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## Development Beyond the Millennium Development Goals

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The Millennium Development Goals are of central concern to the international community. The year 2005 is a year of benchmarks for the Millennium Development Goals – the questions commonly asked are, are we on target? Will the world achieve the Millennium Development Goals (MDGs) by 2015? One can make a distinction between the achievability versus the adequacy of the MDGs. It seems to me that the adequacy question needs to be answered before the achievability question. So I would like to address the issue of adequacy of the MDGs first and then briefly assess the likelihood of achieving the MDGs by 2015.

Let me say by way of preamble that analysis of the MDGs has been a great preoccupation for the North-South Institute. We brought out three publications in 2005 that deal with the MDGs. One is about Canada's international policy, the second is our annual flagship publication: the Canadian Development Report, which emerged in September just before the Millennium Review Summit, and the third publication is entitled, *We the Peoples 2005 - Special Report, The UN Millennium Declaration and Beyond - Mobilizing for Change, Messages from Civil Society*. Some of my comments will be based on the findings of this last report, which is the fourth in a series of surveys we have commissioned or undertaken canvassing some 450 civil society organisations all over the world, 60 percent of whom are from the South. In this report, we try to ascertain their knowledge of and engagement with the Millennium Development Goals and the Millennium Declaration.

### **The Adequacy of the MDGs**

At the outset, it is important to acknowledge the significance of the Millennium Declaration and the MDGs in the context of North-South relations. It is also important to note that both the declaration and the goals have generated a considerable amount of energy and political commitment to the development enterprise, precisely because the MDGs happen to be quantified and time-bound. Having said that, by themselves, one can argue that the Millennium Development Goals are hardly an adequate basis for cooperation internationally on development. That is the thrust of my remarks. I also want to say that it seems churlish to be critical of the MDGs. However, my remarks should be understood very much in the spirit of supporting the MDGs. I believe that the MDGs constitute a minimum platform for action and mobilisation.

Let me explain. First of all, let us remember where the Millennium Declaration and the MDGs came from. They came from a series of UN conferences that were organised in the 1990s, from the Earth Summit in 1992 through the Beijing summit on gender, the Cairo Conference on Population and Development and so forth. What came out of those conferences was first codified by the Development Assistance Committee at the OECD in 1995. Subsequently they found expression at the world Summit in the year 2000 with its Millennium Declaration and the MDGs. However, the point is that both these syntheses of the earlier UN conferences represented a substantial retreat from what was talked about, discussed, and decided on in the 1990s.

For example, MDG-3, on gender inequality: nowhere does MDG-3 mention issues of sexual and reproductive health rights, which has been an issue of real concern and criticism by not only women but people who take gender equality issues seriously. Similarly, we say in our report that MDG-6, which simply calls for a halt to and reversing the spread of HIV/AIDS, malaria and other major diseases by 2015, represents a goal that is “scandalously modest”.

The goal of MDG-1 is, by the year 2015, to elevate at least 50 percent of the people living on one-dollar-a-day or less. Even if, and it is a big if, not just 50 percent, but 100 percent of that goal were achieved, so that no one was left at a dollar a day by the year 2015, what kind of success would that really indicate? If we still had 40 percent or 50 percent of humanity struggling to subsist at between one and two dollars a day, in my view it would not be much of an achievement. MDG-1 is not just a very modest goal; one could say that it is totally inadequate.

Our analysis encompasses the Millennium Declaration as well as the MDGs. The reason is straightforward. The MDGs themselves do not include issues of human rights or issues of peace and security. One has to look at the document that embodies the MDGs, the Millennium Declaration, to get a more holistic, all-embracing statement context for the goals. And finally, I don't need to point out that the MDGs have not attracted universal support. The US, for example, has never embraced the MDGs in their present form. So on a number of grounds the agenda that MDGs represent by themselves is inadequate.

Just a short footnote on all of this: The definition of poverty in such narrow terms, that is, measuring absolute poverty with the dollar-a-day benchmark, leads to a statistical blind alley. You have the spectacle of intellectual debate between Sala-i-Martin and Martin Ravallion with huge discrepancies between them as to the number of people who are at or below one dollar a day. I find this debate rather sterile, but it is a direct consequence of defining poverty in such an arbitrary way. The goal should not be the eradication of "absolute poverty", however that is defined.

