



A Compendium of Inequality

The Human Development Report 2005

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On September the 7th 2005, the United Nations Development Programme (UNDP) published its annual Human Development Report (HDR), entitled "International cooperation at a crossroads: Aid, trade and security in an unequal world". The UNDP deliberately presented the report a week before the United Nations Millennium+5 Summit. The report was intended to bring global social problems to the attention of heads of State and Government just before the summit in order to challenge them to make rapid and radical changes to world-wide development, trade and security policies. The report substantiate its demands with concrete case studies and up-to-date facts and figures, which show that in many countries, the fight against poverty and the realisation of the Millennium Development Goals have made only limited progress. Fifty countries have actually lost ground as regards at least one goal. This relates especially to countries in southern Africa, where the HIV/AIDS pandemic has had dire economic and social consequences. However, the authors of the report also emphasise problems of growing inequality within and between countries. They suggest that sustainable progress in human development can only be made once the inequality of access to resources and of the distribution of power within and between countries can be corrected. Up to this point, the report indicates, questions of distribution have proved a 'blind spot' for the MDGs.

1 Background

The Human Development Report, then under the direction of Mahbub ul Hag and Inge Kaul, first appeared in 1990. Its explicit focus on the concept of *human* development led many at the time to perceive it as being in competition with the World Bank's World Development Report (WDR), which centred around economic growth and development problems. The HDR was shaped considerably by Amartya Sen's work on poverty and inequality, and it had a significant impact on development discourse. The report has engaged actively in the debate on how to define and measure poverty, development and gender equity and equality. In this context it evolved a series of new development indices, the most important of which is the Human Development Index (HDI), which takes health and education indicators into account as well as simply measuring per capita income levels. The HDR has also taken uncompromising political stances, repeatedly decrying the negative consequences of neo-liberal structural adjustment policies and reminding industrialised countries of their obligations in development and human rights. However, the report has also criticised countries in the global south for setting the wrong political priorities, and has thus frequently come under fire from governments in these areas. Often, the HDR has been responsible for introducing new ideas into international debate, and has as such acted as a setter of trends, one example being James Tobin's suggestion of a currency transaction tax which the HDR presented as early as 1994.

In recent years, the reports' findings have been less controversial and – particularly in 2003 – very much defined by the discourse on Millennium Development Goals (MDGs). Since 2002, a close working relationship has developed between the UN Millennium Project under Jeffrey Sachs and the HDR office, which some NGOs, including Third World Network, have regarded

with certain misgivings. They criticise Sachs's technocratic approach to development, which appears to draw heavily on concepts of modernisation popular in the 1950s and 1960s.

Parallel to this, the World Bank under James Wolfensohn and the UNDP under Mark Malloch Brown have grown politically and programmatically ever closer. The old rivalry between the HDR and the WDR thus appears resolved and the newest WDR for 2006 pointedly emphasises the significance of the UNDP report and its concept of human development. While noting that the World Bank already used the term in its 1980 WDR, the 2006 WDR states that:

"UN agencies - notably the UNDP in their series of Human Development Reports - later took the lead in putting these concerns at the center of the development agenda. In this, they have been followed (rightly) by the whole development community."

In 2004, Kevin Watkins became the new director and principle author of the HDR. Watkins had for years been a high-ranking employee of the British development NGO Oxfam, and an influential thinker within the international NGO community. Many observers were intrigued to see whether and how this change would affect the HDR's profile and thematic orientation.

Kevin Watkins set out ambitiously in his new post, and in his report took up all three of the areas defining the international agenda of 2005: development, security and trade. Watkins aimed to use the report to increase pressure on governments to reach concrete agreements at the UN summit in New York and later at the WTO ministerial meeting in Hong Kong. Partly because of this aim, instead of bringing the report out in July as usual, he postponed the date of its release to the week before the New York Summit. Undoubtedly, Watkins intended this to sharpen the HDR's political impact.

The political recommendations in the UNDP report are based on exhaustive statistical information. Figures on social development in 175 countries form the backbone of the report and the basis of its findings. In many countries in the global South these figures are taken as the principle message of the HDR.

