ul Haq, Mahbub. 2003. "The Human Development Paradigm." Pp. 17-34 in
Readings in Human Development, edited by Sakiko Fukuda-Parr and A. K. Shiva Kuma.
Oxford, UK: Oxford University Press.

1.2 THE HUMAN DEVELOPMENT PARADIGM*

Mahbub ul Haq

"That's very important," the King said, turning to the jury. They were just beginning to write this down on their slates, when the White Rabbit interrupted: "Unimportant, your Majesty means, of course," he said in a very respectful tone, but frowning and making faces at him as he spoke.

"Unimportant, of course, I meant," the King hastily said, and went on to himself in an undertone, "important – unimportant – unimportant – important –" as if he were trying which word sounded best.

– Alice in Wonderland

The rediscovery of human development is not a new invention. It is a tribute to the early leaders of political and economic thought. The idea that social arrangements must be judged by the extent to which they promote "human good" dates at least to Aristotle (384–322 B.C.). He argued that "wealth is evidently not the good we are seeking, for it is merely useful and for the sake of something else". He distinguished a good political arrangement from a bad one by its successes and failures in enabling people to lead "flourishing lives".

Immanuel Kant (1724–1804) continued the tradition of treating human beings as the real end of all activities when he observed: "So act as to treat humanity, whether in their own person or in that of any other, in every case as an end withal, never as means only." And when Adam Smith (1723–1790), that apostle of free enterprise and private initiative, showed his concern that economic development should enable a person to mix freely with others without being "ashamed to appear in publick", he was expressing a concept of poverty that went beyond counting calories – a concept that integrated the poor into the mainstream of the community. A similar strain was reflected in the writings of the other founders of modern economic thought, including Robert Malthus, Karl Marx and John Stuart Mill.

After the belated rediscovery of human development, it is necessary to give this paradigm some firmer conceptual, quantitative and policy moorings – here and in the next six chapters.

The basic purpose of development is to enlarge people's choices. In principle, these choices can be infinite and can change over time. People often value achievements that do not show up at all, or not immediately, in income or growth figures: greater access to knowledge, better nutrition and health services, more secure livelihoods, security against crime and physical violence, satisfying leisure hours, political and cultural freedoms and a sense of participation in community activities. The objective of development is to create an enabling environment for people to enjoy long, healthy and creative lives.

INCOME AND HUMAN CHOICES

The defining difference between the economic growth and the human development schools is that the first focuses exclusively on the expansion of only one choice – income – while the second embraces the enlargement of all human choices – whether economic, social, cultural or political. It might well be argued that the expansion of income can enlarge all other choices as well. But that is not necessarily so, for a variety of reasons.

To begin with, income may be unevenly distributed within a society. People who have no access to income, or enjoy only limited access, will see their choices fairly constrained. It has often been observed that in many societies, economic growth does not trickle down.

But there is an even more fundamental reason why income expansion may fail to enlarge human options. It has to do with the national priorities chosen by the society or its rulers – guns or butter, an elitist model of development or an egalitarian one, political authoritarianism or political democracy, a command economy or participatory development.

No one will deny that such choices make a critical difference. Yet we often forget that the use of income by a society is just as important as the generation of income itself, or that income expansion leads to much less human satisfaction in a virtual political prison or cultural void than in a more liberal political and economic environment. There is no automatic link between income and human lives – a theme explored at length in the subsequent chapters. Yet there has long been an apparent presumption in economic thought that such an automatic link exists.

It should also be recognized that accumulating wealth may not be necessary for the fulfilment of several kinds of human choices. In fact, individuals and societies make many choices that require no wealth at all. A society does not have to be rich to afford democracy. A family does not have to be wealthy to respect the rights of each member. A nation does not have to be affluent to treat women and men equally. Valuable social and cultural traditions can be – and are – maintained at all levels of income.

Many human choices extend far beyond economic well-being. Knowledge, health, a clean physical environment, political freedom and simple pleasures of life are not exclusively, or largely, dependent on income. National wealth can expand people's choices in these areas. But it might not. The use that people make of their wealth, not the wealth itself, is decisive. And unless societies recognize that their real wealth is their people, an excessive obsession with creating material wealth can obscure the goal of enriching human lives.

The human development paradigm performs an important service in questioning the presumed automatic link between expanding income and expanding human choices. Such a link depends on the quality and distribution of economic growth, not only on the quantity of such growth. A link between growth and human lives has to be created consciously through deliberate public policy – such as public spending on social services and fiscal policy to redistribute income and assets. This link may not exist in the automatic workings of the marketplace, which can further marginalize the poor.

But we must be careful. Rejecting an automatic link between income expansion and flourishing human lives is not rejecting growth itself. Economic growth is essential in poor societies for reducing or eliminating poverty. But the quality of this growth is just as important as its quantity. Conscious public policy is needed to translate economic growth into people's lives.

How can that be done? It may require a major restructuring of economic and political power, and the human development paradigm is quite revolutionary in that respect. It questions the existing structure of power. Greater links between economic growth and human choices may require far-reaching land reform, progressive tax systems, new credit systems to bank on the poor people, a major expansion of basic social services to reach all of the deprived population, the removal of barriers to the entry of people in economic and political spheres and the equalization of their access to opportunities, and the establishment of temporary social safety nets for those who may be bypassed by the markets or public policy actions. Such policy packages are fairly fundamental and will vary from one country to another. But some features are common to all of them.

First, people are moved to centre stage. Development is analysed and understood in terms of people. Each activity is analysed to see how much people participate in it or benefit from it. The touchstone of the success of development policies becomes the betterment of people's lives, not just the expansion of production processes.

Second, human development is assumed to have two sides. One is the formation of human capabilities – such as improved health, knowledge and skills. The other is the use people make of their acquired capabilities – for employment, productive activities, political affairs or leisure. A society needs to build up human capabilities as well as ensure equitable access to human opportunities. Considerable human frustration results if the scales of human development do not finely balance the two sides.

