectively Sen and Drèze (2013).
3 During December 2014, the UN Secretary General summarized the development drivers into “the five Ps” of People, Planet, Prosperity, Peace, and Partnership. The five P’s were repeated in the final UN document of the General Assembly (see United Nations, General Assembly, 2015).
4 Technology, infrastructure, social protection, health, micro-, small and medium-sized enterprises, foreign aid, a package of measures for the poorest countries, taxation including aid for enhancing capacities in this field, and climate change (UN Sustainable Development, 2015).
human rights can be used as an instrument to achieve environmental, social or economic goals. In this “opportunity approach”, the human rights based approach to development is seen as the smart thing to do (See also Seymour and Pincus, 2008; World Bank, Nordic Trust Fund and ICF/GHK, 2012).

In practice, the accountability and opportunity approaches must work in combination. As a normative and legal concept, human rights must be upheld regardless of economic gain. However, the ability of countries to do so is constrained by the resources available to them. As such, resource mobilisation and prioritisation are not just economic concerns, but also key human rights concerns. As argued by McKay and Vizard (2005), there is considerable space for dialogue between growth- and rights-proponents. So far, language and perceptions have contributed to the existence of an insufficient dialogue.

The remainder of the paper explores the relationship between human rights and economic development through the lens of the opportunity approach. The paper mainly draws on insights from the empirical economics literature and other quantitatively-based fields of research. This means that our work is based on aggregate average data. Each of the four topics under scrutiny, however, may have been investigated from other perspectives, with different analytical approaches and relying on other kinds of data. Gaining a better and more nuanced understanding of the potential linkages between human rights and economic development, positive as well as negative, necessitates a deeper look into such studies. Likewise, each of the four areas, and subsets thereof, may benefit from more in-depth, case-based and historically informed research in the future. The focus on quantitative research adopted here, therefore, is in no way meant to discredit qualitative methodologies. Rather, the approach was taken as a time-efficient way of gaining an overview of a potentially extensive research field and identify relevant areas of future research.

2 CONCEPTUALIZING THE ECONOMY OF HUMAN RIGHTS

The figure below provides an overview of the opportunity approach to human rights and economic development. It reflects on the potential linkages between the implementation of human rights and economic growth. Intermediary pathways in this model are a) economic inequality, b) human development, c) institutions and governance, and d) conflict and political instability.
In the following sections, these pathways are further explored. Since research on the various relationships between human rights and economic growth is relatively underdeveloped, the discussion will mainly deal with the links between the intermediary factors and economic growth (solid lines). The approach is subject to a number of limitations and caveats described below.

First, the hypothesized links from human rights to the intermediary factors (dotted lines) remain somewhat speculative throughout the working paper. Understanding the full causal pathway, including the empirical evidence of the influence of human rights on the intermediary factors, will require further analysis. That said, conceptually the separation of human rights from the four intermediary factors may be seen as artificial in that the intermediary factors are by definition inextricably linked with human rights.

Second, the underlying studies reviewed for the analysis tend to focus on a simple GDP measure of economic growth and whether this growth is sustained over time. However, such simple measure of economic growth does not reflect qualitative attributes, such as its social inclusiveness, environmental sustainability or ability to generate employment. While, analytically, in the empirical analysis, we refer to conventional GDP growth, our assumption is that the integration of human rights in economic efforts will also contribute to a form of growth, which protects and builds social and environmental capital alongside economic capital. So while the paper’s empirical findings are valid only for the crude measure of GDP growth, the central analytical argument is that such growth is only viable if it does not undermine the equality, human development, institutions, and stability on which it depends. Laws and institutions needed to ensure sustainable growth and an equitable distribution of its benefits, such as for example progressive taxation or responsible business conduct, are not discussed in the paper.

Third, there are numerous counter-arguments to the notion that equality, human development, effective and accountable institutions and political stability enable sustained growth. These concern, for example, the economic growth in China since the 1970s in the absence of accountable institutions; or sustained economic growth in the US under circumstances of relatively high and rising inequality. It is beyond the scope of this
paper to evaluate these counter-arguments, but their merits and limitations must certainly be taken into account before drawing further policy conclusions.

Fourth, the working paper looks at the growth-implications of inequality within countries, rather than among countries. As such the impact of global financial flows, including revenues from tax and trade, are not included in the analysis although these certainly impact on both inequality and economic growth.

**THE ECONOMY OF HUMAN RIGHTS – A BUSINESS PERSPECTIVE**

If human rights related aspects of social development can enable macro-economic growth, then private business would collectively benefit from these gains along with society as a whole. Lower economic inequality and improved human development provide companies with a larger, healthier and better-educated workforce. More effective institutions and governance result in more transparent and predictable operating environments for companies, with less corruption, stronger property rights, and lower costs of doing business. Reduced conflict and political instability reduce the risk of stoppages, loss of assets or access to markets. In other words, companies and investors have a self-interest in human rights as a public good that benefits business.