2 Key Messages in the Report

The Human Development Report judges the current state of progress towards realising the Millennium Development Goals to be "depressing". The majority of countries fall behind most of the goals, in some key areas human development is faltering, and already deep inequalities are widening. The divergence between progress on human development and the ambitious demands of the MDGs is growing: "the promise to the world's poor is being broken" (p. 2).

This analysis is not particularly original but simply confirms the findings of the numerous other investigations and reports which have appeared on the subject in recent months, in particular the Millennium Project Report ('Sachs Report'),¹ Kofi Annan's report "In Larger Freedom"² and the latest UN annual report on the realisation of the MDGs³. Complementary to these reports, the HDR backs up its findings with the newest figures:

- According to current trends, 827 million people will live in extreme poverty in 2015.
- 50 countries currently fall behind target in at least one MDG.
- A further 65 countries risk failing to reach at least one MDG by the year 2040.
- In 18 countries the current HDI is lower than it was in 1990, when the HDI was first produced. 12 of these countries are in Africa and the other 6 are in the Commonwealth of Independent States (CIS).
- The 24 countries with the lowest HDI rating are all in Africa, with Niger at the very end of the list.
- Norway is at the head of the HDI list, followed by Iceland, Australia, Luxembourg and Canada.

The HDI is not limited to countries of the global South, but also covers the human development situation in the North. In this context it is interesting to note the development of the German HDI rank. Since the early 1990s, Germany's

place in the ranking list has, with a few brief interruptions, fallen steadily and now in 2005 Germany is down to number 20, preceded by New Zealand and followed by Spain, Hong Kong and Israel.

Growing Inequality

The HDR does not simply deliver absolute figures and indicators of human development, but also places these figures into comparative context. Thus the overall picture constructed is one of growing inequality and the global gap between rich and poor. The richest 50 individuals in the world have a combined income greater than that of the poorest 416 million (p. 4). The 2.5 million people living on less than \$2 a day – 40% of the world's population – receive only 5% of global income, while 54% of global income goes to the richest 10% of the world's population.

But the problem is not just one of inequality between countries. The HDR points out that in the last 20 years the unequal distribution of income (measured in Gini-coefficients) within many countries has grown worse. Of the 73 countries for which figures are available, 53 (comprising over 80% of the world's population) have recorded an increase in inequality of distribution. Only in 9 countries (comprising about 4% of the world's population) has the wealth gap between rich and poor been at all reduced. Differences are especially great within Namibia, Brazil, South Africa, Chile and Zimbabwe. Even in countries with high economic growth rates, social disparities remain large. In China, for example, the HDI in the western province of Guizhou stands at 0.64, only just higher than the level in Namibia, while that in Shanghai is 0.89 - roughly the same as Portugal's.

The problem of social inequality does not apply solely to countries of the global south, and the UNDP report excellently describes the consequences of discrimination and social inequality for the national health system in the USA. 45 million Americans had no basic health insurance in 2003. 21% of Afro-Americans and 34% of Hispanic Americans were included in this number, but of white Americans only 13% had no health insurance. Consequently the infant mortality rate among Afro-Americans was twice as high as among white US citizens. According to the UNDP summary, the USA had access to the newest medical technology and most up-to-date forms of therapy, yet social inequality significantly limited the scope of medical progress.

The UNDP report clearly criticises the lack of attention politics pays to questions of unequal distribution of social power, income and wealth,

¹ Millennium Project 2005

² UN Secretary-General 2005

³ UN 2005b

when addressing the realisation of the Millennium Development Goals. It suggests that strategies for human development should put distribution at their centre in future, and that measures to overcome extreme inequality should be included in plans for realising the MDGs. This should also apply to aid transfers from the State to the poor. However, this necessarily requires the State to be able to raise additional income, especially in the form of taxes, an ability that needs to be considerably improved in many countries in the south, the report says. From now on, the MDG agenda should look beyond national averages and address structural inequalities relating to wealth, gender, place of residence, and assets. The UNDP report demands that

" Governments should expressly commit themselves to targets for reducing inequality and gaps in opportunity, in addition to aggregate MDG targets." (p. 71)

The report makes it very clear that these tasks are first and foremost the responsibility of the government of the country in question. However, the HDR also maintains better international negotiation is urgently necessary in order to overcome international inequality, and the report therefore focuses on development aid, trade policies and the international response to violent conflict.