Third, a careful distinction is maintained between ends and means. People are regarded as the ends. But means are not forgotten. The expansion of GNP becomes an essential means for expanding many human options. But the character and distribution of economic growth are measured against the yardstick of enriching the lives of people. Production processes are not treated in an abstract vacuum. They acquire a human context.

Fourth, the human development paradigm embraces all of society - not just the economy. The political, cultural and social factors are given as much attention as the economic factors. In fact, study of the link between the economic and the non-economic environment is one of the most fascinating and rewarding aspects of this new analysis.

Fifth, it is recognized that people are both the means and the ends of development. But people are not regarded as mere instruments for producing commodities - through an augmentation of "human capital". It is always remembered that human beings are the ultimate end of development - not convenient fodder for the materialistic machine.

A HOLISTIC CONCEPT

Nor should human welfare concepts or social safety nets or investment in education and health be equated with the human development paradigm, which includes these aspects, but only as parts of the whole. The human development paradigm covers all aspects of development - whether economic growth or international trade, budget deficits or fiscal policy, saving or investment or technology, basic social services or safety nets for the poor. No aspect of the development model falls outside its scope, but the vantage point is the widening of people's choices and the enrichment of their lives. All aspects of life - economic, political or cultural - are viewed from that perspective. Economic growth, as such, becomes only a subset of the human development paradigm.

On some aspects of the human development paradigm, there is fairly broad agreement:

- Development must put people at the centre of its concerns.
- The purpose of development is to enlarge all human choices, not just income.
- The human development paradigm is concerned both with building up human capabilities (through investment in people) and with using those human capabilities fully (through an enabling framework for growth and employment).
- Human development has four essential pillars: equality, sustainability, productivity and empowerment. It regards economic growth as essential but emphasizes the need to pay attention to its quality and distribution, analyses at length its link with human lives and questions its long-term sustainability.
- The human development paradigm defines the ends of development and analyses sensible options for achieving them.

Despite the broad agreement on many of these features, there are several controversies about the human development concept - often stemming from some misunderstanding about the concept itself. Fairly widespread is the mistaken view that human development is anti-growth and that it encompasses only social development.

The human development paradigm consistently takes the view that growth is not the end of economic development - but that the absence of growth often is. Economic growth is essential for human development, but to fully exploit the opportunities for improved well-being that growth offers, it needs to be properly managed. Some countries have been extremely successful in managing their economic growth to improve the human condition, others less so. So, there is no automatic link between economic growth and human progress. And one of the most pertinent policy issues concerns the exact process through which growth translates, or fails to translate, into human development under different development conditions.

There are four ways to create the desirable links between economic growth and human development.

First, emphasis on investment in the education, health and skills of the people can enable them to participate in the growth process as well as to share its benefits, principally through remunerative employment. This is the growth model adopted by China, Hong Kong, Japan, Malaysia, the Republic of Korea, Singapore, Thailand and many other newly industrializing countries.

Second, more equitable distribution of income and assets is critical for creating a close link between economic growth and human development. Wherever the distribution of income and assets is very uneven (as in Brazil, Nigeria and Pakistan), high GNP growth rates have failed to translate into people's lives. The link between distribution of assets and the nature of growth can be:

- Growth-led, with favourable initial conditions in asset distribution and mass education, including the participation of people in economic activities (China, the Republic of Korea)
- Unfavourable initial conditions but high growth with corrective public policy action, including people's participation (Chile, Malaysia).
- Low growth with public policy action to provide basic social services, but normally unsustainable over the long term (Jamaica, Sri Lanka).

Third, some countries have managed to make significant improvements in human development even in the absence of good growth or good distribution. They have achieved this result through well-structured social expenditures by the government. Cuba, Jamaica, Sri Lanka and Zimbabwe, among others, achieved fairly impressive results through the generous state provision of social services. So did many countries in Eastern Europe and the Commonwealth of Independent States (CIS). But such experiments generally are not sustainable unless the economic base expands enough to support the social base.

Fourth, the empowerment of people - particularly women - is a sure way to link growth and human development. In fact, empowerment should accompany all aspects of life. If people can exercise their choices in the political, social and economic spheres, there is a good prospect that growth will be strong, democratic, participatory and durable.

Another misconception - closely related to the alleged anti-growth bias of human development models - is that human development strategies have only social content, no hard economic analysis. The impression has grown that human development strategies are concerned mainly with social development expenditures (particularly in education and health). Some analysts have gone further and confused human development with development only of human resources - that is, social development expenditure aimed at strengthening human capabilities. Others have insisted that human development strategies are concerned only with human welfare aspects - or, even more narrowly, only with basic human needs - and that they have little to say about economic growth, production and consumption, saving and investment, trade and technology, or any other aspect of a macroeconomic framework.

These analysts do scant justice to the basic concept of human development as a holistic development paradigm embracing both ends and means, both productivity and equity, both economic and social development, both material goods and human welfare. At best, their critiques are based on a misunderstanding of the human development paradigm. At worst, they are the products of feeble minds.

The real point of departure of human development strategies is to approach every issue in the traditional growth models from the vantage point of people. Do they participate in economic growth as well as benefit from it? Do they have full access to the opportunities of expanded trade? Are their choices enlarged or narrowed by new technologies? Is economic expansion leading to job-led growth or jobless growth? Are budgets being balanced without unbalancing the lives of future generations? Are "free" markets open to all people? Are we increasing the options only of the present generation or also of the future generations?

None of the economic issues is ignored, but they all are related to the ultimate objective of development: people. And people are analysed not merely as the beneficiaries of economic growth but as the real agents of every change in society whether economic, political, social or cultural. To establish the supremacy of people in the process of development – as the classical writers always did – is not to denigrate economic growth but to rediscover its real purpose.

It is fair to say that the human development paradigm is the most holistic development model that exists today. It embraces every development issue, including economic growth, social investment, people's empowerment, provision of basic needs and social safety nets, political and cultural freedoms and all other aspects of people's lives. It is neither narrowly technocratic nor overly philosophical. It is a practical reflection of life itself.

Most of the recent elaboration of the human development paradigm has been carried out by the annual *Human Development Report,* which since 1990 has been commissioned by the United Nations Development Programme and prepared by an independent team of eminent economists and distinguished social scientists.

