

1.

The state of human development



From Brazil to South Africa to India to China, the largest developing countries have become major drivers of the global economy. In 2012, however, even the most vigorous economies of the South began to be affected by the financial problems of the North. Struggling to emerge from a debt crisis and large budget deficits, many developed countries are imposing severe austerity programmes that are not only causing hardship for their own citizens, but are also undermining the human development prospects of millions of other people across the world.

The first *Human Development Report* in 1990 laid out a vision of economic and social progress that is fundamentally about people enlarging their choices and capabilities. Since then, there has been substantial progress: many developing economies continue to grow rapidly and raise standards of human development. The rise of the South is a feature of a rapidly changing world. The South now accounts for almost a third of world output¹ and consumption.² Without the robust growth in these economies, led by China and India, the global economic recession would have been deeper.³

Nevertheless, there are signs of contagion, with real concern that in an interconnected world the crisis in the North may slow developing countries' progress. In industrialized countries, with some notable exceptions, governments are introducing harsh austerity measures that reduce the government's welfare role and cut back on spending and public services,⁴ leading to hardship and exacerbating economic contractions. Living standards are declining for many people in the developed world. Several countries have seen major street demonstrations and general disillusionment with politicians and economic management as a result.

The world has known similar crises: in Europe and the United States in the 1930s, in Latin America in the 1980s and in Asia in the 1990s. But this time around, well into the second decade of the 21st century, the crisis is again happening in the heart of Europe.

Governments are imposing austerity programmes because of a legitimate concern about the sustainability of sovereign debt. But there is a risk that short-term measures will cause long-term damage, eroding the human development and social welfare foundations that enable economies to grow, democracies to flourish and

societies to be less unequal and less vulnerable to shocks.⁵

There is also evidence that deploying drastic austerity programmes too quickly can deepen and prolong recessions. Fiscal consolidation has already had contractionary effects on private domestic demand and gross domestic product (GDP)⁶ while weakening economic conditions and increasing unemployment.⁷ Rollbacks of health, education and other public services are likely to impair the health of the population, the quality of the labour force and the state of scientific research and innovation for years to come (box 1.1). This could put progress in human development on a lower trajectory for some time (box 1.2). Moreover, economic stagnation reduces the tax revenues that governments need to finance social services and public goods.

Much of this damage is avoidable. Historical evidence indicates that the best time to cut deficits is after economic growth has taken off.⁸ As John Maynard Keynes put it succinctly nearly 75 years ago, "The boom, not the slump, is the right time for austerity."⁹

It is also vital to consider not just the quantity of public expenditure, but also its composition and how it can be changed. According to the International Labour Organization, a fiscally neutral change in the composition of government revenues and expenditures designed to foster employment and promote human development could create 1.8–2.1 million jobs in 33 advanced economies over the next year or two.¹⁰

While countries have different degrees of freedom to adjust their spending priorities, for many there is ample scope for reprioritization. For instance, military spending worldwide exceeded \$1.4 trillion in 2010, more than the GDP of the world's 50 poorest countries

BOX 1.1

Fairness, macroeconomics and human development

The rising income inequality in the United States and some European countries highlights fairness in how incomes are distributed and who benefits from growth. These concerns are entering the mainstream political discourse in developed countries, though with limited impact on policies so far. Unemployment in developed countries is at its highest level in years, and a large share of the workforce has had no significant increase in real wages over the last few decades, while the richest deciles have seen a substantial increase in income. Increasing inequality has been accompanied by demands by many of the better-off for smaller government and fiscal restraint: the well-off have not only benefited disproportionately from earlier growth, but also appear committed to protecting their gains. It is surprising that in democracies, despite considerable pressure from civil society, government agendas are dominated by austerity programmes rather than social protection programmes.

The call for austerity measures is not limited to countries in the euro area. The United Kingdom plans to reduce public investment by about 2% of GDP under the current austerity programme. This call for austerity comes

when public investment is at a historic low. For instance, net public investment in the United Kingdom for fiscal year 2011/2012 is less than 2% of GDP. A continued push for reduced government and social expenditures may well worsen the prospects for recovery and growth.

Macroeconomic policies can have large consequences for human development. Cutting social spending to reduce public debt can have long-term effects. If economies keep contracting, successive rounds of debt reduction will do little to further debt sustainability. Cutting spending reduces aggregate demand, which, coupled with high income inequality, makes it challenging to revive the economy and put people back to work. In the quest for full employment, reduced aggregate demand has to be compensated for. In the United States (and other industrialized countries) this was achieved through low interest rates, which, along with new financial instruments and lax regulation, caused a bubble that eventually led to the current financial crisis. Countries in the euro area, constrained in their use of policy instruments, cannot use monetary policies to devalue (or inflate) their way out of a crisis.

Source: Atkinson 2011, 2012; Block 2013; HM Treasury 2010; Nayyar 2012; Sen 2012; Stiglitz 2012.

BOX 1.2

Short-term cuts have long-term consequences: rising fertility rates in Africa

Why did fertility rates rise between 1970 and 1990 in many Sub-Saharan African countries despite falling in every other region? The evolution of fertility rates appears to be associated with social expenditure cuts, particularly in education, made as part of structural adjustment programmes in the 1980s.

Cuts in education not only limit human capabilities, but also affect the age structure of the population years later because of their impact on birth rates. Countries with lower levels of education, especially countries where girls lack secondary education, tend to have higher fertility rates. Almost universally, women with higher levels of education have fewer children. This effect is particularly strong in countries that are early in their demographic

transition and still have high overall fertility rates. Education reduces fertility rates by enhancing information, changing the incentives for behaviour and empowering people to better pursue their own preferences.

In the 1980s, Sub-Saharan Africa saw a partial reversal in the progress towards demographic transition, with real expenditure per capita on education falling nearly 50% on average. Between 1980 and 1986, enrolment in primary education dropped from 79% to 73% for the region as a whole (falling in 16 countries and rising in 17). The reduced education expenditures had a negative impact on female education, causing average female combined primary and secondary gross enrolment rates to increase more slowly than in the period before the structural adjustment programmes.

Source: Lutz and KC 2013; Rose 1995.

combined. Even where fiscal consolidation is necessary, it need not involve cuts in welfare services. Consolidation through enhanced efficiency and reduced subsidies on fossil fuels, for instance, could leave social spending relatively unaffected.¹¹

The countries of the South have shown greater resilience in the face of the current global economic crisis. After transitory setbacks following the 2008 crisis, African and Latin American countries have resumed their upward trajectories of human development and

growth. This is partly because they have been more pragmatic, taking countercyclical measures and postponing debt reduction for more appropriate times. Continuing demand from the South has also helped sustain many developing country exports, offsetting the effects of sluggish economic activity in the North.¹²

At the same time, many developing countries continue to invest in long-term human development. They recognize a clear positive correlation between past public investment in social and physical infrastructure and progress

on the Human Development Index (HDI).¹³ Governments in the South have also appreciated that sustainable progress must be based on social integration. Brazil and India, for example, have supported aspects of human development underappreciated in past development models by introducing cash transfer programmes and right-to-work programmes.

Overall, over the past few decades, many countries of the South have made substantial strides in HDI performance, not only boosting economic growth and reducing poverty, but also making large gains in health and education (discussed in greater detail later in the chapter). This broad-based achievement is notable because income growth does not necessarily translate into gains in other aspects of human development. Growth may generate resources to invest in health and education, but the link is not automatic. Moreover, growth may have little impact on other important human development priorities such as participation and empowerment.

Now more than ever, indicators are needed to capture these dimensions as well as the environmental sustainability of development pathways.

Progress of nations

Every *Human Development Report* has monitored human progress, notably through the HDI, a composite measure that includes indicators along three dimensions: life expectancy, educational attainment, and command over the resources needed for a decent living. Other indices have delved into inequality, poverty and gender deficits. HDI values for 2012 are presented in statistical table 1.

The HDI in 2012 reveals much progress. Over the past decades, countries across the world have been converging towards higher levels of human development. The pace of progress on the HDI has been fastest in countries in the low and medium human development categories. This is good news. Yet progress requires more than average improvement in HDI value. It will be neither desirable nor sustainable if increases in HDI value are accompanied by rising inequality in income, unsustainable patterns of consumption, high military spending and low social cohesion (box 1.3).

In 2012, the global average HDI value was 0.694; Sub-Saharan Africa had the lowest HDI value (0.475), followed by South Asia (0.558). Among developing regions, Europe and Central Asia had the highest HDI value (0.771), followed by Latin America and the Caribbean (0.741).

There are large differences across HDI groups and regions in the components of the HDI—life expectancy, mean years of schooling and income. Average gross national income (GNI) per capita in very high HDI countries is more than 20 times that in low HDI countries (table 1.1). Life expectancy in very high HDI countries is a third higher than in low HDI countries, while average years of schooling among adults over 25 are nearly three times greater in very high HDI countries than in low HDI countries. However, expected years of schooling, which better reflect changing education opportunities in developing countries, present a much more hopeful picture: the average incoming elementary school student in a low HDI country is expected to complete 8.5 years of school, about equal to the current years of schooling among adults in high HDI countries (8.8 years). Overall, most low HDI countries have achieved or are advancing towards full enrolment in elementary school and more than 50% enrolment in secondary school.

There are large disparities in achievements within HDI groups and regions. One way of assessing disparities within country groups is to compare the ratio of the highest to the lowest HDI values among countries in the group. This ratio is highest in Sub-Saharan Africa, followed by the Arab States, South Asia, and Latin America and the Caribbean. In Sub-Saharan Africa, most of the disparity arises from substantial differences in income per capita (with a ratio of 70.1¹⁴) and mean years of schooling (with a ratio of 7.8). In South Asia, the disparities also arise primarily from differences in income per capita, with a ratio of 10.7, and mean years of schooling (with a ratio of 4.0). In the Arab States, and to a lesser extent Latin America and the Caribbean, the main driver is differences in income per capita.

Overall, the last decade has seen greater convergence in HDI values, involving accelerated human development among countries with lower HDI values. All HDI groups and

There is a clear positive correlation between past public investment in social and physical infrastructure and progress on the Human Development Index

What is it like to be a human being?

Almost half a century ago, the philosopher Thomas Nagel published a famous paper called “What Is It Like to Be a Bat?” The question I want to ask is: what is it like to be a human being? As it happens, Tom Nagel’s insightful paper in *The Philosophical Review* was also really about human beings, and only marginally about bats. Among other points, Nagel expressed deep scepticism about the temptation of observational scientists to identify the experience of being a bat—or similarly, a human being—with the associated physical phenomena in the brain and elsewhere in the body that are within easy reach of outside inspection. The sense of being a bat or a human can hardly be seen as just having certain twitches in the brain and of the body. The complexity of the former cannot be resolved by the easier tractability of the latter (tempting though it may be to do just that).