The recent decade has seen growing attention on the role of companies in relation to human rights. But most of this debate has focused on the impact by companies on human rights, rather than the importance of human rights to companies. Widespread consensus now exists that private actors have a responsibility to respect human rights (Business & Human Rights Resource Centre, 2015). However, as this responsibility is not a legal requirement, many have debated whether or not companies have a "business case" for respecting human rights.

Research has shown that companies with well-developed Corporate Social Responsibility programmes tend to do slightly better financially than other companies. However, it is not clear what the causal relationship is between doing good and doing well (Margolis et al, 2009). A more recent study by Nykredit, a financial retailer, shows a strong positive correlation between ESG (environment, social and governance) ratings and equity returns of 5,000 global, publicly traded companies (Dahl and Larsen, 2014). Meanwhile, in a recent survey by the Economist Intelligence Unit, only 21% of 860 responding corporate executives say they see a clear business case for respecting human rights (The Economist Intelligence Unit, 2015).

On balance, current incentives for companies to respect human rights appear weak and uneven. The relationship between business and human rights is subject to a classical free-rider problem. While companies collectively have an interest in human rights as a public good that benefits business, individual companies lack incentives to safeguard and support this public good through responsible business practices. Drawing attention to the importance of human rights for economic development may help mobilize greater support in the business and financial communities as well as in government for human rights and responsible business.
3 ECONOMIC INEQUALITY AND ECONOMIC GROWTH

THEORETICAL LINKS
The links between inequality and economic growth are complex, but the literature has pointed to a number of possible channels, both positive and negative. On the positive side, some level of inequality may enhance economic growth by raising savings and investment under the assumption that rich people save a larger share of their income; by creating incentives for entrepreneurship and hard work; and by allowing a few individuals to accumulate the capital necessary for starting up businesses – allegedly particularly important in developing countries with weak credit institutions. On the negative side, inequality may reduce growth by compromising the health and education of the poorest sections of the population, leading to lower human capital formation and, thus, lower productivity; by undermining political and economic stability; and by eroding the societal consensus necessary for sustaining growth (Ostry et al., 2014: 7-8).

In addition to these “direct” effects, inequality is commonly assumed to affect economic growth through the pressure for redistribution. A longstanding assumption in the economic literature, thus, is that redistribution hurts growth, as it interferes in the workings of the market and dampens incentives to work and invest. However, economists have recognized that some types of redistribution are conducive to growth, for instance to the extent that it finances public goods and is spent on social services or alleviate imperfections in capital and labour markets. Under these circumstances, redistribution may positively affect both equality and growth (for useful reviews of these links, see Ostry et al., 2014; Birdsall, 2007; Easterly, 2007). In this way, inequality is assumed to have both positive and negative effects on economic growth. But what does empirical research suggest?

EMPIRICAL EVIDENCE
The relationship between income distribution and growth has preoccupied economists at least since WWII. Until recently, however, the overriding concern was the impact of economic growth on inequality (e.g. Kuznets, 1954), while the reverse pathway was rarely examined (Easterly, 2007: 2). In recent decades, however, research has produced a number of studies that shed light on the ways in which an unequal income distribution may facilitate or hinder economic growth. Stewart (2000) reviews the literature and concludes that “the very large number of studies finding some relationship gives some confidence in the existence of a positive relationship between equality and economic growth – and certainly refutes the prior and opposite conclusion” (Stewart, 2000: 8).

Easterly (2007) starts by noting that, while there certainly is a strong empirical association between inequality and income per capita, the literature has so far been unable to determine the direction of causality, i.e. whether it is higher inequality that undermines growth in income or higher income that lowers inequality, supposedly because rich societies can afford to redistribute wealth (Easterly, 2007: 4). In order to clarify the direction, Easterly applies a so-called “instrument variable technique” and finds that
average inequality over the period 1960-1998 has a significant causal effect on income per capita (whether measured by the Gini-coefficient or the share of income to the top quintile). On this basis, Easterly draws the conclusion that “inequality does cause underdevelopment”. Moreover, confirming some of the theoretical linkages reviewed above, he finds that inequality lowers growth mainly by hindering the development of high-quality institutions and preventing the accumulation of human capital by the poor majority.

Along similar lines, Ostry et al. (2014) emphasize that statistical evidence supports the overall assumption that inequality impedes growth (2014: 8). They note that a series of studies have found a negative association between inequality and long-term growth rates, the level of income across countries, and the duration of growth spells, and that only a few studies focusing on short-term growth fluctuations have reached different conclusions. Furthermore, they argue that studies relying on either instrumental variable estimation (as Easterly above) or on lagged variables suggest that the causation runs from inequality to growth/income rather than the other way (Ostry et al., 2014: 10).