THE ADVENT OF THE HUMAN DEVELOPMENT REPORT

In economic science, nothing is ever new, and nothing permanent. Ideas emerge, flourish, wither and die, to be born again a few decades later. Such is the case for ideas about human development. The founders of economic thought never forgot that the real objective of development was to benefit people – creating wealth was only a means. That is why, in classical economic literature, the preoccupation is with all of society, not just with the economy. Fascination with industrial chimneys and technology did not replace early economists' concern with real people.

After the Second World War, however, an obsession grew with economic growth models and national income accounts. What was important was what could be measured and priced. People as the agents of change and beneficiaries of development were often forgotten. Learned treatises appeared on how to increase production, but little was written on how to enhance human lives. The delinking of ends and means began, with economic science often obsessed with means.

The late 1980s were ripe for a counter-offensive. It was becoming obvious in several countries that human lives were shrivelling even as economic production was expanding. Some societies were achieving fairly satisfactory levels of human welfare even at fairly modest incomes. But no one could miss the signs of considerable human distress in the richest societies – rising crime rates, growing pollution, spreading HIV/AIDS, a weakening social fabric. A high income, by itself, was no defence against human deprivation. Nor did high rates of economic growth automatically translate into improved lives. New questions were being raised about the character, distribution and quality of economic growth.

Other events hastened such questioning. The human costs of structural adjustment programmes in the 1980s, undertaken in many developing countries under the aegis of the International Monetary Fund and the World Bank, had been extremely harsh. That prompted questions about the human face of adjustment and about whether alternative policy options were available to balance financial budgets while protecting the interests of the weakest and most vulnerable sections of society. Fast-spreading pollution started reminding policy-makers about the external diseconomies of conventional economic growth models. At the same time, the strong forces of democracy started sweeping across many lands – from the communist countries to the developing world – raising new aspirations for people-centred development models.

In this favourable climate, I presented the idea of preparing an annual human development report to the Administrator of the United Nations Development Programme, William Draper III, in the spring of 1989. He readily accepted the basic idea as well as its essential corollary – that such a report should be independent of any formal clearance through the United Nations. We both recognized that only a candid, uninhibited development policy dialogue would serve the interests of the global community.

The first *Human Development Report,* published by Oxford University Press, emerged in May of 1990. Since then, reports have been produced annually. While each report has monitored the progress of humanity – particularly through the country rankings in a new human development index – each also takes up a new policy issue and explores it in depth. This article recapitulates the main messages of the first five reports, and then analyses their policy impact and the healthy controversies they have generated in many fields.

1990: Concept and measurement

Concern with human development seems to be moving to centre stage in the 1990s. For too long, the recurrent question was, how much is a nation producing? Increasingly, the question now being asked is, how are its people faring? The main reason for this shift is the growing recognition that the real objective of development is to enlarge people's options. Income is only one of those options – and an extremely important one – but it is not the sum-total of human life. Health, education, physical environment and freedom – to name a few other human choices – may be just as important as income.

Human Development Report 1990, launched in London on 24 May 1990, addressed some of these concerns and explored the relationship between economic growth and human development. It challenged some of the conventional wisdom, exploded some of the old myths and reached some important policy conclusions that would have significant implications for development strategies for the next decade.

First, it is wrong to suggest that the development process has failed in most developing countries in the past three decades. Judged by real indicators of human development, it has succeeded spectacularly. Average life expectancy has increased by 16 years, adult literacy by 40% and per capita nutritional levels by more than 20%, and child mortality rates have been halved. In fact, developing countries have achieved in the past 30 years the kind of real human progress that industrial countries took nearly a century to accomplish. While the income gap between North and South is still very large – with the average income of the South 6% of that in the North – the human gaps have been closing fast. Average life expectancy in the South is 80% of the northern average, adult literacy 66% and nutrition 85%.

True, the record of the developing world is uneven, with disparities between regions and countries and even within countries. And true, there is still a large unfinished agenda of human development – with one-fourth of the people in developing countries still deprived of basic human necessities, minimum incomes and decent social services. But the overall policy conclusion is that the development process does work, that international development cooperation has made a difference, that the remaining agenda of human development is manageable in the 1990s if development priorities are properly chosen. This certainly is a message of hope, though not of complacency.

Second, it is wrong to suggest that economic growth is unnecessary for human development. No sustained improvement in human well-being is possible without growth. But it is also wrong to suggest that high economic growth rates will automatically translate into higher levels of human development. They may or they may not. It all depends on the policy choices that countries make. And the real world offers too many uncomfortable examples of a wide divergence between income and human development levels. Adult literacy in Saudi Arabia is lower than that in Sri Lanka despite a per capita income that is 16 times higher. Infant mortality in Jamaica is one-fourth that in Brazil, despite Jamaica's per capita income being half that of Brazil. Life expectancy is 76 years in Costa Rica, with a per capita income of $1,870, but only 69 years in Oman, with a per capita income of $6,140.

Why such wide divergences between income and human development? The explanation lies in how equitably – or inequitably – income, physical assets, financial credit, social services and job opportunities are distributed. If income and human development are to be linked more closely, countries must adopt policies that distribute these economic assets and opportunities more equitably.

Third, it is conceptually and practically wrong to regard poverty alleviation as a goal distinct from human development. Most poverty can be explained by inadequate access to income, assets, credit, social services and job opportunities. The only long-term remedy is to invest in poor people, particularly in their education and training, and to bring them back into the mainstream of development. Poverty should not be regarded as a residual of economic growth, treated separately without modifying the growth strategies. Such an approach is inconsistent with human development strategies – which are focused on investment in all the people and on their full participation in human well-being.

Fourth, it is wrong to suggest that developing countries lack enough resources to address their human development goals. In reality, considerable potential exists for restructuring present priorities in their national budgets and in foreign assistance allocations. Many poor countries spend two to three times more on their military than on the education and health of their people. Overall, Third World military spending increased by $10 billion to $15 billion a year during the 1980s, showing the scope for diversion of resources if new concepts of security evolve in the 1990s. There also is considerable scope for saving by reducing inefficient spending on parastatals, subsidies to the richer sections of society and inappropriate priorities in the development budgets.

