"SATIETY DISEASES" (REDRESSING THE BALANCE BETWEEN ECONOMIC AND SOCIAL DEVELOPMENT IN AZERBAIJAN)

Nazim MUZAFFARLI

D.Sc. (Econ.), Professor,
Editor-in-Chief of The Caucasus & Globalization
(Baku, Azerbaijan)

Problem Definition

In recent years, sustainable economic development has been an increasingly higher priority for all, both well and less developed, states. The global economic crisis that broke out in 2008 showed that the steadily high growth rates demonstrated by many countries throughout the pre-crisis years,

even giving some of them the honorary titles like, for instance, "Celtic tiger," in actual fact do not always testify to sustainable development. There are economic and social "diseases" that can disrupt, or at least slow down, growth no matter how sustainable it previously seemed. Whereby these diseases can be both internal, that is, determined by trends governing the country's development, and external, that is, brought in from the outside world, making sustainable economic development not at all what it seemed to be before the crisis.

Economic development can be considered fully sustainable if it meets the following three conditions:

(a) the economy increases at a stable rate that is sufficiently high for its size and for the given time;

(b) it is able to efficiently resist external negative impacts; and

(c) it is not oriented toward exclusively current tasks, but leaves sufficiently broad opportunities for the future—including with respect to resource distribution.

In other words, economic development is sustainable if it is stable, tenable, and long-term.

Practical achievement of this sustainability is complicated by the fact that it depends not only on economic factors as such, but also on other components of social development. Conceptually, balanced and harmonious development of the different components of social progress is a mandatory condition of its sustainability as a whole, on the one hand, and of each of these components separately, on the other, whereby in terms of all three parameters of sustainability.

We should proceed from the fact that the development curves of different spheres of public life, including the economy, politics, religion, science, education, public health, and culture, wind around the common trunk of social development that forms as their integral result. Should one of these curves ultimately break away from the main trunk (over the span of a hundred years, say), it will be unable to survive independently. Each sphere of social life draws other spheres toward it and tries to bring them to its level of development (higher or lower), which is what causes all the curves to gravitate toward the common trunk. Which curve proves the strongest and is able to attract the others to it depends on a multitude of factors, including its "weight and strength" at a particular historical stage in social development and on how socially important the functions it performs are in public life.

The development of the world's countries and regions abounds in examples that confirm this governing law. We know that in Western Europe, the capitalist economy that came to life in the womb of feudalism eventually gave rise to so-called bourgeois revolutions that raised the political system to the economic level. In the U.S., on the contrary, constitutionally enforced political rights opened the way to economic and then cultural development.

A splendid illustration, although of an entirely different nature, is the experience of the Arab world. In the pre-Islamic period, Arab tribes were disunited and extremely backward communities.[1] Girls were killed at birth, burying them alive in the desert sand. Along with polygamy, about which much has been said, there was also polyandry, when several (up to ten) men pooled their money to pay for an "extremely expensive" bride and then went into her tent in turn, leaving their staffs propped up outside the door to let the other husbands know that their common wife was currently occupied. The forms of government had only some remote resemblance to statehood.

The new religion that emerged proved to be an immeasurably more progressive component of public life than all the rest and drew them along behind it. State- and nation-building essentially began under the auspices of Islam. In historically short time spans, an army (along the lines of a war ministry), integrated financial system (a prototype of the ministry of finance), communication service, and navy were created, while the newly conquered territories were divided into regions (administrative-

[1] This period is called *jahiliyya* (ignorance).

territorial reform), and so on. Then the Golden Age of the Muslim East, related primarily with the Seljuk Turks, dawned. Along with intensive development of the economy, it was marked by tempestuous scientific progress in mathematics, geography, mineralogy, philosophy, comparative theology and ethics, astronomy, physics and chemistry, psychology, and even political science. Medicine (particularly physiology and pharmacology), practical engineering, and art (poetry, music, architecture, and painting) underwent unprecedented development, not only in the East, but also throughout the world. These and many other achievements of the Golden Age are described in detail in a magnificent article by Professor S. Frederick Starr.[2]

In the contemporary world, the different spheres of public life interact somewhat differently, possibly less directly and in more complex ways, although this in no way disaffirms the general patterns that govern them. There is a special case when for some reason, particularly if there is a surplus of resources, the economic prosperity of a state and the wellbeing of society as such race far ahead of other spheres.[3] This is precisely what is happening at present, as we shall see, in Azerbaijan.

Economic Growth and Prosperity

In terms of its overall dimensions, Azerbaijan's economy is relatively small. In 2011, the country ranked 75th among 184 states of the world in terms of total GDP volume ($68.5 billion or $93.2 billion converted international dollars using purchasing power parity [PPP] rates) and 82nd among 181 states in terms of per capita GDP ($10,217 based on PPP).[4] The size of the economy is important since the amount of hard currency coming into the country or, to be more precise, its possible impact on the economic and social processes can only be correctly interpreted in correlation with the size of the economy. Moreover, the growth rates, including how quickly they slow down as the economy enlarges, also depend on the reference values.

In the past 10 years, Azerbaijan has been demonstrating unprecedented economic growth and in 2005-2007 ranked first in the world in terms of GDP growth (26.4, 34.5, and 25.0%, respectively). In 2006-2011, the average annual growth rates were equal to approximately 17% and the economy more than doubled. The comparative results of economic development of the Central and East European (CEE) and CIS countries (in most international comparative studies Azerbaijan belongs to this group of states) in terms of per capita GDP are shown in Figure 1.

Azerbaijan belongs to the group of countries that achieved the greatest increase in per capita GDP in 1995-2011 ($8,500 based on PPP). This group also includes Slovenia ($15,600), Slovakia ($14,500), Estonia ($14,200), Poland ($13,000), Belarus ($11,600), Latvia ($10,500), Russia ($10,300), Hungary ($10,100), Croatia ($9,700), and Kazakhstan ($9,300 based on PPP). However, when comparing the 2011 with the 1995 level, the dynamics do not look as impressive in any of the states as they do in Azerbaijan, where per capita GDP rose six-fold—this is also because Azerbaijan's starting index was less favorable compared with other countries in the group.