What is notable about the study by Ostry et al (2014), in addition, is that the authors simultaneously examine the effects of inequality and redistribution within a single analytical framework – an exercise, which, due to data constraints, has not been done before. In order to disentangle the interrelations between inequality and redistribution, they draw on a recently-compiled dataset covering 153 countries from 1960-2010, analysing both the rate of growth and the length of growth spells. On this basis, they arrive at two main conclusions. Firstly, that inequality has a negative effect on both the magnitude and duration of economic growth, even when the separate effect of redistribution is taken into account; and secondly, that there is little evidence for the widely held assumption that redistribution is bad for growth. The authors sum up this important conclusion like this: “rather than a trade-off, the average result across the sample is a win-win situation, in which redistribution has an overall pro-growth effect, counting both potential negative direct effects and positive effects of the resulting lower inequality” (2014: 17). Thus, the authors stress that the “overall effect of redistribution is pro-growth, with the possible exception of extremely large redistributions” (2014: 23; see also Dabla-Norris et al, 2015).

As these studies demonstrate, there is widespread evidence that, at least above a certain level, economic inequality negatively affects economic growth. Moreover, the studies point to the conclusion that the impact of economic inequality mainly operates through its negative effect on institution-building and human capital formation. Given these insights, it may be asked whether human rights has a role to play in tackling inequality.

A ROLE FOR HUMAN RIGHTS?
Whether the human rights framework provides a suitable platform for addressing inequality is a hotly debated question. On the one hand, it may be argued that the promotion of socioeconomic rights combined with notions of dignity, universality, non-discrimination and equal access, central to the human rights framework, can be instrumental to alleviating inequality. According to this position, extreme inequality is
“the antithesis of human rights” (Alston, 2015). Not only does the protection of rights to education, health etc. require redistribution through taxation, which directly affects how wealth is distributed in society; a more equitable access to social services is also likely to provide disadvantaged sections with resources necessary to improve their incomes.

On the other hand, scholars such as Samuel Moyn have criticized the human rights framework for having essentially nothing to say about inequality. Human rights create *floors* of protection, not *ceilings*, the argument goes; and as long as required minimum standards are met, human rights are compatible with even extreme levels of inequality, as long as it is not rooted in discrimination of individuals or groups (Moyn, 2015).

While these latter arguments may have some theoretical relevance in terms of thinking through the nexus between human rights and economics, there may be reason to hypothesize that in today’s world, given the high level of inequality in and between many societies, the promotion of human rights, in particular social and economic rights, is likely to lead to a more equal distribution of resources and opportunities. Yet, the relationship between human rights and inequality is empirically underexposed and could benefit from further research.

4 HUMAN DEVELOPMENT AND ECONOMIC GROWTH

THEORETICAL LINKS
The causal links between human development and economic growth can be hypothesized to run in both directions. On the one hand, economic growth may have a positive effect on human development by providing households with income to spend on food, water, schooling, health services etc., and by providing governments with the financial resources to invest in social services. However, none of these effects are automatic, they depend on the distribution of income between households, and to what extent governments are able to raise revenues and prioritize social expenditure. Reversely, human development can have a positive effect on economic growth, insofar as it raises labour productivity; enhances technological capacity and innovation; and contributes to the development of key government institutions, such as the an effective judicial system or a well-functioning administration (Ranis, Stewart and Ramirez, 2000: 199-203).

EMPIRICAL EVIDENCE
A number of empirical studies have examined the interrelations between human development and economic growth. Econometric research provides a strong basis for claiming that human capital formation is a significant growth determinant (e.g. Barro, 1991; Mankiw et al, 1992; Levine and Renelt, 1992; Barro, 2003). Ranis, Stewart and Ramirez (2000) explicitly examine the two-way relationship, based on a sample of up to 76 developing countries over the period 1960-1992. Analysing the link from economic growth to human development, the authors ask to what extent GDP per capita growth in the period 1960-1970 can explain trends in life expectancy in the period 1970-1992, the
latter taken as a proxy for human development. They find that growth has a significant positive effect, so that countries with higher economic growth in the first period tend to have experienced higher increases in life expectancy in the latter. With regard to the opposite direction, from human development to economic growth, the authors find that both improved life expectancy and literacy rates in earlier periods have a significantly positive effect on economic growth in later periods.