### **Inequality and Distributional Dynamics**

So if not the MDGs, if not absolute poverty, then what should be the targets of international development? If one is genuinely interested in poverty eradication, one has to start from the point that the poor are not disembodied from the rest of society and from the economy. They are very much an integral part of the way the rest of society and the economy works. The poor are neither the problem nor are they are – as Hernando De Soto might put it – the solution to the problem. Rather, it is really important to understand poverty in a much more holistic, whole of society, whole of economy context. This line of thought leads into a serious consideration of distributional issues – income distribution and the distribution of both economic and social assets as well. It leads to a focus on *relative* rather than absolute poverty. And it also leads into a more dynamic consideration of poverty, in other words, its creation and its re-creation through time. One cannot understand poverty unless one understands income distributional dynamics and the historical context of inequality.

Moreover, one of the first things to acknowledge is that over the past 25 years inequality has widened all over the world. Interestingly enough, widening inequality began in the North in the 1970s in the US and the

UK and seems to have characterised an increasing number of countries both in the North and the South. This has been a subject of considerable study in a WIDER project conducted by Giovanni Andrea Cornia a couple of years ago. It also was the subject of a paper that I wrote for UNRISD (Culpeper, 2002). One of the interesting things that emerge from the literature of the past 10 years is that inequality is not just an equity issue; it is also an efficiency issue. In contrast, the conventional view in the older economics literature (for example, Kuznets) was that there is a trade-off between equity and efficiency. Greater equality would only impair economic growth; or, put otherwise, widening inequality is the price of development, at least until a relatively affluent level of per capita income is attained.

What the newer literature says is that countries with less inequality perform better economically: that is, they grow faster. There is plenty of historical evidence to support this proposition among the East Asian countries. Of course, there was inequality, but much less inequality than in other parts of the world, either in the North or in the South. The other side of that coin is that the wider is inequality the greater does the threshold of economic growth have to be in order to ameliorate living standards among those at the bottom end of the income distribution spectrum. Where inequalities are narrow, it might be possible to elevate the bottom quintile out of poverty at, say, 5 or 6 percent GDP growth. But if inequalities widen considerably one has to contemplate 7 to 12 percent GDP growth in order to have a significant impact on the poor. Therefore, with high inequality the levels of growth that are required to have that kind of impact may simply not be achievable.

It is noteworthy that having been ignored for many years, in 2005 there are two prominent reports from the international system that are focusing on inequality issues, the UNDP's Human Development Report as well as the World Bank's World Development Report. That, I hope, means that serious attention is now being placed on the issue of inequality.

### **Implications for Development Strategies**

Where does this argument lead us in terms of development strategy? First of all, distributional policies are very sensitive. I think it is important to acknowledge that at least in some aspects a more equitable distribution of human capital, as we have heard from Wing, has been acknowledged as a very important vehicle. Health and education

investments improve not only the current circumstances of the poor but also the outlook for their children. So far so good. But I think if one does justice to policies of redistribution, one has to go beyond health and education to consider real assets. In a poor country context, one has to consider things such as land reform and land redistribution. This is where the fuse starts to get a little bit short and people start really to get nervous, because these are intensely sensitive political and social issues. And yet, they are issues that we have ignored at our peril if indeed our objective is to have an impact on the poorest quintiles of society. So much for assets.

As for income distribution, one has to look at strategies that have an impact in the productive sector. And here, to draw on some of the discussion in Chapter 2 by Woo *et al.*, particularly in the rural economy it seems to be so important to devise and maintain policies that have an impact on those working in the agricultural sector. Again, if you look at the experiences of the East Asian countries, what was the strategy? The strategy was one of protection of the agricultural sector, which in many ways persists to this day. The protection of the agricultural sector led to price and income configurations that benefited the rural poor and rural workers directly – and the cost of redistribution was borne by society as a whole.

The policy advice given to developing countries today is completely at odds with the East Asian experience. They are faced with the prospect that, if the North abolishes its agricultural subsidies, then the South also has to open its markets to agricultural imports. Such propositions completely neglect the adverse impact those kinds of liberalisation policies in the South will have on the rural poor and in the agricultural sector.

In the urban economy, this line of argument leads much more directly into the realm of employment creation. Again, the MDGs as they are currently articulated, say hardly anything about the need for decent employment. Employment in the productive sector is surely the pathway out of poverty for the poorest urban dwellers, and yet this is understated in the MDGs and in strategies related to the MDGs.