In bilateral foreign assistance, the share for education and health has declined from 17% to 10% over the past decade, suggesting room for improving aid allocation. Considerable scope also exists for restructuring internal and external debt. So, the potential for restructuring existing priorities is enormous. The scope for reallocating budgetary expenditure opens to serious question the human and social costs of structural adjustment programmes. Most budgets can be balanced without unbalancing the lives of future generations. And that is why aid donors must re-examine policy conditionality: they must insist that human investment will be the last item to be touched in a budget, and only when all other options have been explored and exhausted.

Fifth, it is wrong to pretend that markets alone can deliver balanced patterns of economic growth and human development. Instead, there must be a judicious mix of market efficiency and social compassion. The present situation in many developing countries is topsy-turvy. Governments are intervening inefficiently in productive processes in agriculture and industry, where they hardly belong, but spending inadequately (3–4% of GNP) on social services, which should be their primary responsibility. This situation needs to be reversed. Also necessary is to ensure that social safety nets are not seriously eroded in periods of rapid growth or social transformation. Otherwise, serious political upheavals may disrupt the development process.

The challenge now is to ensure that human development is at the forefront of growth strategies in the decade ahead. The suggested agenda for the 1990s:

- Persuading the developing countries to prepare their own human development goals for the 1990s and to integrate these goals in their overall growth models and investment budgets.
- Assisting developing countries in collecting better data on human development indicators and in undertaking more professional analysis of the link between their economic growth and human development.
- Analysing the impact of specific projects and programmes on people, not only on production.
- Incorporating human development concerns in aid allocations and policy conditionality.

The 1990s offer an exciting challenge to move from new ideas to concrete action and to treat human beings, once again, as both the means and the end of development.

1991: FINANCING HUMAN DEVELOPMENT

Human Development Report 1991, launched in Washington, D.C., on 23 May 1991, reached the conclusion that restructuring existing budgets can provide enough resources to finance basic social services for all the people. It is the lack of political courage to make tough decisions, rather than the paucity of financial resources, that is responsible for the current state of human neglect. There are far too many examples of wasted resources and wasted opportunities: rising military expenditures, inefficient public enterprises, numerous prestige projects, growing capital flight and extensive corruption. If priorities are recast, most budgets can accommodate more spending for human development. As much as $50 billion a year can be found in developing countries for urgent human concerns, just by changing government spending patterns.

More funds for human development can be found by taking four actions:

- *Halting capital flight* - Capital flight from the Philippines was equal to 80% of its outstanding debt between 1962 and 1986.
- *Combating corruption* - In Pakistan, public officials' illegitimate private gain from their positions is unofficially estimated at 4% of GNP.
- *Reforming public enterprises* - The losses public enterprises suffer in Cameroon, for example, exceed the country's total oil revenue.
- *Restructuring debt payments* - Debt repayments take a large share of government budgets. Jordan devotes 39% of its budget to external debt service and 18% to social services. Internal debt now exceeds external debt for many countries - including India, Malaysia, Pakistan, the Philippines and Singapore.

Four ratios could serve as the principal guide to public spending policy: the public expenditure ratio (the percentage of national income that goes into public expenditure earmarked for social services); the social allocation ratio (the percentage of public expenditure earmarked for social services); the social priority ratio (the percentage of social expenditure devoted to human priority concerns); and the human expenditure ratio (the percentage of national income devoted to human priority concerns, obtained by multiplying the first three ratios).

These ratios tell volumes about a country's priorities. Argentina spent 41% of its GNP through its government budget in 1988, yet its human expenditure ratio was only 2.3%. So Argentina realized that it could reduce public spending, release more resources for private investment and economic growth, and yet substantially increase spending on human priority concerns - a course it is currently embarked on.

The report came to these conclusions:

- The human expenditure ratio may need to be at least 5% of GNP if a country wishes to do well on human development.
- An efficient way to achieve this result is to keep the public expenditure ratio moderate (around 25%), to allocate much of this expenditure to the social sectors (more than 40%) and to focus on the social priority areas (giving them more than 50%).
- Government spending need not be high if GNP growth is high and rather equitable - or if private and non-governmental organizations (NGOs) are extremely active in the social sectors.
- High government spending with low social priorities is the worst case. If more than 25–35% of national income is channelled through the government budget, and yet less than 2% of GNP goes to human priority concerns (as in Brazil, Sierra Leone and Thailand in 1988), this is the worst of all possible worlds. The public sector is huge, yet the majority of the people do not gain.
- Most countries could use existing resources more efficiently by adopting more decentralized, participatory approaches to development, by making prudent economies and reducing unit costs, by charging many users

The developing countries must improve their economic management, liberate their private initiative and invest in the education of their people and in the technological progress of their societies. The basis for such a further advance has already been laid by the rapid strides in basic education and primary health care in most developing countries. Japan, the Republic of Korea, Singapore and, more recently, China, Malaysia and Thailand have followed this human investment path to development. They made spectacular increases in their share of global markets. East and South-East Asia doubled their share of world trade between 1970 and 1990, as did China. But Sub-Saharan Africa, with minimal investments in human development, had its share in world trade plummet to a fourth of the 1970 level.

A fatal contradiction afflicts the global economic system. As national markets open up – from New Delhi to Rio, from Moscow to Warsaw – can global markets close down further? That is precisely what is happening. The OECD nations have become more protectionist in the past decade, just when additional export surpluses are likely to emerge from the liberalizing markets of developing countries and the former socialist bloc. For example, if India follows the path of the Republic of Korea, it will have at least $60 billion of additional exports to offer the world markets each year.

It does not take a genius to figure out that the ongoing, rapid structural adjustment in the South and in the former socialist bloc has a logical corollary – a structural change in the North. Yet this simple truth is being largely ignored – sometimes even bitterly contested. Buffeted by recession and unemployment, many northern economies are unprepared to invest in changing their production and job structures, not recognizing that their lack of adjustment will greatly frustrate the liberal market experiments they are so actively encouraging all over the world.