On this basis, Ranis, Stewart and Ramirez (2000) argue that the relationship between human development and economic growth is subject to two self-reinforcing cycles: A *virtuous* cycle, in which improvements in human development leads to higher economic growth, which further promotes human development; and a *vicious* variant, in which weak human development depresses economic growth, which in turn further undermines human development. In addition, countries may experience *lopsided development*, either because growth does not spill over into human development (e.g. due to government failure to spend new revenues on health and education) or because human development does not lead to higher growth. In examining how countries have moved between these four categories over time, the authors reach an interesting conclusion: While a third of the countries experiencing human development without economic growth in one decade later moved into the virtuous cycle, all countries experiencing growth-lopsided development eventually descended into the vicious cycle. This points to the near-impossibility of moving from growth-lopsided development into the virtuous cycle, indicating that growth without human development is unsustainable in the long run.

However, the question remains how countries can move from the vicious cycle, through human development and into the virtuous cycle of development. Here, the authors point out that countries should first and foremost seek to improve human development, for instance by shifting resources towards education and health expenditure or promoting a more equitable distribution of income; secondly, they should take the opportunity to translate these improvements into economic growth, e.g. through active policy reform and investments. While refusing to give a one-size-fits-all solution, Ranis, Stewart and Ramirez emphasize that their analysis has clear implications for the *sequencing of policy*. As they put it, “[human development] must be strengthened before a virtuous cycle can be attained. Policy reforms which focus only on economic growth are unlikely to succeed” (2000: 213). In other words, the argument that human development should be considered a lower priority that must wait until economic growth has been achieved appears to be severely misguided.

These results have, in essence, been confirmed by a later study by Suri et al. (2011), which extends the time period and employs more advanced statistical techniques, including panel regressions. Again, the main finding is that policies to improve human development “must precede or at least complement growth-oriented policies if growth is to be accelerated and sustainable” (2011: 519; see also Boozer et al, 2003; Ranis, 2005; Ranis and Stewart 2006; 2007).
Interestingly, gender-based inequalities in human development have been found to negatively affect economic growth. Kabeer and Natali (2013) provide a review of a large number of studies on gender equality and economic growth. Several of the studies conclude that gender disparities in educational levels hurts economic growth (e.g. Hill and King, 1995; Klasen and Lamanna, 2009). Summing up the evidence, the authors note that “the findings relating to the positive impact of female education on economic growth appears to be robust...” (2013: 20). Similarly, they point out that there is “also persuasive, but less robust, evidence” that gender inequalities in labour force participation and formal employment have negative effects on economic growth (Ibid.: 20; Klasen, 1999; 2002; Klasen and Lamanna, 2009). In both cases, the negative impact of gender disparities operates through direct channels, in particular the lower productivity resulting from sub-optimal use of labour, as well as indirect ones such as fertility and health (Kabeer and Natali, 2013: 20).

A ROLE FOR HUMAN RIGHTS?
How can these research findings inform our understanding of the possible nexus between human rights and economic development? While none of the studies reviewed above explicitly focus on human rights, it can be hypothesized that the promotion of human rights, in particular socioeconomic rights such as the rights to education, health and social protection, could be a viable strategy for triggering a virtuous cycle between human development and economic development. Such strategy may not only induce economic growth, resulting from higher human capital formation and economic productivity; it may be particularly well-suited in ensuring that economic resources generated in this process are spent in a broad-based and equitable manner – according to Ranis, Stewart and Ramirez (2000) a precondition if economic growth is to feed back into human development. Relatedly, building on principles of non-discrimination and equal access, the promotion of human rights is likely to reduce gender-based inequalities in human development and thereby support economic growth through both direct and indirect channels. However, the existence of such possibly reinforcing links between the realization of social and economic rights and economic development have so far received little attention by research.

5 INSTITUTIONS, GOVERNANCE AND ECONOMIC GROWTH

THEORETICAL LINKS
The importance of the institutional framework in engendering economic growth is now widely acknowledged (Rodrik 2002, Rodrik, Subramanian and Trebbi 2004, McKay and Vizard 2005, and Moral-Benito 2009). The importance of institutional theory in economic growth was intensively debated just a decade ago, especially in contributions under the banner of New Institutional Economics (NIE). During the mid-1990s, NIE offered a perspective on the state and the market which made a break with the neo-classical economics that had flourished during the era of structural adjustment policies, especially during the 1980s. While that era had focussed primarily on failed state interventions, the
The institutional perspective moved via NIE from the minimalist to the effective state (The World Bank, 1997). The question prompted by NIE was not only how the state and the market could mutually reinforce each other, but also how institutional change occurred in societies with different cultures and histories from those dominating the world economy. Adjustment to new trade and technological opportunities may differ from one society to the next. Path-dependencies and slow learning may inhibit an entirely rational and mechanistically market driven change of rules, practices and organizations (Toye, 1995).