The cutting edge of the human development approach is also based on a distinction—but of a rather different kind from Nagel’s basic epistemological contrast. The approach that Mahbub ul Haq pioneered through the series of *Human Development Reports* which began in 1990 is that between, on the one hand, the difficult problem of assessing the richness of human lives, including the freedoms that human beings have reason to value, and on the other, the much easier exercise of keeping track of incomes and other external resources that persons—or nations—happen to have. Gross domestic product (GDP) is much easier to see and measure than the quality of human life that people have. But human well-being and freedom, and their connection with fairness and justice in the world, cannot be reduced simply to the measurement of GDP and its growth rate, as many people are tempted to do.

The intrinsic complexity of human development is important to acknowledge, partly because we should not be side-tracked into changing the question: that was the central point that moved Mahbub ul Haq’s bold initiative to supplement—and to some extent supplant—GDP. But along with that came a more difficult point, which is also an inescapable part of what has come to be called “the human development approach.” We may, for the sake of convenience, use many simple indicators of human development, such as the HDI, based on only three variables with a very simple rule for weighting them—but the quest cannot end there. We should not spurn workable and useful shortcuts—the HDI may tell us a lot more about human quality of life than does the GDP—but nor should we be entirely satisfied with the immediate gain captured in these shortcuts in a world of continuous practice. Assessing the quality of life is a much more complex exercise than what can be captured through only one number, no matter how judicious is the selection of variables to be included, and the choice of the procedure of weighting.

The recognition of complexity has other important implications as well. The crucial role of public reasoning, which the present *Human Development Report* particularly emphasizes, arises partly from the recognition of this complexity. Only the wearer may know where the shoe pinches, but pinch-avoiding arrangements cannot be effectively undertaken without giving voice to the people and giving them extensive opportunities for public discussion. The importance of various elements in evaluating well-being and freedom of people can be adequately appreciated and assessed only through persistent dialogue among the population, with an impact on the making of public policy. The political significance of such initiatives as the so-called Arab Spring, and mass movements elsewhere in the world, is matched by the epistemic importance of people expressing themselves, in dialogue with others, on what ails their lives and what injustices they want to remove. There is much to discuss—with each other and with the public servants that make policy.

The dialogic responsibilities, when properly appreciated across the lines of governance, must also include representing the interest of the people who are not here to express their concerns in their own voice. Human development cannot be indifferent to future generations just because they are not here—yet. But human beings do have the capacity to think about others, and their lives, and the art of responsible and accountable politics is to broaden dialogues from narrowly self-centred concerns to the broader social understanding of the importance of the needs and freedoms of people in the future as well as today. This is not a matter of simply including those concerns within one single indicator—for example, by overcrowding the already heavily loaded HDI (which stands, in any case, only for current well-being and freedom)—but it certainly is a matter of making sure that the discussions of human development include those other concerns. The *Human Development Reports* can continue to contribute to this broadening through explication as well as presenting tables of relevant information.

The human development approach is a major advance in the difficult exercise of understanding the successes and deprivations of human lives, and in appreciating the importance of reflection and dialogue, and through that advancing fairness and justice in the world. We may be much like bats in not being readily accessible to the measuring rod of the impatient observational scientist, but we are also capable of thinking and talking about the many-sided nature of our lives and those of others—today and tomorrow—in ways that may not be readily available to bats. Being a human being is both like being a bat and very unlike it.

regions saw notable improvement in all HDI components, with faster progress in low and medium HDI countries. East Asia and the Pacific and South Asia saw continuing progress from earlier decades, while Sub-Saharan Africa saw more rapid progress in the last decade. The convergence in HDI values has become more pronounced in the last decade.

One of the principal components of the HDI is life expectancy. In 2012, average life expectancy was 70.1 years, with wide differences

across HDI groups: 59.1 years in low HDI countries and 80.1 years in very high HDI countries. Differences across countries are even wider, with a low of 48.1 years in Sierra Leone and a high of 83.6 years in Japan. In Sub-Saharan Africa, life expectancy stagnated at 49.5 years between 1990 and 2000, a result of the HIV and AIDS pandemic. Between 2000 and 2012, however, it increased 5.5 years.

Another important influence on the HDI, and one of the most sensitive indicators of

TABLE 1.1

HDI and components, by region and HDI group, 2012

Region and HDI group	HDI	Life expectancy at birth (years)	Mean years of schooling (years)	Expected years of schooling (years)	Gross national income per capita (2005 PPP \$)
Region					
Arab States	0.652	71.0	6.0	10.6	8,317
East Asia and the Pacific	0.683	72.7	7.2	11.8	6,874
Europe and Central Asia	0.771	71.5	10.4	13.7	12,243
Latin America and the Caribbean	0.741	74.7	7.8	13.7	10,300
South Asia	0.558	66.2	4.7	10.2	3,343
Sub-Saharan Africa	0.475	54.9	4.7	9.3	2,010
HDI group					
Very high human development	0.905	80.1	11.5	16.3	33,391
High human development	0.758	73.4	8.8	13.9	11,501
Medium human development	0.640	69.9	6.3	11.4	5,428
Low human development	0.466	59.1	4.2	8.5	1,633
World	0.694	70.1	7.5	11.6	10,184

Note: Data are weighted by population and calculated based on HDI values for 187 countries. PPP is purchasing power parity. Source: HDRO calculations. See statistical table 1 for detailed data sources.

human well-being, is child survival. In 2010, the global under-five mortality rate was 55 deaths per 1,000 live births, though spread unevenly across HDI groups. Low HDI countries had the highest rate (110 deaths per 1,000 live births), followed by medium HDI countries (42), high HDI countries (18) and very high HDI countries (6). Poor child health can permanently damage a child's cognitive development and later affect labour productivity as an adult.

HDI comparisons are typically made between countries in the North and the South, and on this basis the world is becoming less unequal. Nevertheless, national averages hide large variations in human experience, and wide disparities remain within countries of both the North and the South. The United States, for example, had an HDI value of 0.94 in 2012, ranking it third globally. The HDI value for residents of Latin American origin was close to 0.75, while the HDI value for African-Americans was close to 0.70 in 2010–2011.¹⁵ But the average HDI value for an African-American in Louisiana was 0.47.¹⁶ Similar ethnic disparities in HDI achievement in very high HDI countries can be seen in the Roma populations of southern Europe.

The range in human development is also wide in some developing countries. In Brazil, for example, the highest HDI value in 2000, the most recent year for which subnational data are available, was in São Caetano do Sul in the state of São Paulo (0.92), while the lowest was in Manari in the state of Pernambuco (0.47). China has similar, if less marked, provincial variations, with Shanghai at the top (0.91), and Tibet at the bottom (0.63).¹⁷

Income and human development

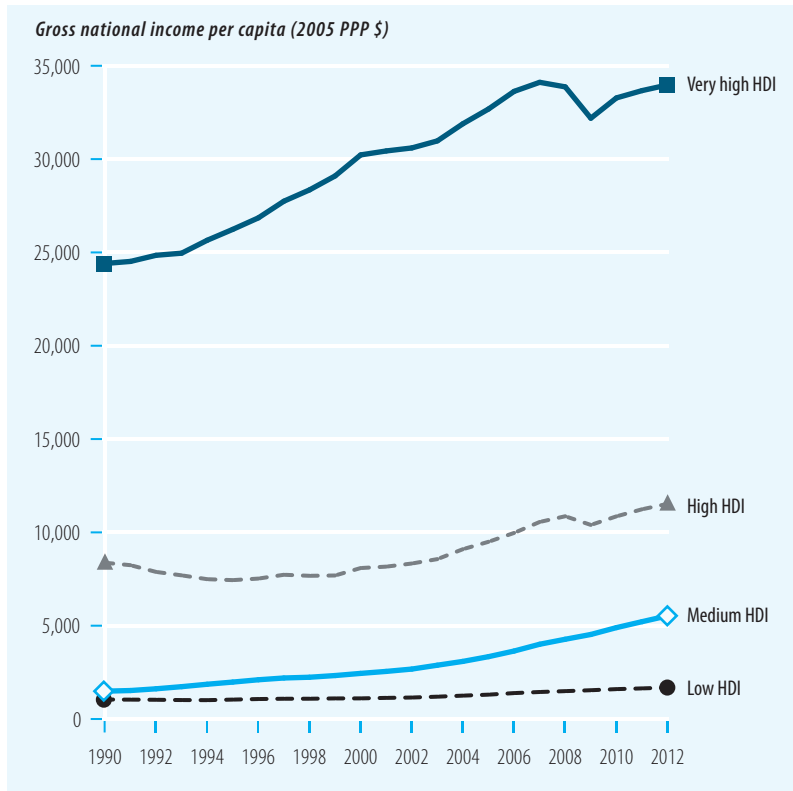
Another essential component of human development and the HDI is command over resources, as measured by income per capita. Between 1990 and 2012, income per capita rose in all four HDI groups, though in varying degrees (figure 1.1). The highest average annual growth in income per capita was recorded in China and Equatorial Guinea, both over 9%. Only 12 countries surpassed 4% growth, while 19 saw income per capita fall.

One of the most striking achievements has been in Sub-Saharan Africa. From 2003 to 2008—the five years preceding the global

HDI comparisons are typically made between countries in the North and the South, and on this basis the world is becoming less unequal

FIGURE 1.1

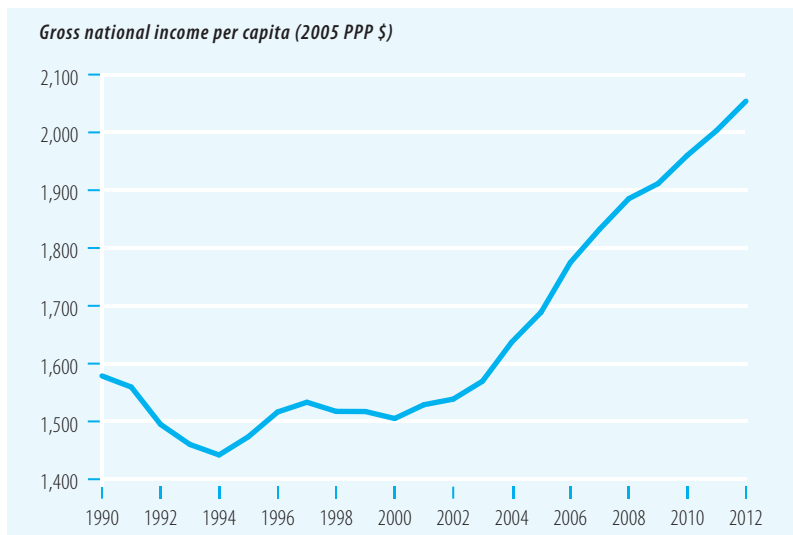
Income per capita is rising to varying degrees in all four HDI groups



Note: PPP is purchasing power parity.
Source: HDRO calculations based on a panel of the same 161 countries and territories.