Finally, tax policy has an important role to play. One has to contemplate the burden and the distributional impact of taxes. We have heard from Brian Kahn and others that the current tax system is too often regressive, relying as it does on sales and consumption taxes, and not enough on progressive income taxes. It seems to be the rule rather than the exception that in so many developing countries elites do not

pay taxes or very little tax, which indicates a very regressive distributional policy. A more progressive tax policy, on the other hand, is difficult to design and implement. Income taxes are administratively beyond the current reach of many poor countries. User fees for public health and education are certainly regressive and arguably go counter to the MDGs. Taxes on large landholdings, particularly where landholdings are skewed in favour of the rich, would be progressive. But taxes on land often generate powerful political opposition or are simply not collected. On this issue, therefore, considerable effort must be invested in developing countries toward the design and implementation of tax policies that are both equitable and efficient.

Last but certainly not least, a fundamental dimension of inequality in all countries is rooted in gender disparities. A far-reaching strategy for achieving gender equality in health, education, in the distribution of assets, in the productive sectors, and in the political domain could by itself do more than anything else to reduce inequality significantly.

### **The Achievability of the MDGs**

It may seem paradoxical to argue that the MDGs are inadequate when at the same time experts such as Jeffrey Sachs are predicting that they are not achievable in most of the poorest countries, particularly in sub-Saharan Africa. However, this paradox is easily resolved. If development strategies in the poorest countries were to change in the direction suggested above, the chances of achieving the MDGs would be greatly improved.

In particular, if more emphasis were placed on attacking inequality through a distributional strategy biased toward the poor, there would be a much greater “payoff” in terms of poverty reduction from any given aggregate rate of growth. In other words, with narrower income and asset inequality the poverty reduction impact of a 5 percent growth rate would be similar to the impact of a 7 percent growth rate with wider inequalities. This is particularly important in the case of sub-Saharan Africa where it is widely assumed that the rate of growth needs to be at least 7 percent to achieve significant poverty reduction. Few, if any, countries in sub-Saharan Africa have sustained a growth rate of 7 percent. However, in the past five years some countries have reached growth rates of 5 percent, which itself is quite high compared to averages near zero in the past twenty years.

At the same time, the growth performance of poor countries could be enhanced through a distributional strategy aimed at reducing

inequality and favouring agriculture, rural development and urban employment. Policies to enhance gender equality should play a central role in such strategies.

In other words, despite the dismal growth record of poor countries in sub-Saharan Africa, it may indeed be possible to achieve hitherto relatively unknown growth rates of 7 percent or higher via development strategies more explicitly oriented toward income and asset redistribution. With higher growth rates and a greater poverty reduction impact at any growth rate, the MDG targets – in particular, the reduction of poverty levels by at least one-half by 2015 – could be more easily achieved.

Donor countries can help by supporting countries adopting strategies aimed at reducing inequalities. Moreover, donor countries could also stop advocating policies that widen disparities and inequalities in poor countries. For example, policies of rapid liberalisation often widen income disparities by discriminating against the poor.

Donor countries could also help developing country partners to develop their systems of taxation and revenue mobilisation, ensuring that they are as progressive as possible. In the longer term, if the MDGs are to be sustainable, they cannot be maintained by foreign aid alone. Unless developing countries build up their own systems of resource mobilisation, the MDGs could simply induce chronic aid dependence, and there would be little guarantee that even if the MDGs are achieved, they would be sustained. In this sense, it would be better if the MDG targets were missed by 2015 if there is more assurance that they would be supported increasingly by domestic resources and less and less by donors.

## **Conclusion**

To summarise, where does it lead us in terms of policy actions?

At the national level, in developing countries it seems certainly to lead to much more active attention to distributional policies and strategies, to policies of employment, sustainable livelihoods and a more dynamic approach to income distribution policy. At the international level, it seems to me that international financial institutions and others have to incorporate inequality into the millennium development campaign. I would strongly advocate not waiting until the year 2015 to start thinking about and doing something about inequality issues. Let's go beyond restricting ourselves to the notion of absolute poverty and explore what we can do in the broad realm of development.

I realise in saying all of this that there is a number of sensitivities, both in the developing countries and at the international level, among some very powerful countries, about considering income distribution as a priority objective of economic policy. But I believe that if we do not consider income distribution as a fundamental underpinning of and complement to the Millennium Development Goals, we will achieve very little through the MDG campaign and the Millennium Declaration by themselves.

### References

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