The focus on NIE brought therefore two important perspectives for development thinking: a. That institutions matters not only in the firm, but also in macro-economic growth, and b. That institutional change results in patterns where bounded and path-dependent rationalities may compete with incentive frameworks in constraining what is otherwise perceived as rational change.

Parallel to the revival of institutional thinking in development economics, the perspective of good governance became prominent. This perspective added a focus on qualitative parameters of State institutions to the explanatory variables that can be invoked to understand development failures. Such parameters related to accountability systems in management of resources, to participatory practices in decision-making and allocation, and to transparent and non-corrupt methods of rule. Since the late 1990s, Daniel Kaufmann and Aart Kray and their colleagues have argued that governance matters significantly for positive development outcomes (measured by per capita incomes, infant mortality, and literacy) (Kaufmann, Kray, and Zoido-Lobatón, 1999). However, as reflected below and in the introduction to this working paper, links are often made between institutions and governance – or between governance and human rights, whether at the theoretical or practical level. However, linkages are rarely made in a comprehensive overview of linkages between all three of them, i.e. human rights, governance, and economic growth.

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5 Institutions as a fundamental cause of long-run growth.

6 See also Kaufmann, Kraay and Mastruzzi, 2009. In the summary of the publication, it is argued: “Research evidence points to a very high development dividend from good governance. There are multiple mechanisms through which capable public sector institutions, as well as an independent judiciary, property rights protection, civil liberties and press freedoms, and effective regulatory and anticorruption institutions result in sustained long-run development and poverty reduction. The research indicates that when governance is improved by one standard deviation, infant mortality declines by two-thirds and incomes rise about three-fold in the long run.”
In defining institutions, we follow the definition of Douglass North that institutions are made up of formal rules, informal constraints, and their enforcement characteristics. Effective enforcement is often based on the informal rules of behaviour, not the formal rules (North, 2003; see also North, 1991). Governance can be understood as the quality of institutions with respect to the management of resources and to the exercise of authority. Kaufmann, Kray and Mastruzzi define governance as the “traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic, social interactions among them” (Kaufmann, Kraay and Mastruzzi, 2009).

**EMPIRICAL EVIDENCE**

The literature on the determinants of growth may provide a first point of entry for understanding the general role of institutions and institutional development. Rodrik, Subramanian and Trebbi estimate the respective contributions of institutions, geographical location, and trade in determining income levels around the world (Rodrik, Subramanian and Trebbi, 2004). The conclusion in their study is that institutions ‘trump’ everything else. Conventional measures of geography have at best weak direct effects on incomes, although they have a strong indirect effect of influencing the quality of institutions. The influence of trade as a driver of income change is insignificant.

Based on an analysis of 35 variables for 73 countries 1960-2000, Enrique Moral-Benito (2012) concludes that economic factors (stable macro-economic environment), institutional and governance factors (political rights and civil liberties used as a proxy), geographic factors (remoteness to major world markets, and natural endowments), and demographic factors (life expectancy, ratio of labour force to total population, and population growth) are robust determinants of growth. The most robust determinants are investment price, distance to major cities, and political rights (Moral-Benito, 2012.)

A major challenge in assessing the role of institutions is that the empirical evidence is wanting. Kaufmann and his colleagues have been at pains for years to convince audiences that although they construe their governance indices by perception data, the World Governance Indicators (WGI) composite indicators are useful for broad cross-cutting comparisons and for assessing broad trends over time (2009,5 supra note 5). Rather than making distinctions between “objective” or “subjective” measurements, they stress the importance of recording formal rules versus their implementation in practice. These insights are well-known from the human rights field in which measurements of human rights implementation and practice poses by far most of the indicator challenges. When, for instance, Kaufmann et al. integrate human rights measures in their assessment of “Voice and Accountability”, this is based on CIRI Human Rights Data Project – an expert based coded assessment of mainly civil and political rights (CIRI Human Rights Data Project).7 A similar challenge is represented when Moral-Benito uses Freedom House data

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7 See also the caution recommended by Anne Marie Clark and Kathryn Sikkink in using the data to make summary inferences about human rights change (2013). For a general critique and assessment of the governance indicators, see Andrew Williams and Abu Siddique (2008).
on political and civil liberties to measure the quality of institutions and the occurrence of 
free and fair elections and decentralized political power (Moral-Benito 2012, 574, supra 
not 9). Again expert-based assessment are used to assess the existence of freedoms and 
civil liberties.

Another empirical challenge in assessments of institutional change apart from the 
employment of perceptions and expert data, is the measurement by proxy. Moral-Benito, 
for instance, arrives at a conclusion that the institutional framework proxied by the 
political rights index is a significant and robust determinant of economic growth. 
However, knowing the critique of the Freedom House indicators that underpin this 
conclusion8, this assessment does not seem too convincing.