Although the contribution of the oil and gas sector to GDP growth cannot be disputed, nor can the significant progress achieved in recent years in other branches of the economy be underestimated. Dur-

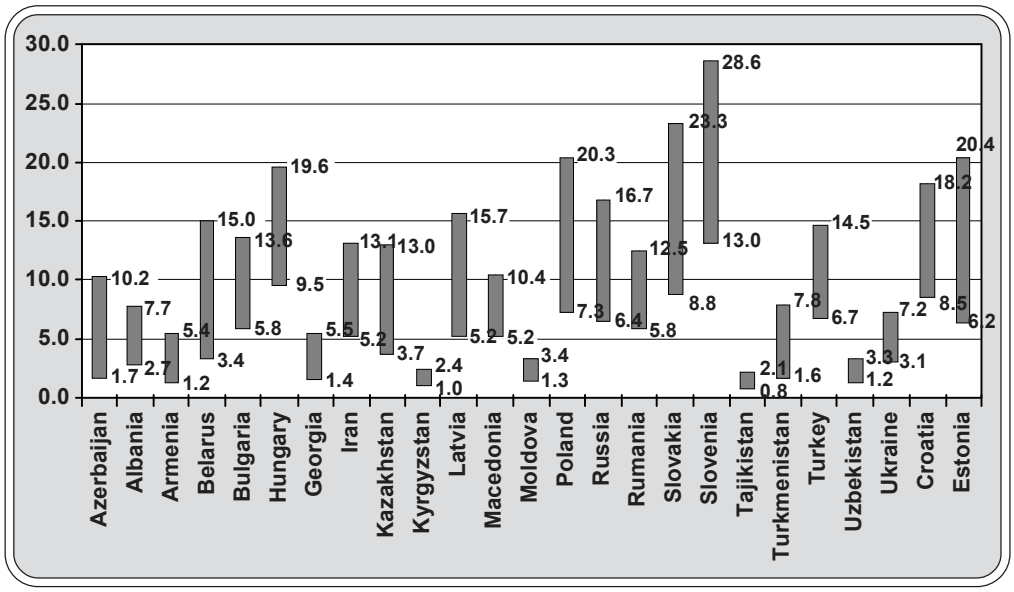
[2] See: S. Frederick Starr, "Rediscovering Central Asia," available at: [http://www.wilsonquarterly.com/article.cfm?AID=1441].

[3] Certain aspects of this problem, in particular the interaction between surplus resources and political development, can be considered sufficiently well studied (see, in particular: T.L. Karl, *The Paradox of Plenty: Oil Booms and Petro-States*, University of California Press, 1997).

[4] Calculated according to the IMF Database, available at [http://www.imf.org/external/pubs/ft/weo/2011/02/weodata/index.aspx].

Figure 1

Per Capita GDP Growth in the CEE and CIS Countries (in thou. USD based on PPP, 1995-2011)[5]



ing the period under review, the average annual growth in the non-oil economy amounted to 10% and non-oil GDP increased more than 1.7-fold, reaching almost $41 billion based on PPP (2011).[6] It is expected that in the next few years it will retain these growth rates. In addition to everything else, this will be promoted by an unprecedented increase in the reconstruction of infrastructure facilities, particularly of transport infrastructure. The communications sector, the market of which increased on average by 35-37% a year in the five pre-crisis years (2003-2007), is another driving force of growth, along with transport.

Primary development of the non-oil branches has been declared an economic priority of the next few decades. The government is investing a large portion of oil revenue in physical infrastructure and commercial projects in the non-oil sector. As for investments, in 2007-2008, new trends appeared in this sphere: local investments were higher than foreign, while the share of state investments increased in the total amount of local infusions.[7] Moreover, Azerbaijani companies, both public and private, have begun actively investing abroad (mainly in Turkey and Georgia). These trends, judging by everything, will be long-term.

The fact that Azerbaijan has turned, from the financial viewpoint, into a self-sufficient state is a fundamental political result of intensive economic development. Financial self-sufficiency is one of the most important criteria of the country's economic independence, for the state cannot be consid-

[5] Compiled according to the IMF Database. Iran is included in the Figure as a country adjacent to Azerbaijan. The new Balkan states, as well as Lithuania, have not been included due to the absence of data for 1995. In its current classification, the IMF puts Slovakia, Slovenia, and Estonia in the group of Eurozone states, although from the regional viewpoint they naturally belong to Eastern Europe.

[6] Based on conversion of the index by the Azerbaijan State Statistics Board (22 billion manats—see: Statistics Bulletin of the Azerbaijan Central Bank, 12/2011, available at [http://cbar.az/pages/publications-researches/statistic-bulleten/]) into international dollars using the IMF purchasing power parity coefficient for 2011 (0.538).

[7] In 2011, domestic investment reached $13 billion—65% of all investments into the country's economy.

ered successful at all if it is unable to maintain itself and ensure its development. At present, Azerbaijan's international reserves, computable as the sum of the resources in the State Oil Fund of the Azerbaijan Republic (SOFAZ), foreign deposits of the government, and foreign assets of the Central Bank, top $43.2 billion.[8] At present, Azerbaijan is one of the world leaders in terms of the international reserves to GDP ratio (68.2%). Furthermore, by mid-2011, the state's external debt amounted to a total of $4.5 billion (8.1% of GDP).[9]

Changes in international reserves only characterize the correlation between the amount of currency the country earns and spends, since with an equal increase (decrease) in the amount of foreign exchange coming into the country and going out of it, the international reserves remain the same. Nevertheless, over the past 10-12 years, radical changes have occurred in this sphere. It is enough to note that in 2000-2010, the amount of foreign exchange exported from Azerbaijan every year increased 5.8-fold ($2.7 and 15.6 billion, respectively), while an even larger amount, 9-fold, came into the country ($3.0 and 27.1 billion, respectively). It is important that the increase in the amount of foreign exchange spent by the country nevertheless indicates, albeit indirectly, an increase in the standard of living, since consumer products predominate in the import structure.

It entirely stands to reason that the dynamic development of the economy initiated by oil and gas exports was accompanied by similar dynamic improvement in social wellbeing. In 2006-2011, nominal personal income increased on average by 24% a year, which was almost 2.5 times higher than the average annual inflation rate (10.2%). On the whole, personal income increased 3.8-fold during this period, while the poverty level dropped 6-fold. It should also be kept in mind that official statistics do not always adequately reflect the real growth of income and consumption, which in fact is even higher, since the share of the informal economy, despite a noticeable decrease in the past 10 years, is still extremely high.