FIGURE 1.2

Sub-Saharan Africa has sustained income growth over the last decade



Note: PPP is purchasing power parity.
Source: HDRO calculations.

financial crisis—income per capita in the region grew 5% a year, more than twice the rate of the 1990s (figure 1.2).¹⁸ This upward trend was led by resource-rich countries that benefited from price increases in Africa’s main commodity exports—notably, gas, oil, minerals and agricultural products—thanks mostly to strong demand from the South, led by China.

But growth was also widespread in other countries, with strong performance among more diversified economies and agriculture-based economies. Despite commodity price increases, many net commodity-importing countries, such as Ethiopia, Rwanda and Uganda, continued to grow fast. Sub-Saharan African economies were also partly shielded from global shocks by greater regional integration, particularly in East Africa.

As most *Human Development Reports* have underscored, what matters is not only the level of income, but also how that income is used. A society can spend its income on education or on weapons of war. Individuals can spend their income on essential foods or on narcotics. For both societies and individuals, what is decisive is not the process of wealth maximization, but how they choose to convert income into human development. Table 1.2 shows country successes in this respect, as measured by the largest positive difference between GNI per capita and HDI ranks.¹⁹ New Zealand tops the list for very high human development countries, and Cuba tops the list for high human development countries.

Poverty

One of the world’s main priorities is to eradicate poverty and hunger. This is the first of the eight Millennium Development Goals, for which the target for 2015 was to halve the proportion of people living on less than \$1.25 a day relative to 1990. This goal was achieved three years before that target date, primarily because of the success of some of the most populous countries: Brazil (where the percentage of the population living on less than 2005 PPP \$1.25 a day went from 17.2% to 6.1%), China (from 60.2% to 13.1%) and India (from 49.4% to 32.7%).²⁰ As a result, many fewer people are poor. For example, between 1990 and 2008, China alone lifted a remarkable 510 million people out of poverty.²¹

Poor people do not just suffer from a lack of income. Poverty has multiple dimensions, with deficits in health and education, for example. Moreover, an estimated 10% of the global population is afflicted by some form of disability, potentially limiting their standard of living regardless of income.²²

In the early and middle 20th century, European countries reduced poverty not only by increasing incomes, but also by providing public goods such as health care and education.²³ When considering relative poverty levels, it is also important to consider the social and political arenas, including whether the poor can “appear in public without shame”.²⁴ Translating income into a decent standard of living depends on a range of assets and capabilities. These are all issues in which the state has an important role facilitating access to health, education, and public and personal safety (box 1.4). How income is converted into well-being, particularly for the poor, also depends on environmental circumstances.²⁵

Poverty can be measured more comprehensively using the Multidimensional Poverty Index (MPI), which looks at overlapping deprivations in health, education and standard of living. The MPI is the product of the multidimensional poverty headcount (the share of people who are multidimensionally poor) and the average number of deprivations that each multidimensionally poor household experiences (the intensity of their poverty). Focusing on the intensity of poverty enables the MPI to provide a more complete picture of poverty within a country or a community than is available from headcount measures alone. In the 104 countries covered by the MPI, about 1.56 billion people—or more than 30% of their population—are estimated to live in multidimensional poverty.²⁶ This exceeds the estimated 1.14 billion people in those countries who live on less than \$1.25 a day, although it is below the proportion who live on less than \$2 a day.²⁷ The pattern holds true for all four HDI groups, though the difference is larger in low HDI countries than in medium or high HDI countries (figure 1.3). This also holds true for many of the rapidly growing countries of the South (figure 1.4).

The countries with the highest headcount percentages based on the MPI are in Africa: Ethiopia (87%), Liberia (84%), Mozambique

TABLE 1.2

Top five countries that rank better on the HDI than on gross national income per capita in 2012

HDI group and country	HDI value	Gross national income (GNI) per capita (2005 PPP \$)	GNI rank minus HDI rank
Very high human development			
New Zealand	0.919	24,358	26
Ireland	0.916	28,671	19
Australia	0.938	34,340	15
Korea, Rep.	0.909	28,231	15
Israel ^a	0.900	26,244	13
High human development			
Cuba	0.780	5,539	44
Georgia	0.745	5,005	37
Montenegro	0.791	10,471	24
Albania	0.749	7,822	21
Grenada	0.770	9,257	21
Medium human development			
Samoa	0.703	3,928	28
Tonga	0.710	4,153	26
Fiji	0.702	4,087	24
Kyrgyzstan	0.622	2,009	24
Ghana	0.558	1,684	22
Low human development			
Madagascar	0.483	828	28
Togo	0.459	928	16
Kenya	0.519	1,541	15
Zimbabwe	0.397	424	14
Nepal ^b	0.463	1,137	11

a. The difference between GNI and HDI ranks is also 13 for Chile, Estonia and Greece, all very high HDI countries.

b. The difference between GNI and HDI ranks is also 11 for Liberia, a low HDI country.

Source: HDRO calculations. See statistical table 1 for detailed data sources.

(79%) and Sierra Leone (77%; see statistical table 5). The countries with the highest intensity of poverty (deprivations in at least 33% of weighted indicators) are Ethiopia and Mozambique (about 65% each in 2007–2011), followed by Burkina Faso (64%), Senegal (59%) and Liberia (58%). Despite having a smaller proportion of multidimensional poor (lower headcount ratio) than Liberia does, Mozambique has a higher MPI value (0.512) because it has the highest intensity of deprivation among countries with data.

Subjective indicators of well-being: increased acceptance in thinking and policy

Interest in using subjective data to measure well-being and human progress and to inform public policy has grown in recent years.¹ In the United Kingdom, the government committed itself to explore the use of subjective indicators of well-being, as suggested by Stiglitz, Sen and Fitoussi (2009). Bhutan has integrated the subindicators that constitute the Gross National Happiness Index into its public policy measures. Subjective data can complement but not substitute for objective data.

Kahneman and Krueger (2006) lay the analytical basis for measuring subjective well-being on the fact that people often depart from the standards of the “rational economic agent”. Making inconsistent choices, not updating beliefs in the light of new information, desisting from gainful exchanges: all violate the assumption of rationality that underlies the translation of observed behaviour into a theory of revealed preferences in economics. If the assumed link between observed data and actual preferences is tenuous, the case for relying exclusively on objective data is weakened, and there exists a greater case for using subjective data as well.

Stiglitz, Sen and Fitoussi (2009) adopt subjective well-being as one of their three conceptual approaches to measuring quality of life. They point

out that the approach has strong links to the utilitarian tradition but also has broader appeal. Subjective measures of quality of life, however, do not have objective counterparts. For instance, there is no observed measure of happiness, whereas inflation can be measured as either actual or perceived inflation. They further note that subjective approaches allow for a distinction between quality of life dimensions and the objective factors that shape them.

Subjective measures are not without problems. They are ordinal in nature and usually are not comparable across countries and cultures or reliable across time. Thus it can be misleading to use subjective indicators such as happiness as the only or main policy criterion. However, these indicators—appropriately measured and carefully used—can be valuable supplements to objective data to inform policy, particularly at the national level.

An important subjective indicator of well-being that can be gleaned from surveys is overall life satisfaction. Data for 149 countries place average life satisfaction globally at 5.3 on a scale of 0–10 (see table), with a low of 2.8 in Togo and a high of 7.8 in Denmark (see statistical table 9). Not surprisingly, life satisfaction tends to be higher in countries with higher human development.

Overall life satisfaction and satisfaction with health care and education

HDI group and region	Overall life satisfaction, 2007–2011 ^a (0, least satisfied, 10, most satisfied)	Satisfaction with health care, 2007–2009 ^a (% answering “yes”)	Satisfaction with education quality, 2011 (% answering “yes”)
HDI group			
Very high human development	6.7	61.9	61.3
High human development	5.9	55.2 ^b	58.0
Medium human development	4.9	68.7 ^b	69.2
Low human development	4.5	50.0	56.5
Region			
Arab States	4.8	54.3 ^b	50.0
East Asia and the Pacific	5.1 ^b	79.5 ^b	68.2 ^b
Europe and Central Asia	5.3	44.8	51.8
Latin America and the Caribbean	6.5	56.7	61.4 ^b
South Asia	4.7	64.8	73.3
Sub-Saharan Africa	4.4	50.1 ^b	52.0
World	5.3	61.0 ^b	64.2

a. Data refer to the most recent year available during the period specified.

b. Value is not displayed in the statistical tables because data are not available for at least half the countries covering at least two-thirds of the population of the group.

Source: HDRO calculations based on Gallup (2012).

Other important subjective indicators of human well-being are satisfaction with the quality of health care and education. Survey results indicate that high-quality health care and education can be delivered at a wide range of income and human development levels. Average global satisfaction with health care quality was 61%, with a low of 19% in Ethiopia and a high of 90% in Luxembourg (see statistical table 7). Average global satisfaction with education quality was 64%, with

a low of 35% in Mali and a high of 94% in Cambodia (see statistical table 8).

In South Asia, 65% of respondents indicated satisfaction with health care quality, with Pakistan at 41% and Sri Lanka at 83%, the latter showing that even at comparatively low levels of income it is possible to reinforce social perceptions about community and the state. By contrast, health care satisfaction is 45% in Europe and Central Asia.

1. Dolan, Layard and Metcalfe 2011. Krueger and Schkade (2008) note that over 2000–2006, 157 papers and numerous books were published in the economics literature using data on life satisfaction or subjective well-being.

Source: Kahneman and Krueger 2006; Stiglitz, Sen and Fitoussi 2009; Dolan, Layard and Metcalfe 2011; Stewart 2013.

In South Asia, the highest MPI value is in Bangladesh (0.292 with data for 2007), followed by Pakistan (0.264 with data for 2007) and Nepal (0.217 with data for 2011). The proportion of the population living in multidimensional poverty is 58% in Bangladesh, 49% in Pakistan and 44% in Nepal, and the intensity of deprivation is 50% in Bangladesh, 53% in Pakistan and 49% in Nepal. Although a larger proportion of the population (head-count) lives in multidimensional poverty in Bangladesh than in Pakistan, the intensity of deprivation is higher in Pakistan. Moreover, in Bangladesh and Nepal, the living standards dimension contributes more than the health and education dimensions, but in Pakistan, the health dimension contributes more than the other two dimensions.

Equity and human development

An essential part of human development is equity. Every person has the right to live a fulfilling life according to his or her own values and aspirations. No one should be doomed to a short life or a miserable one because he or she happens to be from the “wrong” class or country, the “wrong” ethnic group or race or the “wrong” sex.

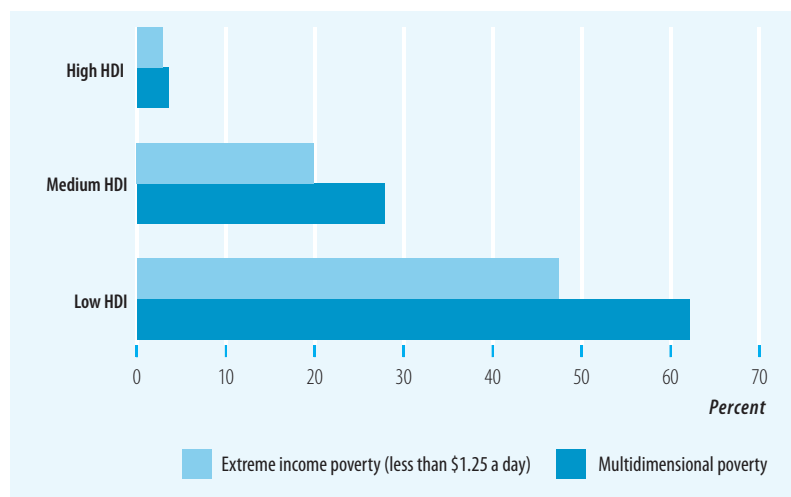
Inequality

Inequality reduces the pace of human development and in some cases may even prevent it entirely. This is most marked for inequality in health and education and less so for inequality in income, where the effects are more substantial in high and very high HDI countries. An analysis of 132 developed and developing countries for this Report finds an inverse relationship between inequality and human development (box 1.5), reinforcing the conclusions of several studies of developed countries.²⁸

The effects of inequality on human development can be captured by the Inequality-adjusted Human Development Index (IHDI), which examines the average level of human development and its distribution along the dimensions of life expectancy, educational attainment and command over the resources needed for a decent living. Where there is no inequality, the IHDI equals the HDI. A difference between the two

FIGURE 1.3

The lower the HDI value, the larger the gap between income poverty and multidimensional poverty



Note: Data refer to 2002–2011. The population-weighted averages are based on 22 countries for the high HDI group and 36 countries each for the medium and low HDI groups.
Source: HDRO calculations.

denotes inequality; the greater the difference, the greater the inequality.²⁹

Based on IHDI calculations for 132 countries in 2012, almost a quarter of HDI value, or 23% is lost to inequality (see statistical table 3). Low HDI countries suffer most because they tend to have greater inequality in more dimensions. Low HDI countries lose a third of HDI value to inequality, whereas very high HDI countries lose only 11%.

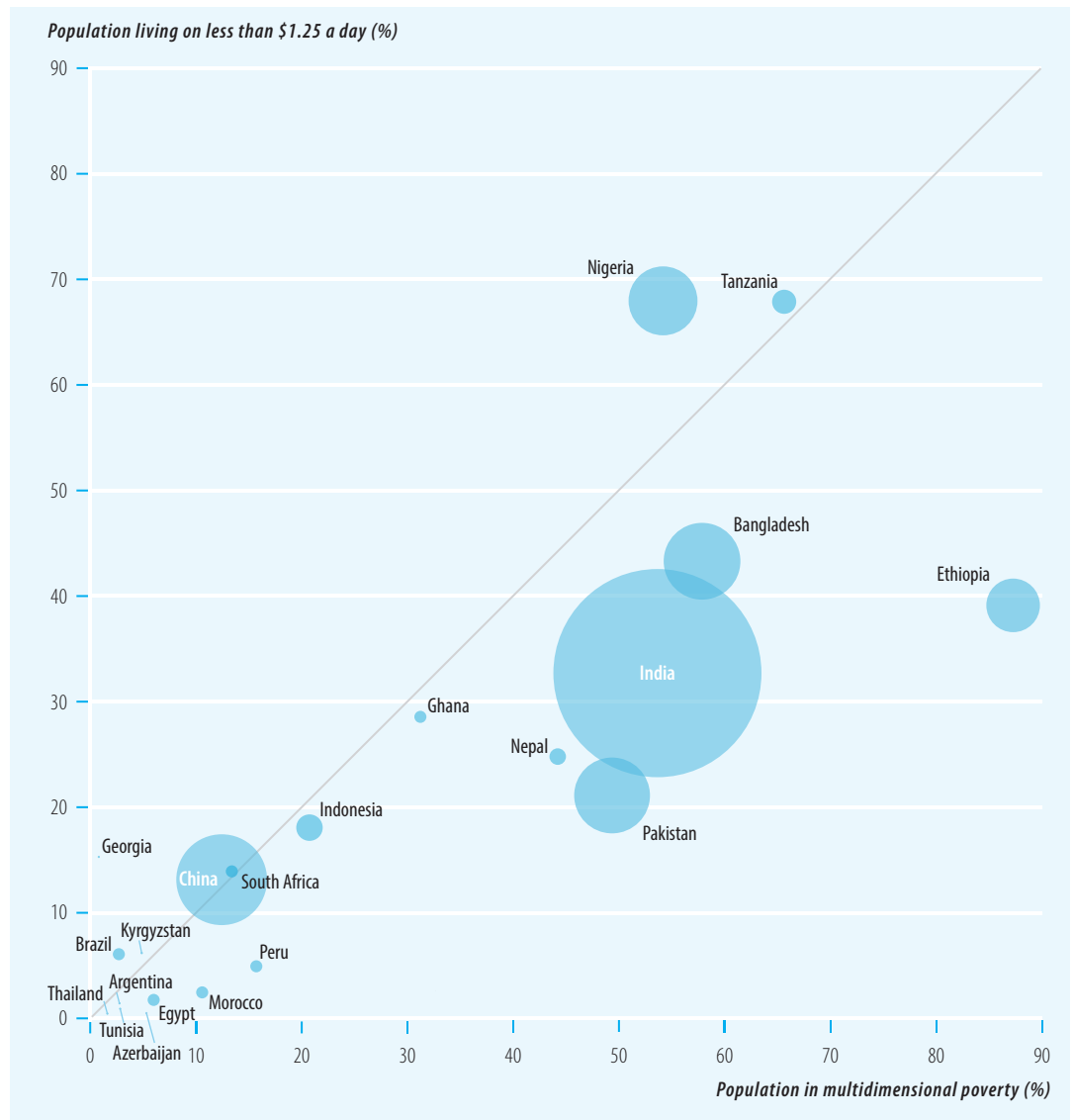
Globally, there have been much greater reductions in inequality in health and education in the last two decades than in income.³⁰ This is partly because of the measures used—life expectancy and mean years of schooling have upper bounds to which all countries eventually converge. But for income, there is no upper limit. Virtually all studies agree that global income inequality is high, though there is no consensus on recent trends.³¹ One study that integrated the income distribution of 138 countries over 1970–2000 found that although mean income per capita has risen, inequality has not.³² Other studies conclude the opposite.³³ Still others find no change at all.³⁴

IHDI trends for 66 countries over 1990–2005 show that overall inequality declined marginally due to declines in health and education inequality being offset by increases in income inequality (figure 1.5). Most

No one should be doomed to a short life or a miserable one because he or she happens to be from the “wrong” class or country, the “wrong” ethnic group or race or the “wrong” sex

FIGURE 1.4

There is notable variation among countries in the gap between income poverty and multidimensional poverty



Note: Data refer to 2002–2011. Bubble size is proportional to the number of people in multidimensional poverty. Diagonal line indicates where population living on less than \$1.25 a day equals population in multidimensional poverty. Source: HDRO calculations.

regions show rising inequality in income and declining inequality in health and education (figure 1.6). Latin America has seen income inequality fall since 2000, but it still has the most unequal distribution of all regions. Sub-Saharan Africa has the most inequality in health, while South Asia has the most inequality in education.

The world has made much progress in reducing inequality in educational attainment in both enrolment ratios and expected years of schooling over 1990–2010, particularly in

Europe and Central Asia (loss due to inequality in education declined almost 68%), East Asia and the Pacific (34%) and Latin America and the Caribbean (32%). In both developed and developing countries, the average enrolment ratio for primary education is nearly 100%. And more children are finishing school.

Declines in inequality in both health and education may reflect corresponding government priorities and innovations in social policy. There is also a link between health and education. Better education for women, for example,

tends to result in better health outcomes for them and for the next generation. Thus life expectancy and educational attainment may move in tandem. Most inequality in education today reflects disparities in quality (box 1.6): many developing countries have dual-track systems, with the well-off attending good schools and universities, mostly privately funded, and the poor attending inadequate, mostly publicly funded facilities.³⁵

Rising inequality, especially between groups, can lead to social instability, undermining long-term human development progress. Persistence of inequality often results in a lack of inter-generational social mobility, which can also lead to social unrest.

The rise in income inequality to some extent reflects a failure of national fiscal, and particularly taxation, systems. This can be offset by social protection. In Latin America, for example, income inequality has declined as a result of cash transfer programmes.

Gender and women's status

Gender equality is both a core concern and an essential part of human development. All too often, women are discriminated against in health, education and the labour market, which restricts their freedoms. The extent of discrimination can be measured through the Gender Inequality Index (GII), which captures the loss of achievement due to gender inequality in three dimensions: reproductive health, empowerment and labour market participation. The higher the GII value, the greater the discrimination. Based on 2012 data for 148 countries, the GII shows large variations across countries, ranging from 0.045 (in Netherlands) to 0.747 (in Yemen), with an average of 0.463 (see statistical table 4).

High gender disparities persist in South Asia (0.568), Sub-Saharan Africa (0.577) and the Arab States (0.555). In South Asia, the three driving factors are low female representation in parliament (18.5%), gender imbalances in educational achievement (28% of women have completed at least secondary education, compared with 50% of men) and low labour force participation (31% of women are in the labour force, compared with 81% of men).

BOX 1.5

Inequality holds back human development

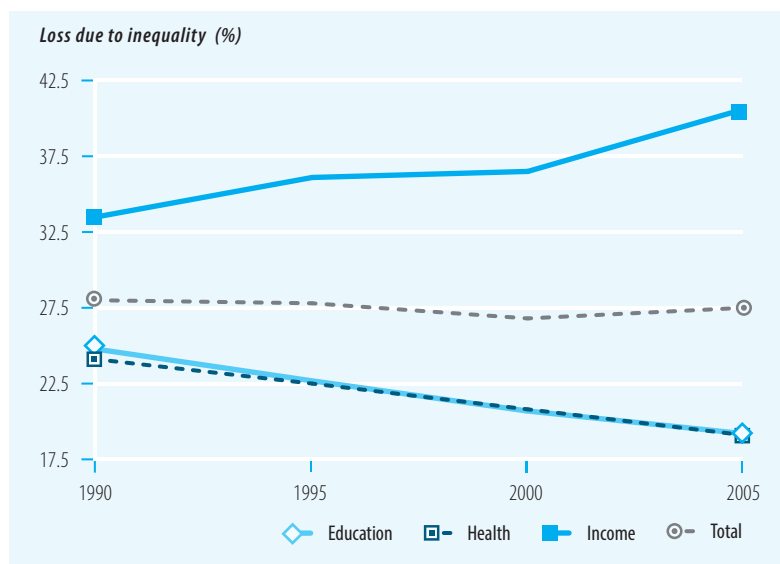
HDRO research using Human Development Index (HDI) data yields robust findings of an inverse relationship between inequality and subsequent improvement in human development, driven mostly by inequality in health and education rather than in income.

Using data on 132 countries for 2012, regression analysis showed the effects of multi-dimensional inequality (measured as the loss in the Inequality-adjusted Human Development Index relative to the HDI) on the HDI and each of its components (health, education and income) due to four explanatory variables: overall inequality in human development, inequality in life expectancy, inequality in educational attainment and inequality in income per capita. A different regression was used for each explanatory variable, and all regressions included dummy variables to control for the level of human development (low, medium, high and very high). Overall inequality in human development, inequality in life expectancy and inequality in educational attainment showed a highly statistically significant (at the 1% level) negative correlation, but inequality in income per capita showed no correlation. Results were robust to different specifications, including grouping countries with low and medium human development on the one side and countries with high and very high human development on the other.

Source: HDRO.

FIGURE 1.5

Losses due to inequality in HDI and its components

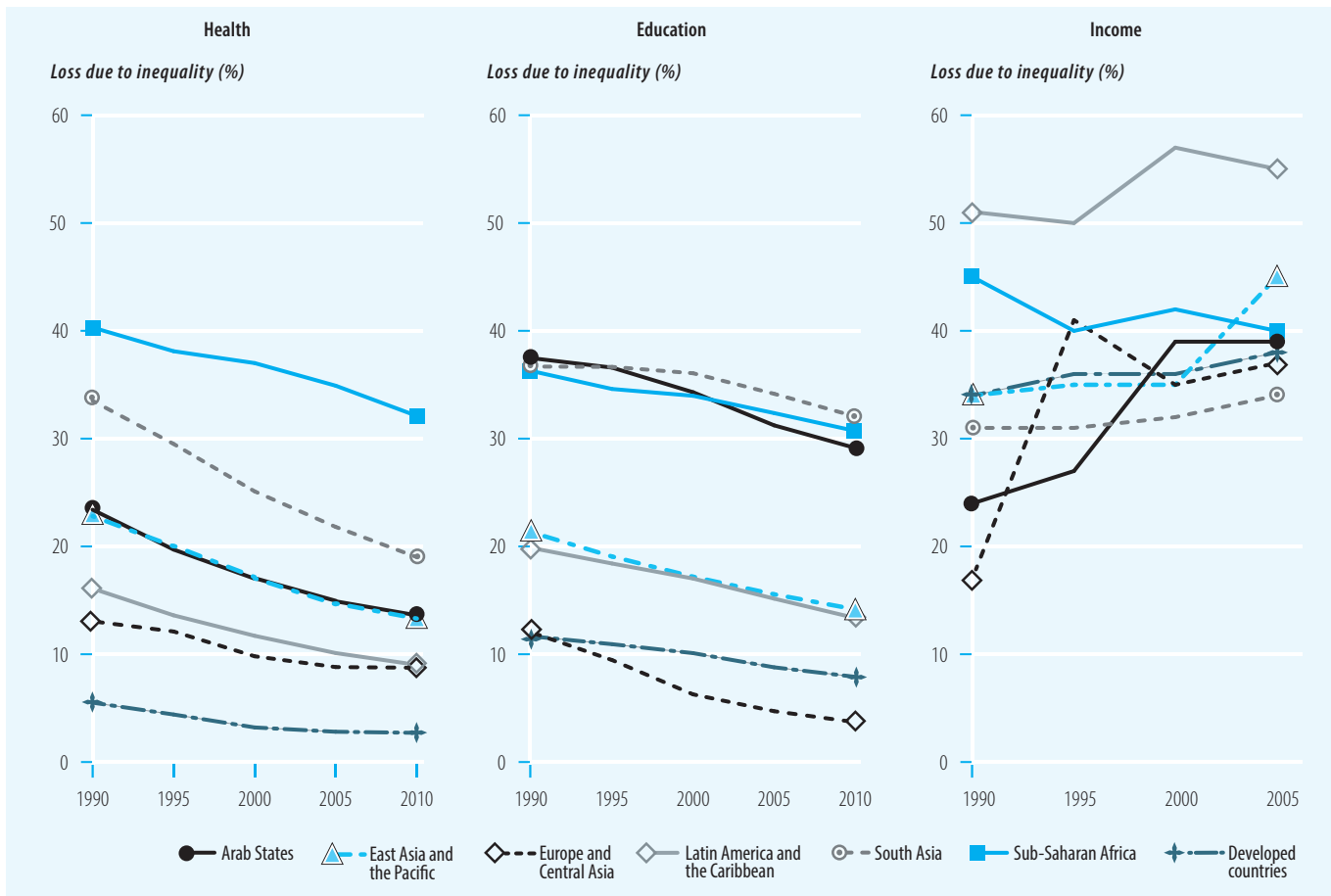


Note: Based on a population-weighted balanced panel of 66 countries.
Source: HDRO calculations using data from Milanović (2010).

Between 2000 and 2012, progress in reducing the GII value has been virtually universal, but uneven.³⁶ Countries in the very high human development group outperform those in other human development groups and demonstrate greater parity between women and men in educational attainment and labour market participation. Even in this group, however, several countries have huge gender gaps in

FIGURE 1.6

Most regions show declining inequality in health and education and rising inequality in income



Note: Based on a population-weighted balanced panel of 182 countries for loss due to health inequality, 144 countries for loss due to education inequality and 66 countries for loss due to income inequality. Data on income inequality from Milanović (2010) are available through 2005.
 Source: HDRO calculations using health data from United Nations Department of Economic and Social Affairs life tables, education data from Barro and Lee (2010) and income inequality data from Milanović (2010).

parliamentary representation. Italy, for example, managed to increase female representation more than 50%, but women still occupy only around a fifth of all seats (20.7%). In Ireland, female parliamentary representation is still below 20% while in Rwanda, women outnumber men in parliamentary representation (52% compared with 48%).

Though many countries in Sub-Saharan Africa showed improvement in their GII value between 2000 and 2012, they still perform worse than countries in other regions, mainly because of higher maternal mortality ratios and adolescent fertility rates and huge gaps in educational attainment.

One of the most disturbing trends concerns the sex ratio at birth, which is deteriorating in some fast-growing countries. The

natural ratio for children ages 0–4 is 1.05 (or 105 boys to 100 girls). But in the 175 countries for which 2012 data are available, the average was 1.07, and 13 countries had a ratio of 1.08–1.18.³⁷

In some countries, sex-selective abortion and infanticide are artificially altering the demographic landscape, leading to a shortage of girls and women. This is not just a concern for gender justice and equality; it also has major implications for democracy and could lead to social violence.

The high male sex ratio at birth reflects women’s status in society, entrenched patriarchal mores and prejudices, which are an aspect of deep-rooted sociocultural beliefs, the changing aspirations of urban and rural societies, and the dowry system in some countries.³⁸ In recent

years, the problem has been exacerbated by the spread and misuse of ultrasound technologies that enable parents to exercise age-old preferences for boys. The key driver, however, is the combination of patriarchal mores and greater economic value of boys in the presence of a dowry system. In absence of the latter—for instance, in African countries—patriarchal prejudices alone do not manifest in high male sex ratio at birth.

Redressing this imbalance will involve changing many social norms, including those that affect the economic incentives of the household to have boys rather than girls. This would include effectively ending the exploitative dowry system,³⁹ generating greater economic opportunities for women, creating conditions for women to have greater control over their lives and enhancing their political participation and decisionmaking within households.

It has often been argued that improving education for women helps raise their levels of health and nutrition and reduces fertility rates.⁴⁰ Thus, in addition to its intrinsic value in expanding women’s choices, education also has an instrumental value in enhancing health and fertility outcomes of women and children. In this respect, low and medium HDI countries still have some way to go. There was also a gender imbalance among the uneducated population in high and very high HDI countries in 1970–2010, although there was substantially more gender balance at all education levels in these countries for girls and young women currently of school attendance age.

Important as education and job creation for women are, they are not enough. Standard policies to enhance women’s income do not take into account gender differences within households, women’s greater burden of unpaid work and gender division of work as per cultural norms. Policies based on economic theory that does not take these factors into account may have adverse impacts on women, even though they create economic prosperity.⁴¹ Key to improving gender equity are political and social reforms that enhance women’s human rights, including freedom, dignity, participation, autonomy and collective agency.⁴²

BOX 1.6

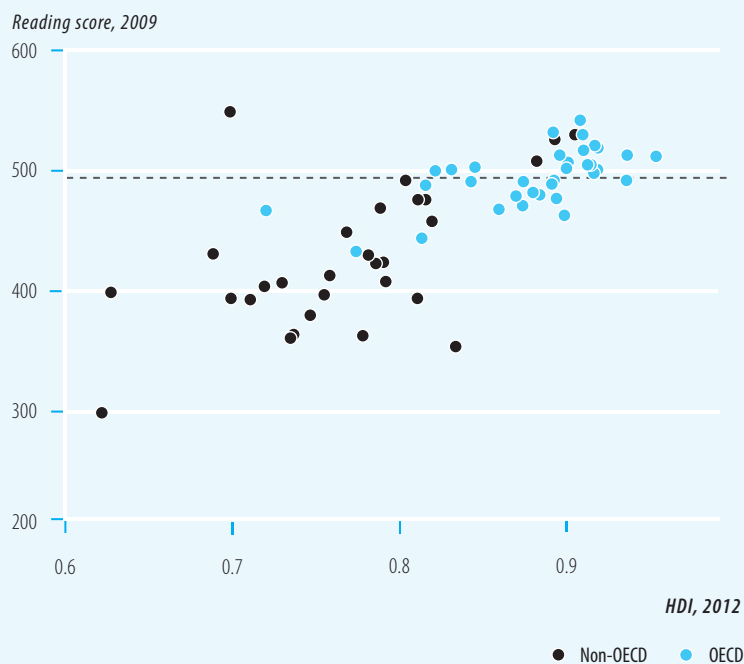
Education quality: achievement on the Programme for International Student Assessment

The education component of the Human Development Index has two measures: mean years of schooling and expected years of schooling. But even more than years of schooling, quality of education is a key factor in expanding human capabilities (see figure).

The Organisation for Economic Co-operation and Development’s Programme for International Student Assessment (PISA) collects internationally compatible data on the educational attainment of students and allows for cross-country comparison of average learning scores, share of low-performing schools and consistency of quality outcomes. For example, the advantages of a highly educated labour force, which countries such as the United States have traditionally had, appear to be eroding as young cohorts in other countries (such as Ireland, Japan and the Republic of Korea) reach and surpass the qualifications found in the United States.

In the most recent PISA, conducted in 63 countries and territories in 2009, many countries showed impressive strides in quality of learning outcomes. Students from Shanghai, China, outperformed students from 62 countries in reading, mathematics and science skills. They were followed by students from the Republic of Korea, Finland and Hong Kong, China (SAR) in reading; Singapore, Hong Kong, China (SAR) and the Republic of Korea in mathematics; and Finland, Hong Kong, China (SAR) and Singapore in science. The United States performed below average in mathematics, sharing 29th place with Ireland and Portugal; slightly above average in science, in 21st place; and above average in reading, sharing 15th place with Iceland and Poland. Brazil, Chile, Indonesia and Peru have seen impressive gains, catching up from very low levels of performance. Investments by some countries in education quality will likely bring future payoffs in a more knowledge-driven globalized world.

Programme for International Student Assessment scores in reading positively correlate with HDI values



Intergenerational equity and sustainability

When one crisis follows another, it is easy to lose perspective about important long-term consequences of current actions. It is thus important to bear in mind that today's choices can have a large and decisive influence on the choices available for decades in the future. Sustainable human development is about understanding the links between temporal choices of different generations and about assigning rights to both present and future generations.

Clearly a balance is needed. Enhancing people's capabilities now—especially the capabilities of those who are poor or live with multiple deprivations—is vital as a matter of basic rights and part of the universalism of life claims.⁴³ Moreover, poverty and misery today have negative consequences for the future. The objective should thus be both intragenerational and intergenerational equity.

Investing in people today requires a prudent balance between debts incurred today and the obligations they impose on future generations. As the 1994 *Human Development Report* underscores, “All postponed debts mortgage sustainability, whether economic debts, social debts or ecological debts.”⁴⁴ The recent economic crisis has brought to the fore the sustainability of economic debt, public and private, when economies are not growing, while tending to draw attention away from the critical issues of social and ecological debts. On the environmental front, there is already extensive evidence of severe damage to ecosystems from the choices of past and current generations. Poor countries cannot and should not imitate the production and consumption patterns of rich countries. And rich countries must reduce their ecological footprint because from a global perspective their per capita consumption and production are not sustainable.

Of particular concern now are the global challenges of climate change and fragile ecosystems. An influential study concluded that “Humanity has already transgressed at least three planetary boundaries,”⁴⁵ a point repeated in the 2012 Report of the UN Secretary General's High Level Panel on

Global Sustainability.⁴⁶ Few countries are following an ecologically sustainable path now, underscoring the need for technological innovations and shifts in consumption that can facilitate movement towards sustainable human development.⁴⁷

Figure 1.7 plots the ecological footprint of consumption of 151 countries against their HDI value in 2012.⁴⁸ Very few countries have both a high HDI value and an ecological footprint below the world average biocapacity (1.79 global hectares per capita in 2008). This does not bode well for the world. Over time, the situation is becoming more dire. While some high HDI countries have an ecological footprint below the world average, their footprints have been increasing over time.

People care not only about the choices open to them, but also about how those choices are secured, by whom and at whose expense. Progress in human development achieved sustainably is superior to gains made at the cost of future generations. Indeed, a proper accounting system for sustainable human development would include both future human development and current achievements.

Better ways to monitor environmental sustainability are also needed. The 2012 UN Conference on Sustainable Development called for measures that address the connections between present and future sets of choices. Such measures should monitor the accumulation of economic and environmental debt based on the premise that every citizen on the planet, whether alive or not yet born, has an equal right to live a comfortable, fulfilling life. These measures should also highlight planetary boundaries or “tipping points”, recognizing that climate change, for example, already imposes substantial costs, with the brunt of them borne by poor countries and poor communities.

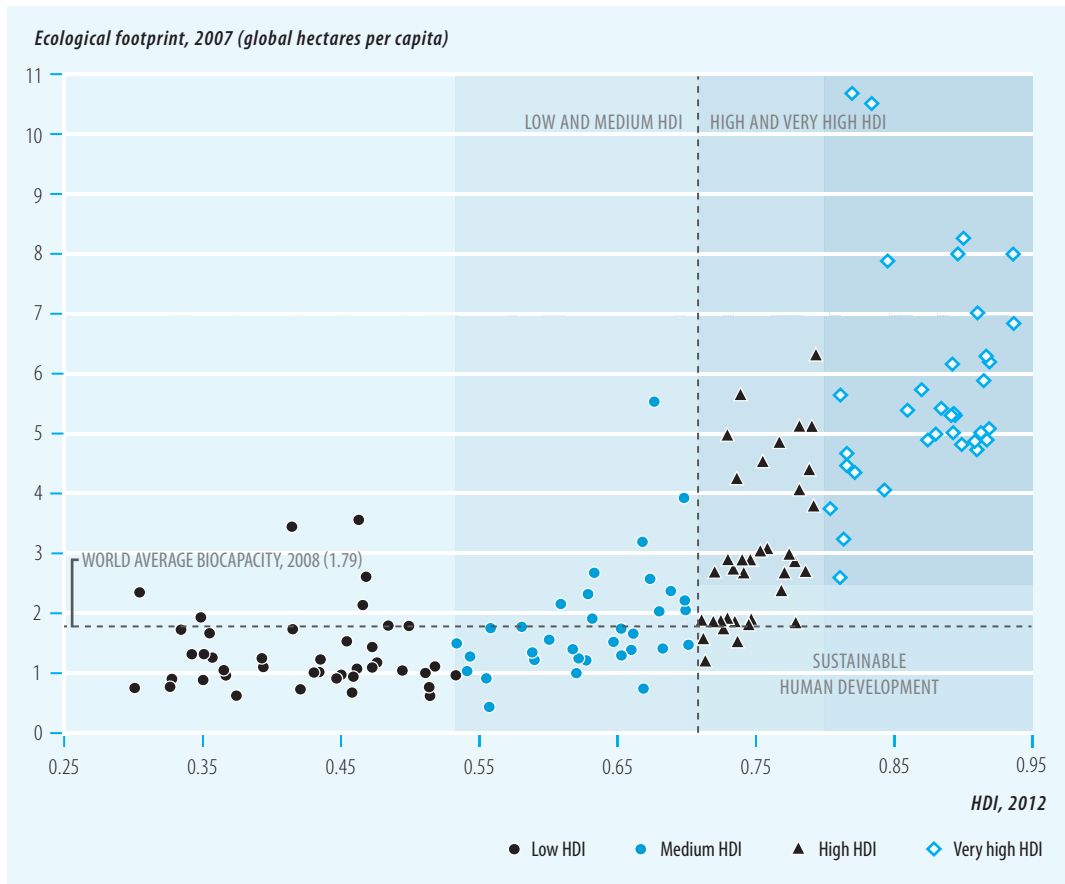
Social integration

Human development involves expanding individual capabilities. Yet individuals are also bound up with others. Thus, how individuals relate to each other is important in building cohesive and enduring societies. Integrating different groups can be as critical for well-being

Progress in human development achieved sustainably is superior to gains made at the cost of future generations

FIGURE 1.7

Few countries show both the high HDI and low ecological footprint required for sustainable human development



Note: Ecological footprint is a measure of the biocapacity of the earth and the demand on biocapacity. It depends on the average productivity of biologically productive land and water in a given year.
Source: HDRO calculations and Global Footprint Network (2011).

and social stability as economic success. Inequity and exclusion are social injustices that fundamentally weaken human freedoms.

An integrated society relies on effective social institutions that enable people to act collectively, enhancing trust and solidarity between groups. These institutions include formal nongovernmental organizations, informal associations and cooperatives, as well as norms and rules of behaviour. They influence individual human development outcomes, social cohesion and social stability. To differentiate them from individual capabilities, the functioning of these institutions and their impact on people can be described as “social competencies” (box 1.7). The extent to which social competencies foster more-cohesive societies can be assessed by their

success at achieving social inclusion and social stability.

Some developing countries have sought to address social exclusion by distributing the benefits of growth more evenly in a refinement of the growth with redistribution strategy. But this commodity-centric view of inclusive growth does little to end the economic and social discrimination that often has long-standing historical and cultural roots. Such discrimination may be widespread even in countries with high income per capita. Clearly income growth alone cannot achieve social cohesion; active policies are needed.

The impact of inequity can persist over generations. For instance, a study of eight developed countries found that more-unequal countries usually had lower social mobility.⁴⁹ In

Social competencies: human development beyond the individual

Individuals cannot flourish alone; indeed, they cannot function alone. The human development approach, however, has been essentially individualistic, assuming that development is the expansion of individuals' capabilities or freedoms. Yet there are aspects of societies that affect individuals but cannot be assessed at the individual level because they are based on relationships, such as how well families or communities function, summarized for society as a whole in the ideas of social cohesion and social inclusion. Individuals are bound up with others. Social institutions affect individuals' identities and choices. Being a member of a healthy society is an essential part of a thriving existence.

So one task of the human development approach is to explore the nature of social institutions that are favourable for human flourishing. Development then has to be assessed not only for the short-run impact on individual capabilities, but also for whether society evolves in a way that supports human flourishing. Social conditions affect not only the outcomes of individuals in a particular society today, but also those of future generations.

Social institutions are all institutions in which people act collectively (that is, they involve more than one person), other than profit-making market institutions and the state. They include formal nongovernmental organizations, informal associations, cooperatives, producer associations, neighbourhood associations, sports clubs, savings associations and many more. They also consist of norms and rules of behaviour affecting human development outcomes. For example, attitudes towards employment affect material well-being, and norms of hierarchy and discrimination affect inequality, discrimination, empowerment, political freedom and so on. To describe what those institutions can be and do, and to understand how they affect individuals, we can use the term *social competencies*.

Central to the human development perspective is that societal norms affect people's choices and behaviours towards others, thus influencing outcomes in the whole community. Community norms and behaviours can constrain choice in deleterious ways from a human development perspective—for example, ostracizing, or in extreme cases killing, those who make choices that contravene social rules. Families trapped in poverty by informal norms that support early marriage and dowry requirements might reject changes to such entrenched social norms. Social institutions change over time, and those changes may be accompanied by social tension if they hamper the interests of some groups while favouring others.

Policy change is the outcome of a political struggle in which different groups (and individuals) support or oppose particular changes. In this struggle, unorganized individuals are generally powerless, but by joining

together they can acquire power collectively. Social action favouring human development (such as policies to extend education, progressive taxation and minimum wages) happens not spontaneously, but because of groups that are effective in supporting change, such as producer groups, worker associations, social movements and political parties. These organizations are especially crucial for poorer people, as demonstrated by a group of sex workers in Kolkata, India, and women in a squatter community in Cape Town, South Africa, who improved their conditions and self-respect by joining together and exerting collective pressure.

Societies vary widely in the number, functions, effectiveness and consequences of their social competencies. Institutions and norms can be classified as human development–promoting, human development–neutral and human development–undermining. It is fundamental to identify and encourage those that promote valuable capabilities and relationships among and between individuals and institutions. Some social institutions (including norms) can support human development in some respects but not in others: for example, strong family bonds can provide individuals with support during upheavals, but may constrain individual choices and opportunities.

Broadly speaking, institutions that promote social cohesion and human development show low levels of disparity across groups (for example, ethnic, religious or gender groups) and high levels of interaction and trust among people and across groups, which results in solidarity and the absence of violent conflict. It is not a coincidence that 5 of the 10 most peaceful countries in the world in 2012, according to the Global Peace Index, are also among the most equal societies as measured by loss in Human Development Index value due to inequality. They are also characterized by the absence of discrimination and low levels of marginalization. In some instances anti-discriminatory measures can ease the burden of marginalization and partially mitigate the worst effects of exclusion. For instance, US law mandating that hospital emergency rooms offer treatment to all patients regardless of their ability to pay partly mitigates the impact of an expensive health care system with limited coverage, while affirmative action in a range of countries (including Brazil, Malaysia, South Africa and the United States) has improved the situation of deprived groups and contributed to social stability.

The study of social institutions and social competencies must form an essential part of the human development approach—including the formation of groups; interactions between groups and individuals; incentives and constraints to collective action; the relationship among groups, politics and policy outcomes; the role of norms in influencing behaviours; and how norms are formed and changed.

Source: Stewart 2013; Institute for Economics and Peace 2012.

the United Kingdom in particular, as inequality rose, intergenerational mobility declined.

The 2010 *Latin America and the Caribbean Human Development Report* highlighted the link between the lack of social mobility and persistent inequality.⁵⁰ In Brazil, at least a quarter of inequality in earnings is associated with household circumstances, such

as parents' educational attainment, race or ethnicity, or place of birth.⁵¹ Such persistence of income distribution patterns across generations is also evident in Chile and Mexico, although Mexico has seen increased intergenerational mobility in recent years.⁵² Generally, Latin America suffers from low social mobility, stifling opportunities for individuals at the

bottom of the income distribution for whom performance in society is determined largely by background characteristics beyond their control. The problem is particularly intractable in heterogeneous societies, as members of deprived groups find it particularly difficult to progress.

Inequity and exclusion endure when the excluded and those at the lower ends of the distribution lack the political voice to seek redress. More-equal and more-just societies, essential for satisfactory and sustainable human progress, thus require greater voice and political participation and more-accountable governments (box 1.8).

Even in the European Union, where a large part of the population has seen rising prosperity, some groups have been left behind. The Roma, for example, have been part of European civilization for more than a thousand years. With an estimated 7–9 million people, they are Europe's biggest ethnic minority, present in all 27 EU member states. Most are EU citizens but continue to suffer discrimination and social exclusion. As two regional *Human Development Reports* have revealed, the Roma are often trapped in a vicious cycle of social exclusion that has persisted generation after generation.⁵³

The presence of inequalities can adversely affect social interactions and restrict freedom

The presence of inequalities can adversely affect social interactions and restrict freedom of choice

BOX 1.8

Poverty's structural dimensions

The traditional agendas for reducing poverty recognize but inadequately address its structural sources. Contemporary interventions to promote inclusive growth have tended to focus on the outcomes of development through expanding and strengthening social safety nets. While such public initiatives are to be encouraged, they address the symptoms of poverty, not its sources.

The results of such restrictive interventions are reduction of income poverty to varying degrees and some improvement in human development. But across much of the South, income inequalities have increased, social disparities have widened and injustice remains pervasive, while the structural sources of poverty remain intact. Any credible agenda to end poverty must correct the structural injustices that perpetuate it.

Unequal access to assets

Inequitable access to wealth and knowledge disempowers the excluded from competing in the marketplace. Rural poverty, for example, originates in insufficient access to land and water for less privileged segments of rural society. Land ownership has been not only a source of economic privilege, but also a source of social and political authority. The prevailing structures of land ownership remain inimical to a functioning democratic order. Similarly, lack of access to capital and property perpetuates urban poverty.

Unequal participation in the market

With the prevailing property structures of society, the resource-poor remain excluded from more-dynamic market sectors. The main agents of production tend to be the urban elite, who own the corporate assets that power faster growing economic sectors. By contrast, the excluded partake only as primary producers and wage earners, at the lowest end of the production and marketing chains, leaving them with little opportunity to share in market economy opportunities for adding value to their labour.

Capital markets have failed to provide sufficient credit to the excluded, even though they have demonstrated their creditworthiness through low default rates in the microcredit market. And formal capital markets have

not provided financial instruments to attract the savings of the excluded and transform them into investment assets in the faster growing corporate sector.

Unjust governance

This inequitable and unjust social and economic universe can be compounded by unjust governance. Often the excluded remain voiceless in the institutions of governance and thus underserved by public institutions. The institutions of democracy remain unresponsive to the needs of the excluded, both in the design of policy agendas and in the selection of electoral candidates. Representative institutions thus tend to be monopolized by the affluent and socially powerful, who then use office to enhance their wealth and perpetuate their hold over power.

Promoting structural change

To correct these structural injustices, policy agendas need to be made more inclusive by strengthening the capacity of the excluded to participate on more equitable terms in the market economy and the democratic polity. Such agendas should reposition the excluded within the processes of production, distribution and governance. The production process needs to graduate the excluded from living out their lives exclusively as wage earners and tenant farmers by investing them with the capacity to become owners of productive assets. The distribution process must elevate the excluded beyond their inherited role as primary producers by enabling them to move upmarket through greater opportunities to share in adding value through collective action. Access to assets and markets must be backed by equitable access to quality health care and education, integral to empowering the excluded.

The governance process must increase the active participation of the excluded in representative institutions, which is crucial to enhancing their voice in decisionmaking and providing access to the institutions of governance.

Source: Sobhan, R. 2010. *Challenging the Injustice of Poverty*.

TABLE 1.3

Inequality and satisfaction with freedom of choice and community

HDI group and region	Overall loss in HDI value due to inequality, 2012 (%)	Satisfaction with freedom of choice, 2007–2011 ^a (% satisfied)	Satisfaction with community, ^b 2007–2011 ^a (% answering yes)
HDI group			
Very high human development	10.8	81.5	85.9
High human development	20.6	66.3	76.4
Medium human development	24.2	77.8	79.9
Low human development	33.5	61.8	72.2
Region			
Arab States	25.4	54.6	67.6
East Asia and the Pacific	21.3	78.7 ^c	80.1 ^c
Europe and Central Asia	12.9	58.5	76.5
Latin America and the Caribbean	25.7	77.9	79.0
South Asia	29.1	72.9	83.2
Sub-Saharan Africa	35.0	69.1	65.2
World	23.3	73.9	79.0

a. Data refer to the most recent year available during the period specified.

b. Based on the Gallup survey question on overall satisfaction with city.

c. Value is not displayed in the statistical tables because data are not available for at least half the countries covering at least two-thirds of the population of the group.

Source: Overall loss in HDI value due to inequality, HDRO calculations based on the Inequality-Adjusted HDI; satisfaction with freedom of choice and community, HDRO calculations based on Gallup (2012).

of choice. Subjective data can provide an insight into the state of social integration within a country or community. Evidence suggests a small negative correlation between losses due to inequality and satisfaction with freedom of choice and with the community. Evidence also suggests that people in countries with a high HDI value are generally more satisfied with their freedom of choice and with the community. Exploring these associations can offer important policy lessons for countries (table 1.3).

Human security

The 1994 *Human Development Report* argued that the concept of security must shift from the idea of a militaristic safeguarding of state borders to the reduction of insecurity in people's daily lives (or human insecurity).⁵⁴ In every society, human security is undermined by a variety of threats, including hunger, disease, crime, unemployment, human rights violations

and environmental challenges. The intensity of these threats differs across the world, but human security remains a universal quest for freedom from want and fear.

Consider economic insecurity. In the countries of the North, millions of young people are now unable to find work. And in the South, millions of farmers have been unable to earn a decent livelihood and forced to migrate, with many adverse effects, particularly for women. Closely related to insecurity in livelihoods is insecurity in food and nutrition. Many developing country households faced with high food prices cannot afford two square meals a day, undermining progress in child nutrition. Another major cause of impoverishment in many countries, rich and poor, is unequal access to affordable health care. Ill health in the household (especially of the head of the household) is one of the most common sources of impoverishment, as earnings are lost and medical expenses are incurred.

Perspectives on security need to shift from a misplaced emphasis on military strength to a well rounded, people-centred view. Progress in this shift can be gleaned in part from statistics on crime, particularly homicides, and military spending.

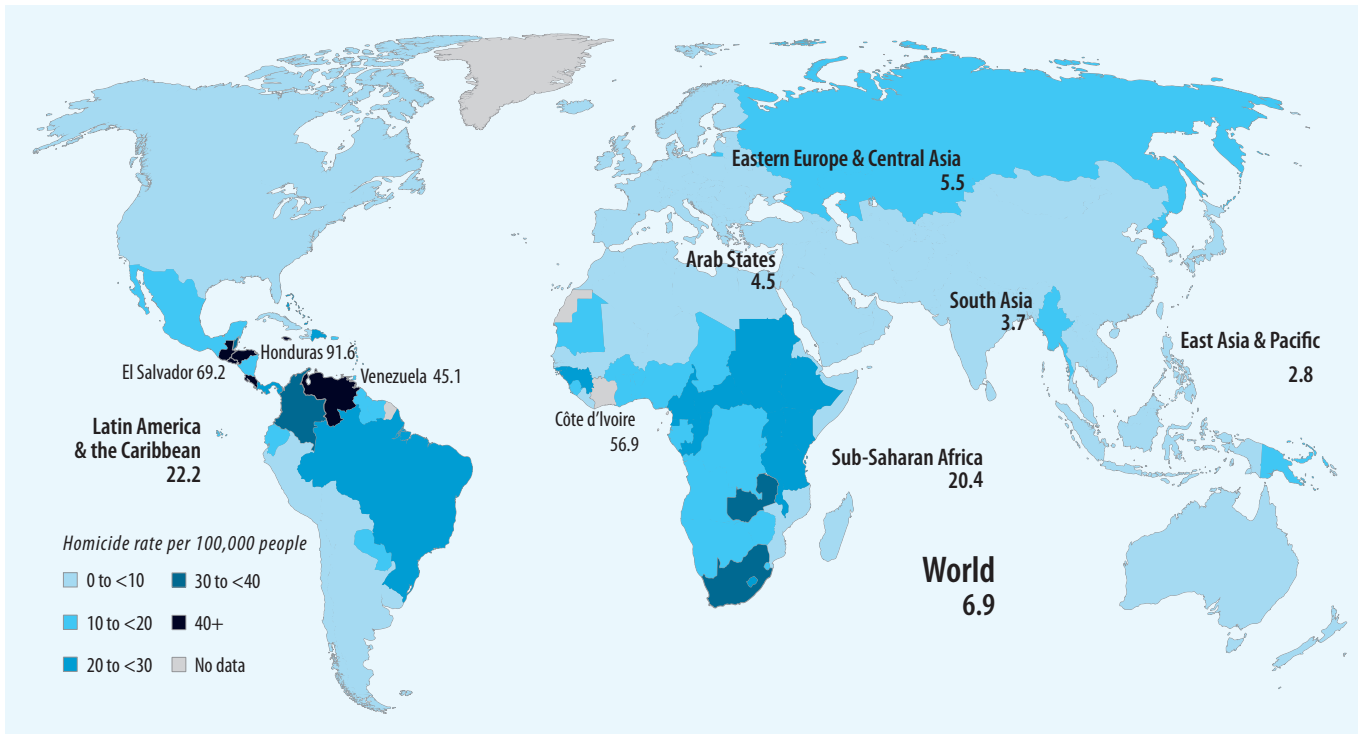
Crime

Freedom from fear should be reflected in low crime rates, specifically low homicide rates. A few studies have also used homicide rates to assess civic engagement and trust.⁵⁵ The 2012 *Caribbean Human Development Report*, for example, argues that violent crime erodes confidence in future development prospects, reduces the competitiveness of industries and services by imposing burdensome security costs and damages the investment climate. Crime may also lead to a brain drain from the country or affected community. And diverting resources to control crime reduces the funds available to invest in health care and education, thus slowing social integration and dampening development.⁵⁶

In recent years, the global average homicide rate for 189 countries with data was 6.9 per 100,000 people,⁵⁷ with a low of 0 in Monaco and a high of 91.6 in Honduras

MAP 1.1

There is a small negative connotation between homicide rates and HDI values



Source: HDRO calculations based on UNODC 2012.

(see statistical table 9). There is a small negative correlation between homicide rate and HDI value, with low HDI countries at 14.6 per 100,000 people, high HDI countries at 13.0 and very high HDI countries at 2.1. Homicide rates are highest in Latin America and the Caribbean (22.2 per 100,000 people), followed by Sub-Saharan Africa (20.4), Europe and Central Asia (5.5), the Arab States (4.5), South Asia (3.7) and East Asia and the Pacific (2.8).

It can also be instructive to look at the homicide rates for cities. Contrary to popular perception, crime is not generally higher in poorer cities. Amartya Sen notes that Kolkata “is not only one of the poorest cities in India, and indeed in the world, but it also has the lowest violent crime rate of all Indian cities.”⁵⁸ This is also true for homicide: Kolkata’s average incidence of murder, 0.3 per 100,000 people, is lower than in much more affluent London (2.4) and New York (5.0).⁵⁹

Sen argues that Kolkata has benefited from its long history as a “mixed” city, without ethnic or income separation between neighbourhoods.

For several decades, the city has also had a system of basic public services, including government hospitals, schools, colleges and a low-cost public transport system, which have dampened the impacts of economic and social exclusion. In local trains, poor vendors commonly travel side by side with wage labourers and white-collar workers.

But when people do not have access to services, they may be more prone to crime. A UK study of reoffending criminals, for example, noted that many prisoners are victims of a lifetime of social exclusion⁶⁰ and are effectively excluded from access to basic services.⁶¹

Military spending

Since the end of the Cold War, there has been no overall intensification of militarization, measured by military expenditure as a proportion of GDP, partly because of changes in the threats to national security. While interstate conflicts appear to be on the decline since the early 1990s, the number of intrastate conflicts has increased since the mid-20th century.

Today the majority of security threats come not from other countries but from insurgencies, terrorism and other civil conflicts.⁶² Conflicts in the post-Cold War era have claimed more than 5 million casualties, 95% of them civilians.⁶³

In South Asia, for example, all nine countries have experienced internal conflict in the last two decades, and the resulting casualties have outnumbered those from interstate conflicts.⁶⁴ Moreover, since 2001, more of the conflicts have been in the poorer regions of those countries than elsewhere.⁶⁵

In 2010, military spending worldwide for the 104 countries with data available was more than \$1.4 trillion, or 2.6% of world GDP. Most of the spending was by very high HDI countries. But as other countries' economies have grown, particularly medium HDI countries, their military expenditures have been increasing. Between 1990 and 2010, military spending more than tripled in medium HDI countries, while rising close to 50% in low HDI countries and 22% in very high HDI countries and falling almost 47% in high HDI countries. Nevertheless, in the three HDI groups where total military expenditure grew, the increase was slower than GDP growth. These aggregates hide considerable diversity. Europe and Central Asia saw military spending decline 69% between

1990 and 2010, while South Asia, East Asia and the Pacific, and the Arab States saw it rise 43%–388%.⁶⁶

Although development is often accompanied by a rise in military spending, this is not always the case (figure 1.8). The highest shares of military spending as a proportion of GDP are in very high and high HDI countries, but some very high HDI countries have a share below 1% of GDP, among them Austria, Iceland, Ireland and Luxembourg.

This is of particular significance for the rising countries of the South. Costa Rica, for example, has not had an army since 1948.⁶⁷ It spends nothing on the military and has thus been able to earmark more funds for social programmes and social investments.⁶⁸ In 2009, it invested 6.3% of GDP in education and 7% in health. Such choices contributed to its progress on the HDI from 0.621 in 1980 to 0.773 in 2012.

Today, around 20 countries have small or no armed forces. They tend to possess small territories, and many of them rely on external powers for national security. Not all countries have the preconditions for complete demilitarization, but most have scope for substantial slowing in their military spending. Particularly with respect to internal conflicts, India has shown that while policing may be more effective in curbing violence in the short term, redistribution and overall development are better strategies to prevent and contain civil unrest in the medium term.⁶⁹

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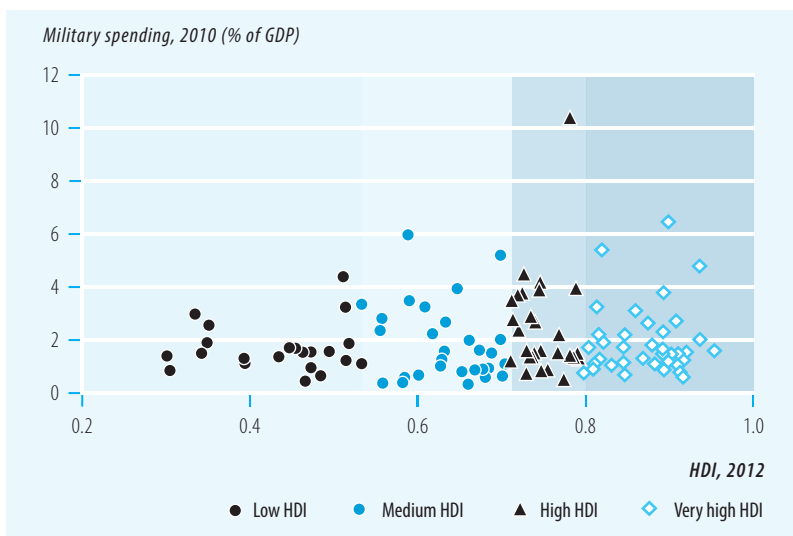
This analysis of the state of human development is positive and hopeful. Yet much work remains. Almost every country has challenges to overcome and opportunities for further progress. Of particular concern is that some developed countries, in response to the debt crisis, are pursuing austerity policies that could foreclose or reduce future choices and options for people in the South.

The only viable path to higher human development is through active investment in enhancing capabilities and enlarging opportunities. As the 1991 *Human Development Report* noted, “People who are healthier, confident, and skilled will be in a much better position to cope with a fast-changing environment and meet the

Not all countries have the preconditions for complete demilitarization, but most have scope for substantial slowing in their military spending

FIGURE 1.8

Development is not always accompanied by a rise in military spending



Source: Military expenditure, Stockholm International Peace Research Institute; HDI, HDRO calculations.

technological and competitive demands of the international marketplace.”⁷⁰

The next chapter documents the extent to which many countries of the South have been able to follow this route, as well as the global

impact they are having. Later chapters will consider how they have done this and examine the implication of the rise of the South for international governance and for reshaping global power relations.