A ROLE FOR HUMAN RIGHTS?
Much of the discussion on the importance of institutions in the economic literature 
revolves around property rights and transaction costs. However, broader institutional 
dimensions such as the rule of law are considered integral to most discussions on the 
importance of institutions (Sen, 2000). In a recent working paper for the World 
Development Report 2017 on Governance and the Law, it is argued that laws are the main 
mechanism to solve institutional functions (The World Bank, 2015). Efforts of human 
rights promotion may therefore be a logical step in strengthening the rule of law and in 
legal reform.

In development practice, especially the practice of donors, close affinities exist between 
governance and human rights efforts. Some donors will subsume human rights under a 
governance chapeau, while others working according to a human rights-based approach 
to development will tend to integrate concerns about governance and development 
effectiveness in the efforts to program a human rights-based approach to development.9 
However, much of the literature on human rights and (good) governance will rarely be 
anchored in theoretical notions.

Governance, however, is one of the main entry points for human rights practitioners and 
scholars to make reflections about institutions. Human rights standards provide limited 
guidance on governance policies. Human rights principles of participation and 
accountability may in fact re-interpret governance propositions on accountability and 
participation. One dimension of human rights-based approaches may be particularly 
important in promoting effective and rights-respecting governance, i.e. empowerment 
processes whereby rights-holders monitor and audit duty-bearers in their 
implementation of programs involving e.g. social service provision. Such social 
accountability action have proven to effective instruments, especially at local and 
decentralized levels. These practices are not restricted to human rights-based work, but 
overlap with what is defined as demand-led governance or social accountability by

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8 Steiner, 2012, found a systematic bias of Freedom House assessments of democracy especially before 1989. 
The bias identified related to countries’ relationship to USA.
9 Examples of the former can be found in DFID while examples of the latter prevails in Danida (Broberg and Sano (forthcoming)).
development actors such as the World Bank (Ringold, Holla, Koziol, and Srinivasan, 2012; Sano, 2015).

Finally, the institutional analysis of human right scholars will tend come to grips with the formal architecture of human rights monitoring and its performance rather than with informal rules-of-the-game reflections. The link between institutions, governance, and human rights realization is thus addressed empirically in the human rights literature, but rarely in coherent efforts to provide explanatory models that address implementation deficits.

6 CONFLICT, POLITICAL INSTABILITY AND ECONOMIC GROWTH

THEORETICAL LINKS
Political instability and violent conflict affect economic growth in multiple and complex ways – and several plausible linkages have been suggest in the academic literature. Some have argued that governments of politically unstable or conflict-ridden countries are more likely to allow or even engage in rent-seeking behaviour, leading to sub-optimal policy outcomes and a failure to adopt reforms needed for economic growth (Alesina and Tabellini, 1989; Polachek & Sevastianova, 2012). Others have suggested that political instability undermines the protection of property rights and the rule of law, which creates strong disincentives for private investment and scares off foreign investors (Svensson, 1998; Polachek & Sevastianova, 2012; Darby et al, 2004). Another and related explanation is that instability and conflict encourage government consumption and borrowing, especially related to military spending, at the expense of investments (Blomberg, 1996; Darby et al, 2004). On top of this comes the direct costs incurred by the destruction of infrastructure and other physical capital. Therefore, there are strong theoretical reasons to assume that political instability and conflict is harmful to economic growth. But what can be learned from empirical research?

EMPIRICAL EVIDENCE
Quite a large number of empirical studies have concluded that political violence and instability disrupt economic growth. For instance, drawing on a dataset of 113 countries over the period 1950-1982, Alesini et al (1996) find that per capita GDP growth is significantly lower in countries with higher political instability, defined as the propensity of the government to collapse (1996: 189). Likewise, Fosu (2002) examines the impact of different events of instability in political elites (successful coups, abortive coups and coup plots) on economic growth in Sub-Saharan Africa from 1960-86. He finds that, on average, all three kind of coups have deleterious effects on economic growth, with abortive coups being the most detrimental.

Similar conclusions are reached by Jong-A-Pin (2009), who examines the growth-impact of 25 aspects of political instability. Using a panel dataset covering 78-94 countries over the period 1974-2003, he finds that instability of the political regime, which includes the
frequency of changes in the cabinet and chief executive, coups, major government crises etc., is the only dimension that has a significantly negative effect on economic growth. In contrast, his analysis cannot confirm any significant impact of mass civil protest and, perhaps a bit surprising, politically motivated violence, whereas instability within the regime in the form of, among others, fractionalization and the frequency of elections, may even be slightly conducive to economic growth (2009: 24). Based on these studies, the growth-inhibiting impact of political instability appears to be quite well established. This conclusion yields support from a recent article by Aisen and Veiga (2013), who, based on a panel regression of up to 169 countries over 1960-2004, conclude that “political instability significantly reduces economic growth, both statistically and economically” (2013: 164).