Higher Standard of Living and Social Development

Improvement of society's overall standard of living has also promoted development of the social spheres. This article does not set out to examine definitions of the social sphere or list its components. An extremely wide range of opinions on this matter can be found in the literature. Due to its broad interpretation, almost all areas of human activity can be related to the social sphere, but even a narrower interpretation forces us to admit that many components of social life that are traditionally related to branches of the economy (for example, transport or communications) or to the political sphere (for example, stability or security) have a clearly evident, even direct (that is, not mediated by anything) social function. There are also external factors that have an impact on the quality of social life—for example, a favorable climate. However, they, like religious activity, family stability, gender equality, and other such factors, are extremely conservative and not subject to rapid change.

Even a superficial glance creates the impression that social development in Azerbaijan is not keeping up with the "explosive" rates of economic growth. This is resulting in discrepancy between the standard of living and the cultural level. It can be described as a kind of social "satiety disease," a symptom of which is an empty mineral water bottle flying out of the open window of an expensive car.[10] On the whole, road traffic in Azerbaijan is a very graphic illustration of this disease. In recent years, the country's auto-

[8] Data of the State Oil Fund and Central Bank of Azerbaijan (CBA), available at [http://www.oilfund.az/en_US/hesabat-arxivi/rublukh/2012_1/2012_1_1/] and [http://cbar.az/infoblocks/money_reserve_usd].

[9] Data of the Azerbaijan Ministry of Finance, available at [http://www.maliyye.gov.az].

[10] Social "satiety diseases" should be distinguished from economic. The latter primarily encompass problems that arise when the inflow of financial resources begins to exceed the absorptive capacity of the economy. Azerbaijan, for example,

mobile fleet has been almost entirely renewed: it imports up to 40,000 cars a year, spending enormous amounts of money for the size of its economy on this. The streets of Azerbaijan's cities are overflowing with expensive cars that cost far more than 100,000 Euros, while the driving skills of their owners often leaves much to be desired and clearly lags far behind the cost of their cars. The endless traffic jams on the roads of Baku, which are often objectively caused by road repairs and restructuring, are in fact mainly due to drivers violating elementary traffic regulations, themselves suffering from the consequences. An expensive car parked almost right in the middle of a busy street is a very typical scene. It is customary to think that poor police management, including corruption, is to blame for disorderly traffic. This may be partly true, but is not the main reason. As a survey we conducted showed, most drivers do not see a big difference between a bribe and a fine—they see the first as essentially the same punishment as the second. So the main reason should nevertheless be sought in the cultural sphere.

Of course, a professional analysis of the correlation between economic and social development requires going further than customary observation and relying on measurable indices. Applied studies can be used in particular to measure the level of human development. Since 1990, the most widespread studies in this area have been carried out by the U.N. Development Program (UNDP). The UNDP's Annual Reports contain four integrated indicators that make it possible to carry out inter-country comparisons and identify and forecast global trends. The most general and, perhaps, main index is the Human Development Index (HDI).[11] It is a composite index measuring average achievement in three basic dimensions of human development—a long and healthy life, knowledge, and a decent standard of living.

It should be noted that the data in the general UNDP database significantly differ from the data presented in the published reports. There are several reasons for this, including the fact that in recent years the UNDP uses gross national income (GNI) per capita converted to international dollars using PPP rates as the basis for measuring the standard of living, and not the identical GDP index used earlier. Moreover, both the UNDP itself and the international agencies, the data of which its experts use, are constantly modifying the method of calculation, due to which their statistics (including the statistics for HDI and sub-indices) cannot always be collated by year. In other words, the human development indices (and correspondingly, country rankings) presented in the report for a particular year cannot be compared with similar data in other reports. Admittedly, a table is included in the last report that shows the trends in HDI changes between 1980 and 2011, but it does not contain enough information on the countries of the region to which Azerbaijan belongs. So further analysis is based on the data of the general UNDP database.[12]

Economic Development and Education

The UNDP calculates the education index as the geometric mean of two sub-indices—the mean years of schooling and the expected years of schooling. The first implies the average number of years

is suffering from the severe pressure of oil revenue on the financial market, the result of which might be galloping inflation. This pressure is also having an effect on the national currency, the problem of which is no longer devaluation, but, on the contrary, value appreciation with respect to foreign exchange with all the potential negative consequences. So measures regarding so-called sterilization of money are (and will invariably continue to be in the next few years) an integral part of Azerbaijan's economic policy. It is worth noting that the economic situation, when the goods and services produced in a particular country lose their competitiveness in external markets due to an increase in the exchange rate of the national currency, has come to be called Dutch Disease, after the country that it first inflicted.

[11] The last report in this series available at the time this article was written was published in 2011 (see: *UNDP Human Development Report: Sustainability and Equity: A Better Future for All*, U.S., New York, 2011, available at [http://hdr.undp.org]).

[12] [http://hdr.undp.org/en/media/2010_Hybrid-HDI-data.xls].

of education received by people aged 25 and older, based on education attainment levels of the population converted into years of schooling based on theoretical durations of each level of education attended. The second sub-index (expected years of schooling) indicates the number of years of schooling that a child of school entrance age can expect to receive if prevailing patterns of age-specific enrolment rates persist throughout the child's life. The calculations are carried out on the basis of the UNESCO Institute for Statistics.[13]

In terms of education index, Azerbaijan ranks 53rd in the world and 16th in the group of CEE and CIS countries. Among the CIS countries, it holds a middle position, ahead of Armenia, Tajikistan, Moldova, and Uzbekistan but behind Ukraine, Kazakhstan, Belarus, Russia, and Kyrgyzstan. Georgia is also behind Azerbaijan. (Due to lack of data, Turkmenistan is not included in the list of ranked states.) As the many years of observation show, in the mid-1990s, the level of education in Azerbaijan dropped somewhat, however by the beginning of the 2000s, a positive trend was designated: the education index has higher than the highest level of the 1990s, subsequently continuing to rise slowly but steadily. At present, Azerbaijan lags behind the average index for the CEE and CIS countries, but is ahead of the average world indices.

Although the HDI and its sub-indices, as already noted, do not make it possible to carry out a full-fledged year-by-year comparison of the results achieved by certain countries in human development, they could well be used to build a time sequence of correlations between economic growth and human development, including development of the education system. For this, the correlation between economic growth and the education index must be viewed separately for each year, and only then a comparison of the obtained results carried out (see Figs. 2-5).

The entirely straight trend line in 1992 shows that deviation of the education level in the countries of the group from the average level was mutually balanced out (its rise above the average level was equal to its lag behind it), and the relatively small vertical difference in dots around the trend line shows that the education level in these states was approximately the same—regardless of the level of their economic development measured by per capita GDP. It is obvious that this resulted from the fact that until 1991 the absolute majority of these countries were either integral parts of one imperial state, or were under its strong influence and had an approximately equivalent education system built on equal principles for all.