Many of the poorest nations, particularly in Africa, cannot even begin to fully make use of market opportunities without additional financial help. Market efficiency must be balanced by social equity. Even in the market economies of the United States and the United Kingdom, about 15% of GNP is recycled in medicare, food stamps, unemployment benefits and social security payments. In the Nordic countries, the social safety nets consume roughly a third of GNP. But what about the developing world, where 1.2 billion people barely survive below an absolute poverty line of about $400? The rich nations can spare only 0.3% of GNP for official development assistance, the closest approximation to an international social safety net. This, with about 100 million people below the official poverty line of around $5,000 in income a year.

Even more relevant than the inadequacy and unpredictability of such a social safety net is whether it catches the most deserving people. Twice as much aid per capita goes to high military spenders in the developing world than to more moderate military spenders. Only a quarter of official development assistance is earmarked for the ten countries containing three-fourths of the world's absolute poor. India, Pakistan and Bangladesh have nearly one-half of the world's poor but get only one-tenth of total aid. Less than 7% of global aid is spent on human priority concerns of basic education, primary health care, family planning, safe drinking water and nutritional programmes. Even mighty international institutions like the World Bank and the IMF now take more money from the developing world than they put in, adding to the reverse transfer of around $50 billion a year to the commercial banks.

Much of today's pattern of development cooperation was shaped by the anxieties of the cold war, and the link with global poverty or human development is far from clear. A new framework of development cooperation is needed, one focused more directly on people.

Who can persuade the rich nations that it is in their interest to open their markets, to design a people-centred framework for development cooperation and to prepare their economic systems for a structural change? International institutions of global governance – supposedly with an international reach – are often confined to influence only in poor nations. The IMF's structural adjustment programmes are enforced only in the developing world – which accounts for less than 10% of global liquidity. And as little as 7% of global trade conforms to the GATT rules - since textiles, agriculture, tropical products, services, intellectual property and trade-related investment flows are all outside the GATT's purview and awaiting the ratification of the Uruguay Round of Multilateral Trade Negotiations. The global institutions, so charitably described as the international economic system, are hardly global. To make these institutions truly global in their reach, in their policy frameworks and in their management structures, an Economic Security Council within the United Nations is proposed as a manageable forum for global economic policy coordination.

For the global institutions to become truly global will take time. What about now? What pressures are there for both North and South to move toward equitable access to global markets, to people-centred development cooperation and to structural changes in their economies? For the North, pressure could derive from a combination of hope and fear - a mixture of self-interest and leadership. The high cost of protectionism must be explained to the people. Consumers in the United States pay $70 billion a year more in higher prices for protected goods. There is one hopeful sign: global military spending has been declining since 1987. Still missing, however, is a clear link between reduced military spending and greater attention to the neglected national and global human agendas. A part of the peace dividend could be invested in worker training and in technological development to prepare the northern societies for the future.

Fear may prove to be an even greater motivating force than hope. Fear of international migration of people - as people begin to travel towards opportunities when opportunities fail to travel towards them. Or fear of the migration of poverty - since poverty respects no international frontiers. Or fear of global pollution and the growing threats to common survival. It may not be possible to make the world environmentally safe for anyone unless it is made safe for everyone. The global environment is closely linked to global poverty.

For the South, the sterile dialogue of the 1970s must give way to a more enlightened dialogue on new patterns of development cooperation in a changing world - mutual interests, not unilateral concessions; two-sided responsibility, not one-sided accusations; more equitable access to global opportunities, not massive transfers of financial resources; more open markets, not more managed markets. Yes, there should be pressure for developing countries to reduce their military expenditures. But there should be a similar pressure at the global level to replace military assistance by economic assistance, phase out military bases, restrain arms shipments and eliminate export subsidies for defence industries. And yes, more attention should go to reducing corruption in developing countries. But there should be as much accountability for the multinational corporations that bribe officials and for the banks that park the illegal gains of corruption - accountability tracked by a new NGO, perhaps an Honesty International.

1993: People's participation

Across the globe, people are uniting in a common struggle: to participate freely in the events and processes that shape their lives. From Russia to Poland, from the Republic of Korea to Brazil, from the turbulent slums of Los Angeles to the restless ghettos of Johannesburg, the forces of people's participation are gathering momentum. These forces, constrained neither by time nor by tradition, respect no geographical boundaries or ideological frontiers. They are the messengers of a new age - an age of people's participation - and the central theme of *Human Development Report 1993,* launched in New Delhi on 25 May 1993.

Despite the impatient urge for people's participation, too many barriers still block the way. Our world is still a world of difference.

- It is a world where more than a billion people still languish in absolute poverty - surviving at the bare margins of existence, below any common concept of human dignity.
- It is a world that calmly tolerates a huge global income disparity, with the top one billion

people receiving 150 times more income than the bottom one billion, even as disparities only a tenth as large within nations are leading to convulsions in many countries.

- It is a world where women still earn only half as much as men and despite casting about half the votes, secure less than 10% of the representation in parliaments.
- It is a world where many ethnic minorities still live like a separate nation within their countries, creating tremendous potential for ethnic explosions. Despite commendable efforts at national integration in the United States, the country's whites rank number 1 in the world in the human development index - ahead of all nations - while its blacks rank only number 31, behind Trinidad and Tobago.

Few people have the opportunity to participate fully in the economic and political lives of their nations. And the dangerous potential for human strife that often emerges from the irresistible urge for people's participation clashing with inflexible systems must be recognized.

Needed today is a fundamental change in the management of economic and political systems - from markets to governance to institutions of civil society.

Today's markets are marvels of technology, and open markets are often the best guarantee for unleashing human creativity. But not enough people benefit from the opportunities that markets normally create. Insufficient human investment may mean that many people enter the market at a considerable disadvantage. With literacy rates below 50% in South Asia and Sub-Saharan Africa, about a billion people lack even the basic education and skills to take advantage of market opportunities. The very poverty of many people makes them uncreditworthy - and the same goes for nations. Paradoxically, where the need for credit is the greatest, the market creditworthiness may be the lowest. In Kenya, less than 5% of institutional credit goes to the informal sector. And the bottom 20% of the world's population receives only 0.2% of global commercial credit. People enter the markets with unequal endowments and naturally leave the markets with unequal rewards. It should come as no surprise that the playing fields of life are uneven.

Policy actions must be taken to ensure that people participate fully in the operations of markets and share equitably in their benefits. Markets must be made people-friendly. This is where the state comes in - not to replace markets but to enable more people to share market opportunities. The state has a major role in levelling the playing field by improving the access of all people to human resource investments, productive assets, credit facilities, information flows and physical infrastructure. The state also has to serve as a referee - correcting the price signals and the incentive system, disallowing the exploitation of future generations for present gains (as in the case of the environment) and protecting the legitimate interests of producers, consumers, workers and vulnerable groups in society. In addition, the state must extend a social safety net to the victims of the market-place for temporary periods - to enable them to get back into the market to take advantage of its full opportunities.

The presumption of a conflict between the state and the market is thus false - and dangerous. People must be empowered to guide both the state and the market - to serve the interests of the people.

That is all the more necessary in a period in which markets fail to create enough jobs and not all people are participating in productive market opportunities, even in industrial nations. Witness the new and disturbing phenomenon: jobless growth. Output is increasing, but jobs are lagging way behind. In Germany, the output index increased from 100 in 1960 to 268 in 1987, but the employment index fell from 100 to 91. In developing countries, the increase in employment has been proceeding at about half the rate of increase in output in the past three decades. The great strides in human productivity - thanks to automation and new technological innovations - are to be cheered. But not enough people are participating in this productivity growth. Rising unemployment not only denies income opportunities - it strips away human dignity. And merely expanding unemployment benefits is not the solution to this disturbing phenomenon of jobless growth.

Developing countries are experiencing double-digit unemployment rates. They need to create one billion new jobs in the 1990s to stay abreast of increases in the labour force and to absorb the reservoir of unemployed workers. They need to learn from the experience of Japan and the industrializing tigers of East Asia, and to experiment with new employment strategies. These strategies should stress massive investment in education, skills and training. They should also stress the restructuring of the credit system to make it accessible to the majority of the people and the establishment of more open, people-friendly markets. And they should stress government support to small-scale enterprises and the informal sector, greater fiscal incentives for labour-intensive technologies, and employment safety nets in areas and periods of severe unemployment. It would be folly for the state to displace markets in the name of fancy employment generation schemes. But it would also be a folly to fail to take the policy actions necessary to open market opportunities to increasing numbers of people – particularly investing vigorously in education, skills and infrastructure and opening the credit system to more people.

The industrial nations face even more fundamental dilemmas. Reduced working hours, innovative proposals for work-sharing and redefined concepts of work are all on the policy agenda. These nations may have to consider whether it is better for most people to work five days a week – to support some people on unemployment benefits – or for all people to work, say, four days a week. People's participation in these decisions may create new norms of work and employment.

At the same time, new patterns of national and global governance are needed to accommodate the rising aspirations of the people. The nation-state is already under pressure. It is too small for the big things, and too big for the small. Only meaningful decentralization can take decision-making closer to the people. But new patterns of global governance must be designed for an increasingly interdependent world.

Most developing countries are overcentralized. On average, less than 10% of their budgetary spending is delegated to local levels, compared with more than 25% in industrial nations. Even foreign aid has a centralizing influence. Most decision-making is kept in the hands of a small, central elite. These patterns of governance are inappropriate in societies that have considerable ethnic and cultural diversity and where people increasingly resist dictates from above. What may save these societies from internal explosions is a sweeping decentralization of decision-making powers and faster movement towards economic and political democracy. Unless this is done before people begin to agitate for their rights, the change may come too late and prove too disruptive.

Democracy is rarely so obliging as to stop at national borders. The gathering forces of participation are likely to affect all institutions of global governance. They may lead to more democratic decision-making in the World Bank and the IMF and to a strengthened socioeconomic role for the UN system. The new demands are for the security of people, not just for the security of nation-states. And the new conflicts are increasingly between people, rather than between nations – as in Somalia, Bosnia, Cambodia, Angola and Sri Lanka. Soldiers in uniform – even when in blue berets – are only a poor short-term response to these emerging crises. Needed instead are new participatory socioeconomic processes. To play a greater role in this area, the UN system needs a new socioeconomic mandate, vastly increased financial resources, and a manageable decision-making forum – maybe an Economic Security Council – to meet the new demands of preventive diplomacy and human security.

Although the forces of people's participation demand new structures for markets and the state, they can find their ultimate fulfilment only in the institutions of a civil society that enable people to take control of their own lives. Rule of law, freedom of expression, non-governmental organizations and other community associations are an integral part of such a civil society. NGOs in particular have become very important in recent years, especially in their advocacy of such emerging policy concerns as the environment, women's development, ethnic protection and human rights. Often, people are ahead of their governments – and by organizing themselves, they can bend their governments to the popular will, particularly in a democratic framework in which politicians are sensitive to every shift in public opinion.

There has been an explosion in the number of NGOs in the past decade, with more than 50,000 major NGOs reaching more than 250 million people and channelling more than $5 billion of aid funds a year to the developing countries. But the role of NGOs must be put in its proper perspective. Although they create the necessary pressure for new policy directions and often supplement government action, they can never replace it. The scale and impact of even the most successful of NGOs are surprisingly limited. For instance, the Grameen Bank in Bangladesh – one of the internationally renowned NGOs providing credit to the poor – accounts for only 0.1% of total national credit. The major achievements of NGOs lie in generating new policy pressure for change, in organizing the weak and the vulnerable, and in designing innovative ways of reaching the people in a cost-effective manner.

In sum: people's participation is a powerful and overarching concept. It must inspire a search for a people-centred world order built on five new pillars:

- New concepts of human security that stress the security of people, not only of nations.
- New strategies of sustainable human development that weave development around people, not people around development.
- New partnerships between the state and the market, to combine market efficiency with social compassion.
- New patterns of national and global governance, to accommodate the rising tide of democracy and the steady decline of the nation-state.
- New forms of international cooperation, to focus assistance directly on the needs of the people rather than only on the preferences of governments.

The rising tide of people's participation must be channelled into the foundation for a new human society – where people finally take charge of their own destiny.

1994: Human security

Human Development Report 1994, launched in Copenhagen on 1 June 1994, underscored the new imperatives of human security in the post-cold war era. Security is now increasingly interpreted as the security of people in their daily lives – in their homes, in their jobs, in their streets, in their communities and in their environment.

Many perceptions have to change. Human security must be regarded as universal, global and indivisible. Just imagine for a moment that every drug that quietly kills, every disease that silently travels, every form of pollution that roams the globe and every act of senseless terrorism all carried a national label of origin, much as traded goods do. That would bring sudden realization that human security concerns today are more global than even global trade.

A second perception must change: it must be recognized that poverty cannot be stopped at national borders. Poor people may be stopped. But not the tragic consequences of their poverty: drugs, AIDS, pollution and terrorism. When people travel, they bring much dynamism and creativity with them. But when only their poverty travels, it brings nothing but human misery.

One more perception must change: it must be seen that it is easier, more humane, and less costly to deal with the new issues of human security upstream rather than downstream. Did it make sense in the past decade to incur the staggering cost of $240 billion for HIV/AIDS treatment when investing even a small fraction of that amount in primary health care and family planning education might have prevented such a fast spread of this deadly disease? Is it a great tribute to international diplomacy to spend $2 billion in a single year on soldiers in Somalia to deliver humanitarian assistance when investing the same amount much earlier in increased domestic food production and social development might have averted the final human tragedy – not just for one year, but for a long time to come? Is it a reflection of human ingenuity to spend hundreds of billions of dollars on administrative control of drug trafficking and on the rehabilitation of drug addicts but not even a small part of that amount for drug education of consumers or alternative livelihoods for producers?

It is time to fashion a new concept of human security that is reflected not in better weapons for countries but in better lives for people. Countries that have ignored the security of their people could not protect even the security of their nations. In 1980, Iraq, Somalia and Nicaragua had the highest ratios of military to social spending. By the 1990s, these countries were beginning to disintegrate. By contrast, Costa Rica invested one-third of its national income in the education, health and nutrition of its people and nothing in the army that it had abolished in 1948. Any wonder that Costa Rica survived as the only prospering democracy in the inflamed Central America of the past few decades?

The emerging concept of human security will lead to many fundamental changes in thinking.

First, new models of human development will treat GNP growth as a means, not as an end; enhance human life, not marginalize it; replenish natural resources, not run them down; and encourage grass-roots participation of people in the events and processes that shape their lives. The real issue is not just the level of economic growth, but its character and distribution. Those who postulate a fundamental conflict between economic growth and human development do no service to the poor nations. To address poverty, economic growth is not an option, it is an imperative. But what type of growth? Who participates in it? And who derives the benefits? These are the real issues.

For a long time, it was quietly assumed that high levels of economic growth would automatically translate into high levels of human development. But that does not necessarily happen, so there is no automatic link between economic growth and human lives. The practical experience of many nations demonstrates this reality. Sri Lanka and Guinea show exactly the same GNP per capita: $500. But they display stark contrasts in the quality of life in their societies. Life expectancy is 71 years in Sri Lanka, only 44 years in Guinea. Adult literacy is 89% in Sri Lanka, only 27% in Guinea. Infant mortality is 24 per thousand in Sri Lanka and 135 in Guinea. It is not just the level of income that matters. It is how society spends that income. Also important are the many choices that human beings make – particularly in social, cultural and political areas – that may be largely independent of their income. The quality of growth is more important than quantity.

The emerging concept of sustainable human development is based on equal access to development opportunities, for present and for future generations. The heart of this concept is equity – in access to opportunities, not necessarily in results. What people do with their opportunities is their concern. But they should not be denied an equal opportunity to develop and to use their human capabilities. We must acknowledge the universalism of life claims for every individual.

The concept of sustainable human development focuses attention not only on the future generations but also on the present ones. It would be immoral to sustain the present levels of poverty. Development patterns that perpetuate today's inequities are neither sustainable nor worth sustaining. Indeed, an unjust world is inherently unsustainable. A major restructuring of the world's income and consumption patterns – especially a fundamental change in the current life styles of the rich nations – may be a necessary precondition for any viable strategy of sustainable human development.

Second, a new framework of development cooperation must be based on global compacts among nations, not on charity. Foreign assistance must emerge from the shadows of the cold war. Even today, foreign aid is more often linked to strategic alliances from the past than to any specific human development, from slowing population growth to improving the physical environment. Only one-third of official development assistance is earmarked for the ten countries containing two-thirds of the world's absolute poor. Twice as much ODA per capita goes to the richest 40% in the developing world as to the poorest

40%. Less than 7% of bilateral ODA goes to the human priority concerns of primary health care, basic education, safe drinking water, nutrition programmes and family planning services. So, enormous scope still exists to get much more policy mileage and much better allocations from existing aid funds.

At the same time, the concept of development cooperation must be broadened to include all development flows - including trade, investment, technology and labour. It is simply unacceptable that while aid transfers so few resources to the developing world, several times more is taken away through trade protection, immigration barriers and an increasing debt burden. In such a situation, it is critical for poor nations to bargain for more equitable access to global market opportunities.

The 1994 report outlined a new design for development cooperation in the coming decades:

- Aid is regarded as an essential investment by the rich nations in their own human security.
- Developing countries are compensated for trade and immigration barriers imposed by the rich nations.
- Polluting nations are made to pay for their overuse of the global commons.
- The potential peace dividend of nearly $500 billion between 1995 and 2000 is earmarked primarily for the priority human development agenda.
- Global compacts are negotiated in specific areas - population, environment, drug control - between rich and poor nations based on two-way cooperation, not on one-way conditionality or coercion.

Third, the new imperatives of global human security demand an entirely new system of global governance - particularly a greatly strengthened role of the United Nations in development. The nature of conflicts has changed dramatically. Of the 82 conflicts in the early 1990s causing more than a thousand deaths, 79 were within - not between - nations. Many developing countries are already heading towards social disintegration, and behind every failed state, there lies a long trail of failed development or unacceptably high socioeconomic disparities. These countries require preventive development, not more weapons of war. The United Nations should be enabled to play a more significant role in social and human development of these poor nations. Only by designing an early warning system and by undertaking upstream preventive development can the United Nations help these nations avert a national collapse. It can no longer fight the battles of tomorrow with the weapons of yesterday.

In this context, the 1994 report offered at least six concrete proposals for consideration by the global community:

- A world social charter, to arrive at a new social contract among all nations and all people.
- A 3% annual reduction in global military spending, with 20% of the savings by rich nations and 10% of those by poor nations earmarked for global human security.
- A 20:20 compact for human development - to provide basic education, primary health care, safe drinking water and essential family planning services to all people over the next decade, by earmarking 20% of existing developing country budgets and 20% of existing aid allocations to these basic human priority concerns.
- A global human security fund - financed from such global taxes as the "Tobin tax" on speculative movements of international funds, an international tax on the consumption of nonrenewable energy, global environmental permits and a tax on arms trade.
- A new framework of development cooperation, in which developing and industrial countries would graduate from their present aid relationship to a more mature development partnership - by including trade, technology, investment and labour flows in a broader design to be negotiated among nations.
- An Economic Security Council in the United Nations, as the highest decision-making forum to consider basic issues of human security

such as global poverty, unemployment, food security, drug trafficking, global pollution, international migration and a new framework of sustainable human development.

These proposals demand much from the international community - but they are feasible. What is more, they are urgently needed if we are to design a new architecture of peace through development in the 21st century.

A final observation. The world has seen more hopeful changes in the past decade than ever before - from the collapse of communism to the fall of the Berlin Wall, from the end of apartheid in South Africa to a dim outline of peace in occupied Palestine. This is the time to build a new edifice of human security throughout the world.

Since its birth in San Francisco 50 years ago, the United Nations has committed itself to the first pillar of global security - to freedom from fear, to territorial security, to peace between nations. Can a "second birth" of the United Nations be engineered at the time of its 50th anniversary, giving rise to a United Nations committed to the second pillar of human security - to freedom from want, to socioeconomic development, to peace within nations? That is the supreme challenge. And the 1994 report is a modest attempt to respond to that challenge.

Impact of the Human Development Report

The impact of the *Human Development Report* on the global policy dialogue has exceeded expectations. More than 100,000 copies of the report now circulate in 13 languages. The report has been prescribed as a text in most leading universities - a tribute to its professional quality. In its first five years, it became one of the most influential reports - not only for governments, donors and international institutions but even more so for the grass-roots movements, media and institutions of civil society. Many commentators describe it as one of the most eagerly awaited reports of the year.

This response is rather unusual for a report from the UN system. What has made the *Human Development Report* an invaluable addition to the global policy dialogue is its intellectual independence and its professional integrity - its courage more than its analysis. It has not hesitated to present unpleasant facts in a fairly blunt fashion. It has chosen to identify specific country experiences - both successes and failures - rather than to bury them in vague generalizations. It has quantified social progress - and even attempted for a brief period to rank countries by political freedom. It has ventured into many areas where international dialogue had remained somewhat muted - from the high human costs of military spending to the new imperatives of human security, from lack of a clear link between ODA allocations and global policy objectives to the corruption and waste in many societies.

Controversies have accompanied the report from its inception. This was inevitable. Most governments and their representatives abroad do not like to be criticized in international reports. What irks them even more is when NGOs and the media take up the issues in the report and generate pressure for change on their own governments. The tendency for many governments has been to go after the messengers rather than to listen to the message. It is a tribute to the *Human Development Report* that it has withstood such onslaughts year after year.

What is the real impact of the *Human Development Report?* First, the report has greatly influenced the global search for new development paradigms. It is now broadly accepted that economic growth does not automatically translate into a better quality of life. For that to happen, policies must be initiated to ensure a more equitable distribution of growth as well as to change the very pattern of growth in response to people's aspirations. It is also recognized that development opportunities must be created not only for the present generations but for the future generations, by making growth models responsive to the need to regenerate natural capital. No debate is complete today without reference to people-centred, environmentally sound development strategies -

irrespective of the precise label given to such strategies. What is more, one can detect some accommodating gestures coming out of the citadels of economic growth - the World Bank and the IMF - though how far this conversion to human development is real rather than rhetorical has yet to be seen.

Second, the *Human Development Report* has helped launch many new policy proposals. For instance, the report has focused on the human costs of military spending, especially in poor nations, and made concrete proposals for reaping a peace dividend by investing in people rather than in arms. The report has also documented the great potential for restructuring existing budgets, the basis of the 20:20 global compact. The report has suggested several innovations in global governance - including the setting up of an Economic Security Council within the United Nations to deal with global socioeconomic issues and an international NGO, Honesty International, to monitor corruption. *Human Development Report 1994* was the first attempt to identify a concrete agenda for the World Summit on Social Development.

Third, the real impact of the report can be seen in the human development strategies that many developing countries have begun to formulate. Several countries have taken major steps on the road to formulating and implementing their own long-term human development plans: for example, Bangladesh, Bhutan, Bolivia, Botswana, Cameroon, Colombia, Egypt, Ghana, Malawi, Nepal, Pakistan, the Philippines, Tunisia and Turkey. Many others are beginning to take concrete action to move towards human development programmes. UNDP technical assistance has supported these exercises, but real leadership has emerged within the developing countries - and the new strategies are fully owned by the implementing nations themselves.

Fourth, one of the most influential devices - though also one of the most controversial - has been the human development index and the ranking of countries by this index. The index - particularly in its disaggregated form - holds a mirror up to all societies so that policy-makers can see how the people in their societies live and breathe, and where the key tension points are for urgent attention.

ENDNOTE

* Editors' note: This chapter has been reproduced from extracts from Mahbub ul Haq, 1995, *Reflections on Human Development*, chapters 2 and 3, Oxford University Press.