So much for political instability; how about armed conflict or international wars? Starr (2010) examines the relationship between violent conflict and economic growth in sub-Saharan Africa. Drawing on panel data on 44+ countries over 1960-2005, she finds evidence of a two-way causality, in which conflict shocks depress economic growth, while economic shocks, in turn, increase the risk of conflict. The former relationship is found to be the stronger one, so that, according to the analysis, “a conflict shock pulls the growth rate down by about 1 percentage point concurrently and continues to depress growth for the next 3 years” (2010: 201). However, a key conclusion of this study is that current conflict risk is mainly driven by earlier conflicts, so that the “tendency of conflicts to persist once they have broken out” appears as the strongest driving force, with economic performance playing a smaller role (2010: 201).

Nuancing these findings, Polachek & Sevastianova (2012) ask how different types of conflict affect countries’ growth rates. Using panel data on 90 countries over the period 1970-2000, they arrive at three key conclusions: First, that, although both are negative, interstate-conflicts appear to have a stronger growth-inhibiting effect than intrastate conflicts; secondly, that the effect increases with the intensity of the conflict; and thirdly, that the effect appears to be amplified in non-democracies, low-income countries and African countries (2012: 382).

Needless to say, political instability and conflict may have consequences far beyond the economic sphere. In this regard, it is notable that while overseas development assistance (ODA) to fragile and conflict-affected states doubled over the decade ending in 2010, accounting for 37% of the total ODA in 2009, none of the developing countries that had been affected by violent conflict were able to meet even a single Millennium Development Goal (MDG) in the same period (OECD, 2014). Although progress has been made since then, it is clear that fragile states made significantly less progress towards the MDGs than non-fragile ones. For instance, it is estimated that 26% of fragile states met the goal of halving the proportion of people without sustainable access to safe drinking water, while the corresponding figure for non-fragile states is 54%. Similarly, whereas 42% of non-fragile states achieved completion of primary school for all boys and girls, only 12% of fragile states achieved this goal (OECD, 2015: 36).
A ROLE FOR HUMAN RIGHTS?

Given the detrimental effects of political instability and conflict on economic growth, not to mention its enormous human costs, it may be asked whether human rights can play a constructive role in preventing and solving conflicts. This is a complex question that requires a thorough understanding of the causes of instability and conflict—factors, which are often highly context-dependent. Yet, one particular line of research provides a useful entrance point for assessing the issue. A branch of conflict research has come to the conclusion that, rather than individual-level inequality, it is group-based or so-called horizontal inequality that acts as a crucial driver of violent conflict.

This view is supported by statistical studies and numerous case studies (for reviews, see Stewart, 2010: 2; Østby, 2013). For instance, Østby (2008) examines 55 countries from 1986-2003 and finds deeper economic and social inequalities to be associated with a significantly higher risk of conflict. Likewise, Cederman et al (2010) show that groups with wealth levels far above or below the national average are more likely to experience civil war. Studies looking at intra-country conflict have reached similar conclusions. Mancini (2008) analyses differences in violence among Indonesian districts and concludes that horizontal inequalities in education, civil service employment, unemployment and, most strongly, child mortality are positively related to the occurrence of ethnic-religious violence (Stewart, 2010: 3; see also Østby et al, 2011). In a similar study of communal conflict in sub-Saharan Africa, Fjelde & Østby (2014) find that “inequality – both between individuals and between ethnic groups within a region – increases the risk of armed conflict between societal groups” (2014: 757).

Noting that social scientists and human rights lawyers often speak different “languages”, Thoms & Ron (2007) usefully provide a “translation” of conflict research into the vernacular of rights, prompting the question: Do human rights violations contribute to conflict? Fully consistent with the theory of horizontal inequality, the authors point out that “[d]iscrimination and violations of social and economic rights function as underlying causes, creating the grievances and group identities that may, in some circumstances, contribute to violence. Violations of civil and political rights, by contrast, are more clearly identifiable as direct conflict triggers” (2007: 704).