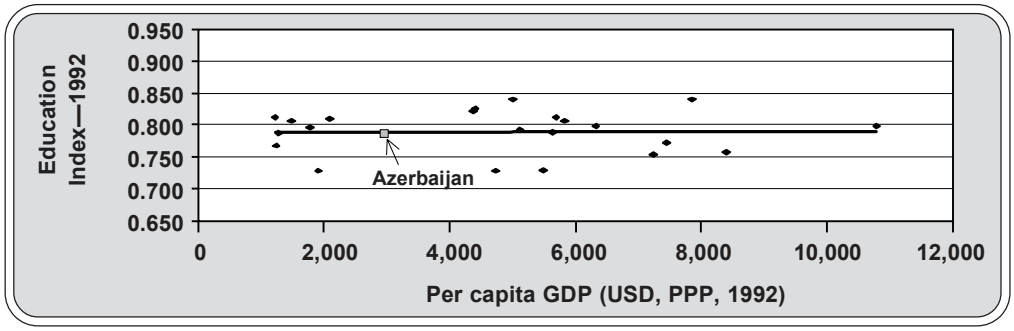
Collapse of the unified state put an end to the single education space and each newly formed (or newly independent) state began to form its own education system. At the end of the 1990s, the correlation curve went up: as the economy grew, the education level rose too. In 1998, Azerbaijan was below the trend line, which, however, was the result of a certain drop in its education index and not because the average level of the index had risen for countries with the same per capita GDP as it.

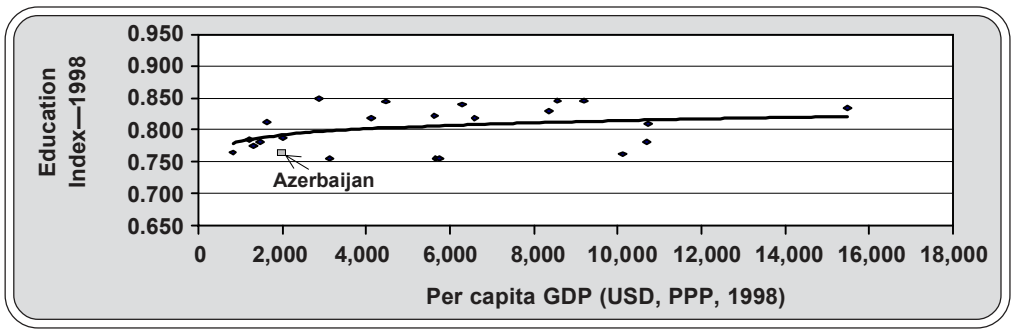
In 2003, Azerbaijan returned once more to the trend line, in other words, to a level of education that should hypothetically be reached by states with the same per capita GDP as it. In subsequent years, Azerbaijan's education index continued to grow, but beginning in the mid-2000s, when the economy began to demonstrate unprecedentedly high growth rates, the development of the education system began to clearly lag behind both the economy and the increase in standard of living. The dot that indicates Azerbaijan in Fig. 5 clearly climbed higher, but it moved further to the right and so turned out to be under the trend line. This means that at present the education system in Azerbaijan is less advanced than it should be in a state with the same level of economic development as Azerbaijan today.

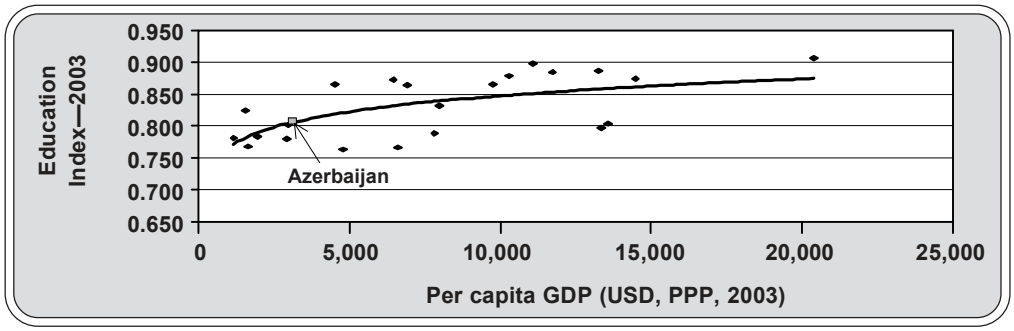
[13] Earlier, before 2009, the education index was calculated on the basis of two different indicators—the percentage of the literate population and correlations of students in primary, secondary, and higher learning institutions. Now the indicators used, while perhaps being slightly more complicated, make it possible to measure more accurately the level of education of the population and compare its level in different countries.

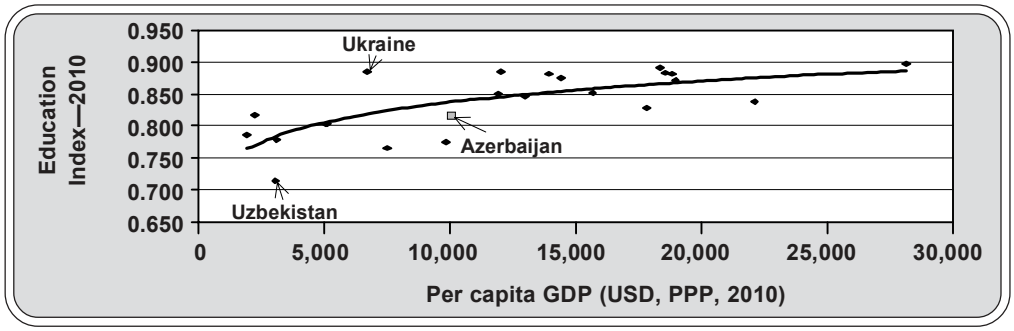
Figures 2-5

Correlation between Per Capita GDP and the Education Index in 1992, 1998, 2003, and 2010 (CEE and CIS Countries)









It should be kept in mind that the UNDP only deals with quantitative education indices, without taking into consideration its qualitative parameters. For many countries of the world this is enough, since their quantitative indices create an adequate idea of the level of education of the population. However, neither the mean years of schooling, nor the expected years indicate in themselves that by enrolling at a particular learning establishment a person will indeed receive an education that complies to the name of the establishment. So for some countries quantitative indices may not only fail to reflect the quality of education, but also create an entirely misrepresented idea of it.

From the viewpoint of the state's mid- and long-term interests, an increase in the quality of education is of key significance. Resolving the problem is complicated by the fact that education is one of the most inert spheres of social life, and it is impossible to bring it into harmony with the best world standards in a relatively short time. In order to raise the quality of education in secondary schools, their teaching staff must be upgraded, which, in turn, is impossible without raising the quality of teaching in educational institutions, which requires upgrading of the professorial and teaching staff of the institutions themselves. In turn, the quality of higher education greatly depends on the quality of the "goods" that universities receive from secondary schools. Complete interdependence of different spheres and levels of education dictates the need for simultaneous improvement of the entire system.

Azerbaijan has chosen complete renovation of the material and technical base of both secondary and higher educational institutions as a priority (or at least initial) vector of educational reform. In recent years, impressive practical results have been reached in this sphere. Nevertheless, efforts to raise the quality of education as such, including to eliminate negative phenomena in learning establishments, clearly lag behind renovation of the material base. The biggest difficulty is that the main problem of the education system lies beyond it. There is a social demand for education when knowledge "carries a price," that is, when the market pays sufficiently more for highly skilled labor than for unskilled labor. However, the market economy, which is fairly new to Azerbaijan, has still not been able to rid itself of the primacy of an education certificate, traditional for Soviet times, over education per se. It is hoped that the current intensification of intellectual forms of private business, as well as the transfer to a merit system for enlisting in the civil service, will sooner or later put an end to this stereotype.

Economic Development and Public Health

There is a whole series of indicators that make it possible to qualitatively evaluate the nation's state of health. It is customary to believe that all of them, as well as indicators characterizing the level of public health in a particular country, are ultimately expressed in life expectancy at birth. So this is the index research centers refer to when assessing the general state of public health in different countries. This not only applies to the UNDP, but also to world renowned institutions such as the Economist Intelligence Unit,[14] which, when assessing the quality of life, put health, measured by life expectancy, in one of the top places among the factors of influence.

[14] Created in 1946 under *The Economist*, it has more than 40 offices in different countries and is one of the leaders in cross-country comparative studies.

Life expectancy at birth is calculated as the number of years a newborn infant could expect to live if prevailing patterns of age-specific mortality rates at the time of birth stay the same throughout the infant's life. Despite the relative simplicity of calculating life expectancy, its indices in different sources significantly differ. For example, according to the country's official statistics, life expectancy in Azerbaijan is equal to 73.6 years,[15] according to the *CIA Factbook*, it is 71.3 years,[16] according to the World Health Organization—68 years,[17] and according to the U.N. Department for Economic and Social Affairs *(UNDESA)*—70.8 years. The UNDP makes use of the latter index.

In order to transform the life expectancy index into an index from 0 to 1, UNDP experts first establish its maximum and minimum values (references). The highest life expectancy for the entire period of research is taken as the maximum value: in the last report it was 83.4 years (Japan, 2011), while the minimum value is defined as the minimum permissible value (in the last report it was equal to 20 years). The life expectancy index for each country is determined as the ratio of difference between the actual life expectancy in this country and the minimum value to the difference between the maximum and minimum values.

In terms of the life expectancy index compiled by UNDP experts, Azerbaijan ranks 83rd among 135 countries of the world, while it ranks 15th among the CEE and CIS countries. Just as in the previous case, in terms of the health index, Azerbaijan, while lagging behind the average index for CEE and the CIS, is ahead of the average world index.

In order to identify the dynamics of the process, the correlation between economic growth and the health index should be viewed for all, or at least for so-called indicative years of the observation period, which is presented in Figs. 6-9.

These diagrams primarily show that a correlation between economic development and life expectancy, although not strict, nevertheless exists. In 2010, this correlation was very weak only in a few CEE and CIS countries. In one of them (Albania), life expectancy is much higher than in others states with the same per capita GDP, while in two others (Kazakhstan and Russia), on the contrary, it is lower. The less pronounced correlation, visually expressed in a greater dispersion of dots across the diagrams, is caused by the fact that life expectancy depends not only on social activity (in particular, of public health), but also on factors beyond social activity, such as the environment.

One of the differences between this series of correlations and the previous is that life expectancy in Azerbaijan, in contrast to the education index, never decreased throughout the period of observation; on the contrary, it has steadily risen: in 1992, it was equal to 65.4 years, in 1998 to 66.2 years, in 2003 to 68.6 years, and in 2010 to 70.8 years. This was the first trend that brought Azerbaijan closer to the trend line in 1998 and 2003, while the second was related to the fact that per capita GDP calculated based on PPP noticeably decreased in 1998 compared to 1992 and subsequently gradually rose, but by 2003 it had nevertheless not reached the 1992 level.

In 2003, Azerbaijan was on the trend line, that is, life expectancy corresponded to its level in hypothetical states with the same per capita GDP. A different picture was seen in 2010, when, despite a significant increase in life expectancy (by 2.2 years), the improvement in the health index lagged noticeably behind the economic growth rates. Just as in the previous series of correlations, the dot indicating Azerbaijan in Fig. 9 climbed higher, but moved further to the right and was below the trend line. This means that life expectancy in Azerbaijan is lower than it should be for the current level of economic development.

---

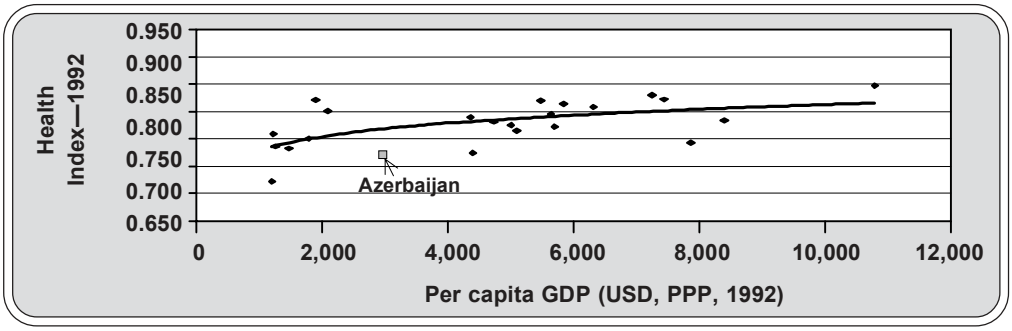
[15] According to the State Statistics Committee of the Azerbaijan Republic, available at [http://www.azstat.org/statinfo/demoqraphic/en/2_4en.xls].

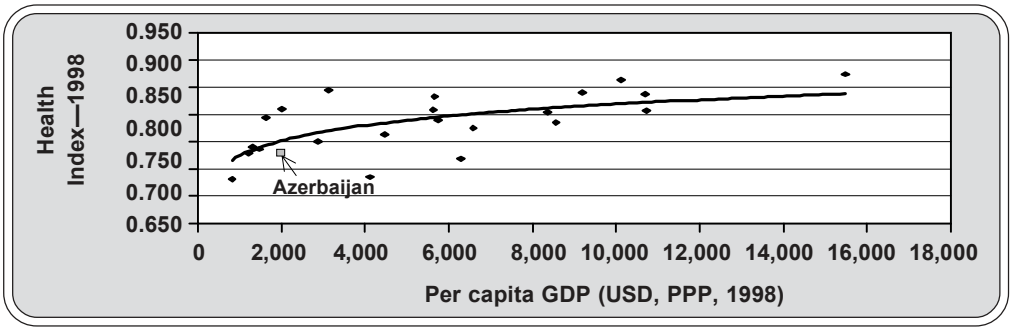
[16] See: *CIA — The World Factbook*, available at [https://www.cia.gov/library/publications/the-world-factbook/geos/aj.html].

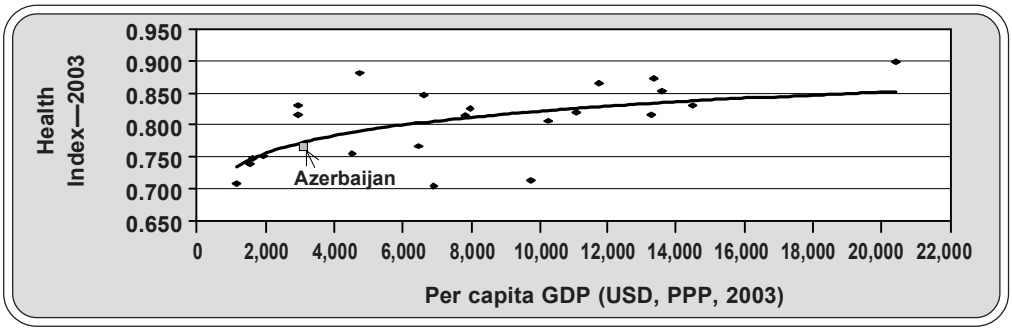
[17] See: *WHO — World Health Statistics 2011*, p. 46, available at [http://www.who.int/gho/publications/world_health_statistics/EN_WHS2011_Full.pdf].

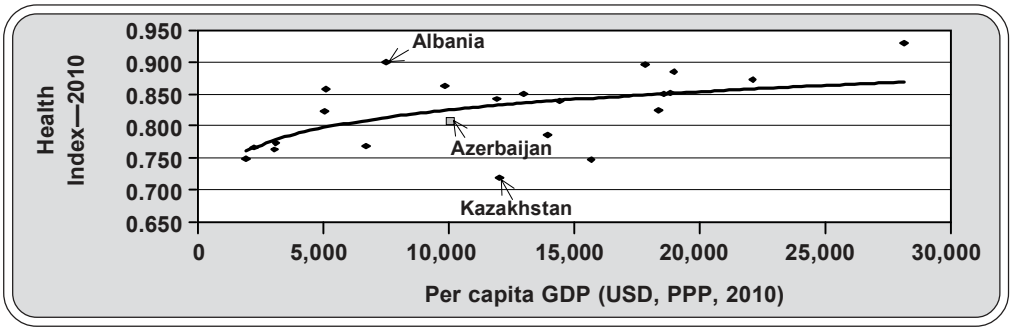
Figures 6-9

Correlation between Per Capita GDP and Life Expectancy in 1992, 1998, 2003, and 2010 (CEE and CIS Countries)







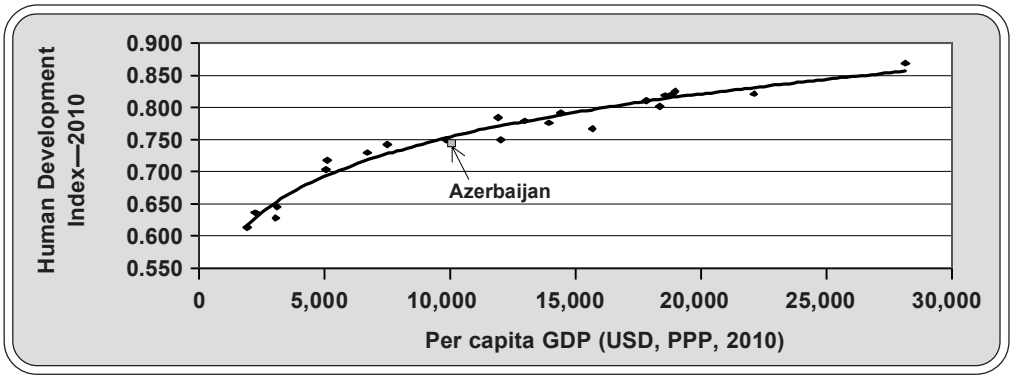


* * *

The composite human development index calculated by the UNDP is the geometric mean of three basic components—education, health (life expectancy), and gross national income per capita based on PPP. So it stands to reason that the correlation between the human development index and per capita GDP is stricter than between per capita GDP, on the one hand, and the education and health indices, on the other. It also stands to reason that in this case Azerbaijan is closer to the trend line (see Fig. 10).

Figure 10

Correlation between Per Capita GDP and the Human Development Index (CEE and CIS Countries, 2010)



Some other components of the social sphere can also be measured and consequently subjected to cross-country comparison. In particular, when evaluating the quality of life in different countries of the world, the well-known commercial company, International Living, ranks them, in addition to everything else, by recreational and cultural opportunities, and when measuring this factor also takes into consideration the number of historical and architectural monuments included on the UNESCO World Heritage List.[18] However, it stands to reason that the number of these monuments cannot significantly change in a relatively short time. So, with respect to an analysis of the balance between economic and social development, such studies do not provide much food for thought.

There are numerous comparative cross-country assessments in sports, but the absolute majority of them concern ratings of particular sport events. The level of development of physical education is more difficult to measure, although such indicators as the number of stadiums, sports complexes, and facilities compared to the size of the population can provide a certain idea of the conditions being created in particular countries to develop mass sports and physical education. In this sphere, Azerbaijan has achieved significant success. Around 10,000 sports facilities function in the country, the number of which continues to rise. In 2011 alone, four Olympic sports complexes have gone into operation in different cities of the country. Major international competitions are held in Azerbaijan. The achievements of Azerbaijani athletes are indisputable: in 2011 they won more than 700 medals at different international contests, including 270 gold. Nevertheless, the grassroots sports leaves something to be desired, which is shown even by a visual comparison of the number people engaged in physical exer-

[18] For the latest study in this series, see: [www.internationalliving.com/2010/12/quality-of-life-2011/].

cise in the streets of Baku and other large capitals of the world. This is apparently what some international experts are referring to when they claim that so far Baku does not give the impression of being a sporty city.[19]

Cultural behavior in public places can probably also be measured, but, as far as I am aware, such international comparative studies have not been conducted yet. For example, if we return to road traffic behavior, many studies have been and are being carried out in this sphere which compare the situation in different countries in terms of a whole series of indicators, including based on the number of road accidents and the number of deaths they entail within one year for a certain number of cars or population size.[20] Such comparisons are undoubtedly of extreme significance, but they can hardly present an exhaustive picture of the real situation in road behavior.

Prospects

In the near future, Azerbaijan is unlikely to fully overcome the contradiction between economic growth and improvement of the standard of living, on the one hand, and society's sociocultural level, on the other. In current conditions, this contradiction is most likely objective since, in principle, it was brought to life by the economic (oil) boom of the beginning of the 21st century, and not by deviation of the social sphere from the normal trajectory of development. In the next few years it will become clear which of these two components of social development (the economy or culture) is the stronger. In other words, it will become clear whether an increase in standard of living can give a new boost to social development or, on the contrary, whether a lag in the social sphere will begin to hamper economic growth and slow it down. As already noted, economic development cannot be sustainable if it is not accompanied by equal development of the other components of public life.

In order to avoid the second alternative, Azerbaijan must implement a whole system of sociocultural development measures. It is vital to grasp that responsibility for balanced social development cannot be borne by a solo performer, it must be distributed across the board, although the lion's share will lie on the state's (government's) shoulders.

The government's main task will be to correctly rank priorities, that is, primarily ensure that the resources spent are properly distributed between economic and sociocultural development. This task can be resolved by developing and applying a well-planned system of investment project analysis and comparative assessment, which should be formalized as an officially government-approved document. In 2003-2005, this idea was actively discussed by experts of the European Union, one of whom was the author of this article, and the Ministry of Economic Development. Despite a certain amount of progress achieved in recent years, the project appraisal system used in the country is still not perfect. In the last country report for Azerbaijan available at the time this article was written, the IMF, noting that government officials also recognize this necessity, again emphasized the importance of improving the procedures for appraising and selecting state investment projects.[21]

Of course, investing funds in projects that have not been properly analyzed can also be effective. But without a comprehensive assessment of projects, it is difficult to count on, first, that the highest

[19] See, for example: [http://news.day.az/sport/118276.html].

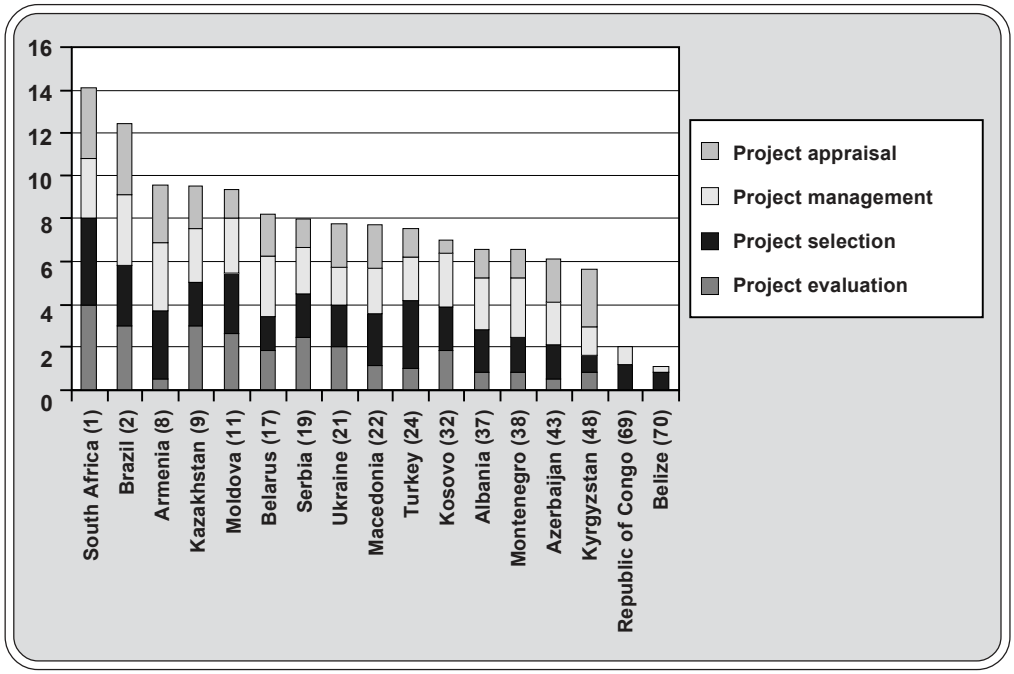
[20] The most comprehensive studies in this sphere are carried out by the World Health Organization, which publishes annual Reports on Road Safety in the world, the last of which is available at [www.who.int/violence_injury_prevention/road_safety_status/report/ru/index.html].

[21] See: *IMF Country Report No. 12/5 — Republic of Azerbaijan, 2011*, Article IV Consultation, 18 January, 2012, p. 13, available at [http://www.imf.org/external/pubs/ft/scr/2012/cr1205.pdf].

priority projects will be selected and, second, that the efficiency of state investments will be as high as it could be in the current circumstances. So when comparing the efficiency of public investments in different countries, specialists, along with project management (project implementation), are paying more attention to project appraisal, project selection, and project evaluation and audit ("post-implementation" evaluation). In particular, IMF experts are using the arithmetic mean of these four major consecutive phases associated with public investment management to measure what they call the Index of Public Investment Efficiency. At present they are calculating this index and its sub-indices for 70 states of the world, among which, unfortunately, not all the CEE and CIS countries are included. The results of these comparative studies, some of which are presented in Fig. 11, graphically show that Azerbaijan still has large untapped resources for raising public investment efficiency.

Figure 11

Sub-Indices of Public Investment Efficiency (Some of the CEE and CIS Countries, Leaders and Outsiders, 2010)[22]



One of the main obstacles on the way to creating an efficient project appraisal system is the fact that, unfortunately, economic planning in Azerbaijan does not take enough account of the reduction in time value of money, and the government does not register perennial discount coefficients, without which an analysis and appraisal of long-term projects cannot be exhaustive. Drawing up and legalizing these tables should be a task for the near future.

[22] The figures in parentheses after the names of the countries show their place in the overall ranking. Compiled according to: E. Dabla-Norris, J. Brumby, *et al*., "Investing in Public Investment: An Index of Public Investment Efficiency," *IMF Working Paper*, 2010, pp. 36-37, available at [http://www.imf.org/external/pubs/ft/wp/2011/wp1137.pdf].

In addition to direct participation in social development by investing public funds, which the government has announced to be its main priority,[23] measures for indirectly stimulating social spheres and projects will have the greatest importance. The priority tasks in this sphere could include stepping up the reforms in public health and education with the aim of making more efficient use of private initiative.

Special programs on specific issues of social development can and should play a particular role. A successful example of recent years can be considered the State Program for Educating Azerbaijani Young People in Foreign Countries for 2007-2015. It envisages educating 5,000 young Azerbaijanis who have shown high results on entrance exams at the best universities of the U.S., Japan, Western Europe, Turkey, Russia, South Korea, and other countries. All expenses are paid by the state.[24] It should be kept in mind that many more Azerbaijani students than those covered by the State Program study abroad with the financial support of different enterprises and organizations, as well as at their own expense. Reforms in the social sphere, the necessity for which was mentioned above, are also needed to ensure that the graduates of foreign universities find their niche when they return home and earn a salary commensurable to their qualifications and skills.

The municipalities occupy an important place among the social entities the central government should work together with to enhance sociocultural development. In addition to everything else, they are called upon to play a key role in reanimating and developing community culture, particularly in the country's large cities. The slump in community culture in Soviet years was a result not only of urbanization, which inevitably led to a reduction in interpersonal contacts at the community level, but also the particular features of the political system, which encouraged unifying people in party organizations at work rather than in communities at home. After Azerbaijan restored its state independence, in it, just as in most (if not all) of the former Union republics, local self-administration bodies were created from above and were not a natural need of the communities that formed, although we know that during normal social development municipalities form as administrative institutions of community self-administration.

Community self-administration is of immense importance in contemporary societies. It is essentially the main step in forming a democratic culture, since at the level of municipalities citizens have the opportunity to take almost direct part in public administration, while at the regional and particularly state levels, this participation is much more indirect. In the economic respect, community self-administration is a diminished model of state resource management. Each municipality has its own budget, which must be handled in the interests of the community. It is much easier to organize public control over the formation and expenditure of funds of this budget than of the state or even city (district) budgets. Apart from all this, the development of community culture can play an indispensible role in raising the culture of everyday behavior, since in practice precisely it can become the basis for turning public reprimand into an instrument of public self-administration.

Nongovernmental organizations (NGOs) can and should take on a large share of the responsibility, particularly those that specialize in sociocultural development. Despite the noticeable progress achieved by the nongovernmental sector during the years of independence, it has nevertheless not become a sufficiently influential factor of public life. This is shown by the special studies carried out by international organizations. In particular, since the end of the 1990s, USAID has been carrying out such studies every year by analyzing the sustainability of the nongovernmental sector in different countries in terms of seven parameters: legal environment, organizational capacity, financial viability, advocacy, service provision, infrastructure, and public image. The last report available at the time

[23] See, in particular: President Ilham Aliev's concluding speech at the Cabinet of Ministers meeting (16 January, 2012) devoted to the results of the country's socioeconomic development in 2011, available at [http://ru.president.az/articles/4107].

[24] For more detail, see: *2007-2015-ci illərdə Azərbaycan gənclərinin xarici ölkələrdə təhsili üzrə Dövlət Proqramı* (The State Program on Azerbaijani Youth Education Abroad in 2007-2015), available at [http://xaricdetehsil.edu.gov.az/domains/edu/assets/file/Proqram200715.pdf].

this article was written does not register a significant change in the NGO Sustainability Index in Azerbaijan.[25]

There can be no doubt that in conditions in which the government is tightly structured and strong and the opposition is fragmented and weak, social and cultural development projects can be advantageous to the nongovernmental sector. The most beneficial are projects aimed at resolving specific applications in specific territories.

In Azerbaijani society, the role of the intelligentsia, particularly its creative members, is traditionally high. The appeal of a poet revered by the people can at times be more effective than declarations by entire political organizations. Unfortunately, sometimes the impression is created that the intelligentsia has removed itself from the country's public life. This extremely undesirable current trend could have long-term negative consequences. The problem is aggravated by the fact that no matter what stimuli the intelligentsia receives from the outside, its main incentive to act should ultimately come from inside this group.

A separate group of the intelligentsia is comprised of religious figures, who in recent years have been mainly engaged in internal problems and try not to interfere in public (secular) affairs. Of course, this is largely due to the fact that for whole decades religious figures have remained outside society so to speak and did not interfere in its problems, busying themselves primarily with ritual matters. Now the social environment has radically changed and there is reason to hope that veritable religious figures will shift the emphasis in their public appearances from strictly theological discussions about rituals (for example, about how the hands should be held when performing namaz) to truly urgent social and ethical problems. I am not saying that religion should become involved in politics and state affairs, which is prohibited by the constitution in Azerbaijan, but that true values of Islamic morals and human ways of behavior should be encouraged.

Mass propaganda campaigns aimed at resolving specific sociocultural problems with the simultaneous participation of all the above-mentioned entities of the social process will probably be the most effective way to accomplish this task. While a separate niche should be identified for propaganda of physical education and sports. We should begin with elementary matters. Correspondingly, these campaigns should make simple, even primitive, proclamations without worrying about what the rest of the world thinks. Ultimately, these campaigns should nurture in citizens a feeling of respect for those around them, for their rights, and for their comfort: we cannot expect respect from the outside world if there is no mutual respect inside society.

* * *

Azerbaijan has all the necessary resources, not only financial, but also intellectual, to prevent aggravation of the contradiction between the standard of living and sociocultural (human) development. However, this cannot occur on its own, but requires intense targeted efforts by the whole of society. It can only be successful if the main emphasis in sociocultural development is shifted in the next few years from quantitative to qualitative parameters and from consolidating the material base of the social sphere to enhancing each individual's spiritual development.

[25] See: *The 2010 NGO Sustainability Index for Central and Eastern Europe and Eurasia*, available at [http://www.usaid.gov/locations/europe_eurasia/dem_gov/ngoindex].