More cooperation on development

" At the time of the Millennium Declaration the aid glass was three quarters empty. It is now half full and rising" says the UNDP report. (p. 76). In this the report sees an encouraging movement forward, but still demands further steps to increase the quantity and quality of aid. The report formulates two simple messages. First, if the MDGs are not to be missed, a sustained increase in aid is imperative, as " the time for incremental change is past" (p. 76). Secondly, more aid delivered through current aid structures would yield suboptimal results: aid structures themselves need to be changed.

The report concurs with the Millennium Project's estimates of the costs of the MDGs and the current gaps in financing them, and it demands a binding timetable for the steady increase of ODA up to 0.7% of GDP by 2015. It places importance on aid being in the form of real aid transfers, and criticises the way in which the OECD's reporting arrangements enable governments to report debt relief as aid in the year the debt is written off. This causes the value of the debt relieved to be inflated compared to the actual savings made by debtor countries. So, for example, Ethiopia's debts were reduced by US \$1.3 billion

within the framework of the HIPC initiative in 2003. But this has actually only lowered Ethiopia's yearly debt services, i.e., its real expenditure, by US \$20-40 million.

The HDR also engages with the argument that an intense and short-term aid-flow would prove impossible to absorb for developing countries, that it would institutionalise their dependency on aid and that it might push up exchange rates, a problem known as 'Dutch disease' (p. 96). The HDR dismisses all these reservations about increasing aid, and argues that there is no proof that poor countries are not in a position to use more aid effectively. If problems of absorption did emerge then the appropriate response would be to invest in building up infrastructure, and to reduce transaction costs, rather than foregoing the necessary increase of ODA. An argument that the authors of the report take more seriously is that a greater flow of aid would weaken governments' motivation to mobilise more tax internally. Uganda, for example, has not raised its low tax to GDP ratio despite high levels of growth. However, the report also presents examples of the opposite: Ethiopia, in spite of a considerable increase in aid flows, has raised its national tax ratio. Finally, the report indicates that there are solutions to the "Dutch disease" problem. Channelling aid into infrastructure, agricultural production and investments in human capital will avoid a boom in demand and consumption and provide an antidote to inflation and upward pressure on the value of the currency in question (p. 97).

In addition to the necessary increase in ODA, of course quality and effectiveness must also be improved. Donors should pledge aid on a longer-term basis and by doing so make it more predictable; they should reduce excessive conditionality, improve donor harmonisation, entirely end tied aid and provide more aid directly through government budgets (p. 98). In concrete terms, the UNDP report demands that by 2010, 70% of ODA be granted in the form of budget support, while at the same time aid flows to the public sector should be reported through the national budgets of recipient countries.

Reforming global trade

International trade, owing to its sheer volume alone, has a considerably larger influence over human development than ODA transfers from industrialised countries. But the trade policies of rich countries generally greatly disadvantage developing countries. The HDR accuses governments from the North of "hypocrisy and double standards" (p. 113). On the one hand, it says,

they lose no opportunity to demand that developing countries should open markets and liberalise trade, while on the other they continue to protect their own economies through tariffs and high export subsidies.

According to the UNDP's calculations, developing countries' economies suffer income losses of around \$72 billion per year just through agricultural subsidies in industrialised countries. This figure represents nearly as much as the global ODA in 2004. As particularly bad examples of this, the HDR names the EU and the USA subsidisation of sugar, rice and cotton.

The practice in industrialised countries of escalating tariffs has also had a negative impact on developing countries, and is described in the report as a 'perverse tax' on the poor. While raw commodities bear very low import tariffs, each level of production sees the tariff rise. In Japan, tariffs on processed food products are seven times as high as on raw commodities and in Canada they are 12 times as high (p. 127). In the EU, tariffs on cocoa paste lie between 0 and 9%, but tariffs on the final chocolate product are around 30%.

The problem of unfair trade rules is further exacerbated by the decline in commodity prices (p. 139). The HDR takes the global coffee market as an example. Between the end of the 1980s and 2003, proceeds from coffee exports fell from about \$12 billion to \$5.5 billion, although the amount of coffee being exported was growing. In Ethiopia, export earnings fell from \$494 million in 1985 to \$178 million in 2003, meaning that the household incomes of those living from the coffee sector in Ethiopia fell accordingly. In the same period, the retail turnover of coffee in rich countries rose from \$30 billion to \$80 billion, meaning in turn that the profit margins of coffee roasters and dealers rose accordingly. A further example, then, of how current world market conditions further widen the gap between rich and poor.

Consequently, the UNDP report demands a fundamental reform of global trade rules. The current Doha Round, the report suggests, presents a "critical opportunity" to effect this change (p. 142). At a basic level, the authors of the HDR demand an abandonment of the notion that the opening of markets and the growth of exports automatically fosters human development. As long as industrialised countries are not prepared to dismantle their own trade barriers, pressure should not be put on developing countries to liberalise further. Significant reductions in state agricultural subsidies, a ban on export subsidies and a radical lowering of barriers to exports

from developing countries are all necessary steps proposed by the report.

More help for conflict zones

In its third focal point, the HDR engages with the consequences of violent conflict for human development, especially in poor countries, joining the discussion initiated by the High Level Panel on Threats, Challenges and Change in the latter's 2004 report. The HDR emphasises the indirect social and humanitarian consequences of conflict. In Africa especially, many more people die from the disease and malnutrition which conflict leads to than through direct violence. An extreme example of this is the situation in the Sudanese region of Darfur, where infant mortality is three to six times higher than in the rest of the country.

To break the cycle of poverty and violent conflict, the international community must become more active in the affected regions, urges the report. It would be counterproductive to deny aid to the countries suffering or who have recently suffered conflict; rather, aid must be increased but also tied to clear and transparent conditions-

The report suggests that a holistic approach is particularly important in these cases, in order to support a transition from conflict to lasting peace. The UNDP report thus welcomes the proposal to establish a new Peace-Building Commission within the UN, and calls for this body to be adequately financed. As a further measure to help overcome conflicts, the report demands a binding agreement at the 2006 Small Arms Review Conference. It also supports initiatives such as the Extractive Industries Transparency Initiative, which aims to encourage transparency in payments made by multinational corporations to governments in the South. In this context the UNDP report supports the suggestion of the Commission for Africa, set up by Tony Blair, to create an international legal framework to enable the prosecution of multinational corporations for corrupt practices both abroad and in the country in which the company is located.

3 Conclusion

In 2005, the UNDP has prepared its most extensive Human Development Report to date. However, its catalogue of recommendations on aid, trade policies and response to conflict throws up little that is new. Rather, it reaffirms the findings of the numerous other reports and lists of demands which appeared in the run-up to the Millennium+5 Summit. The added value of the HDR lies in its clear (and at times refreshingly undiplomatic) language, and in the figures, facts

and case studies on which the authors build their analysis and demands.

The decision to publish the report immediately before the Millennium+5 Summit in New York did not necessarily have the desired publicity effect. In all the factionalism around the negotiations in the days before the summit, the report was somewhat lost, and its recommendations are barely reflected in the summit's outcome document. A similar result is to be feared at the WTO Ministerial Meeting in Hong Kong.

In developing countries, the discussion provoked by the report's release centred less on its analysis and political demands than on the ranking of individual countries. So for example the Kenyan media took Kenya's continuously falling HDI as an opportunity to question its own government's position on poverty. This gives one example of how the HDR can, with its sheer figures, contribute to initiating debates in civil society about development and anti-poverty policies

An important aspect of this year's HDR, which should not be overlooked in focussing on its three main themes, is the overall focus on the subject of 'inequality and human development'. It is worth remarking that within a few weeks of each other, a whole series of international reports took up the issue of equality and equity. This year's World Bank report addresses "Equity and Development" and the UN Report on the World Social Situation 2005 is titled "The Inequality Predicament". Together with these reports the Human Development Report can contribute to moving beyond the narrow focus on Millennium Development Goals, so that development discourse can once more address questions of distribution and social justice. This highlighting of the 'blind spot' in the MDG approach, and the push to develop goals and indicators further, is possibly the most important message of the 2005 HDR.

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