Based on these empirical studies, it could be hypothesized that the promotion and protection of human rights holds a potential to address some of the root causes of conflict and instability. Accordingly, Stewart (2010) includes human rights legislation and enforcement in her list of “indirect approaches” against political-horizontal inequality, and other measures comprise anti-discrimination legislation and religious-cultural freedoms (2010: 6). In particular, the promotion of human rights may lower the risk of conflict by ensuring equal and non-discriminatory access to social services and political participation, and by providing vulnerable groups with mechanisms of accountability and grievance redress (Thoms & Ron, 2007: 705). However, more systematic research is needed to flesh out the potential of a human rights-based approach to conflict reduction.
This work in progress has explored the potential contributions of human rights to economic development. Four causal pathways have been selected for analysis according to their potential human rights relevance: Economic inequality, human development, institutions and governance, and conflict and political instability. The analyses of these pathways are not exhaustive but exploratory, in the sense that we have examined the most central arguments in the literature and the evidence underpinning these. The approach has not been to take departure in human rights principles and standards as such, but rather in themes that may harbor dimensions relevant to human rights. Characteristically, however, when examining the literature, although replete with overlapping human rights dimensions, references to human rights are scarce as also argued in the introduction. Based on this broad analysis, we reflect upon the potential role of human rights.

If development is defined as the process of enlarging people’s choices and opportunities, then human rights and development are narrowly linked concepts, where the realization of human rights is intrinsically linked to development. Many stakeholders in development and in human rights would agree to such a human rights-based interpretation of the raison d’être of development objectives.

However, the Sustainable Development Goals represent a 17-goal perspective of development endeavors for the next decades, where human rights play their part, but in conjunction with other objectives of economic growth, poverty reduction, reduction in inequalities among nations, climate change, environmental resilience and development and good governance. This broad agenda allocates a mainly instrumental role to human rights rather than a constitutive one.

This does mean, however, that human rights-based thinking and concerns will play important parts in the implementation of the sustainable development goals, whether in terms of poverty, access to social services and protection, reduction of inequality and discriminatory practices, climate and environmental goals, and in terms of promulgation of inclusive institutions and governance.

In the discussion in this working paper, we have mainly approached the discussion on human rights and economic development from an instrumental perspective. The purpose of this has been to indicate where and how human rights may contribute to economic development, and to identify overlapping relevance and potential impact. Based on these analyses, the following points can be identified as relevant for further scrutiny:

**Economic inequality and economic growth**

The empirical studies reviewed above indicate that economic inequality, at least above a certain level, is harmful to economic growth. On the specific role of human rights in alleviating inequality, there is still some debate which deserves further scrutiny. It can be argued that significant overlaps exist between economic inequality and human rights
standards and principles of non-discrimination and equality. Yet, the nature of these overlaps is not clearly analyzed in the literature and could benefit from future research.

**Human development and economic growth**
The literature review identified human capital formation as a significant growth determinant and showed that investments in human development (health, education etc.) have been found to be indispensable if economic growth is to be sustained over time. Therefore, to the extent overlaps exist between social rights and human development, the promotion of such rights can be expected to be conducive to economic growth and development. Moreover, human development efforts may also have strong impact in terms of reducing inequality. However, none of the reviewed studies focus on human rights. The nexus between human rights, human development and economic growth could, therefore, be subject of further analysis.

**Institutions, governance and economic growth**
Concerning this pathway, the overlap with human rights does not so much relate to human rights standards, with the exception of property rights and freedom of information, as to principles of participation and accountability, central to the human rights framework. The literature on institutions and governance, although distinct to some degree, both claim a positive linkage to economic growth. The literature is not articulate, however, regarding how governance and human rights concepts overlap. How human rights may affect institutional development and governance is a subject, which is already treated in the social accountability literature as mentioned above.

**Human rights, conflicts and political instability**
The literature review showed that quite a large number of studies have concluded that political violence and instability are detrimental for economic growth. Conflicts tend to depress economic growth, but economic shocks may also increase the risks of conflict. The role for human rights regarding this theme requires contextually based analyses. A branch of conflict research has come to the conclusion that group-based inequality is a crucial driver of violent conflict. Researchers have also come to the conclusion that discrimination and violence of social rights create group-based grievances that may spill over in violent conflict. Violations of civil and political rights are even considered a direct trigger of conflict in the literature. However, more systematic studies are needed to flesh out the potential of a human rights-based approach to conflict reduction and to economic growth in conflict-prone situations.

Needless to say, there is no one-size-fits-all solution to the challenge of economic development. However, the research reviewed in this working paper yields little support for the widely held assumption that there is a clash between economic development and the fulfilment of human rights. Rather, although more research is definitely needed to clarify the linkages, the preliminary assessment undertaken in this paper provides grounds for assuming that the promotion of human rights may support ambitions in the economic sphere rather than restrict them. In other words, the advancement of human rights may not only be *the right thing to do*, as suggested by the “accountability approach”, but as suggested by the “opportunity approach” in important respects even
the *smart thing to do* for governments and other actors preoccupied with fostering economic development.


BHRRRC: Business and Human Rights Resource Centre Survey.


Economist Intelligence Unit (2015). “The Road from Principles to Practice: Today’s Challenges for Business in Respecting Human Rights”. Available online [accessed on 29 Feb 2016]:


