

The MDG fundamentals: improving equity for development

Closing the gap between the haves and the have-nots

Key points

- Increasing inequality poses one of the greatest threats to the achievement of the Millennium Development Goals (MDGs)
- Policy-makers can learn from success stories in equitable public investment in social security and dual track approaches to liberalisation
- Recent improvements in data collection pave the way for more effective assessments, including league tables on equity-adjusted MDG progress indicators

Overseas Development Institute

ODI is the UK's leading independent think tank on international development and humanitarian issues.

ODI Briefing Papers present information, analysis and key policy recommendations on important development and humanitarian topics.

This and other ODI Briefing Papers are available from www.odi.org.uk

Five years from the Millennium Development Goals (MDGs) deadline, there is growing debate on how to accelerate progress in human development – particularly around the 2010 MDG review process. Historically, progress in development has been seen in terms of economic conditions. A more complete understanding of development is captured by the MDGs, which include indicators for health, gender equality, education and the environment. This paper argues that promoting equity in human development by reducing the gap between the haves and the have-nots will accelerate progress towards the MDGs.

Background

The MDGs are an internationally agreed set of goals for human development (see Figure 1 overleaf) drawn from the Millennium Declaration, signed by all UN member states in 2000. Acknowledging the value of equity for development, the Declaration stresses the importance of equality, where no individual or nation is denied the chance to benefit from development, and solidarity, and where global challenges are managed in a way that distributes the costs and benefits fairly (UNGA, 2000).

Given their design, some would argue that the MDGs can be achieved without addressing disparities or improving the lives of the very poorest people. In theory, halving the proportion of people whose income is less than one dollar a day (under MDG₁) can be done by bringing those just below the poverty line to a level just above it. Evidence shows, however, that the failure to address the distribution of wealth undermines progress in development (UNESCO, 2010).

In common parlance, inequality and inequity are often used interchangeably, with measures



Reducing the gap between the haves and the have-nots will accelerate progress towards the MDGs.

of inequity often called inequality measures. In fact, they are distinct concepts. An inequity is an unfair and avoidable inequality, and its definition is embedded in the value system of the society that is defining it. For policy-makers, promoting equity means tackling the avoidable factors that fuel inequities.

Inequity and MDG progress

When one part of a society is excluded from development processes, as seen in the widening disparities of recent years, the impact is felt across that society. It has undermined sustained improvements across the economic, social and political spectrum, and that hinders progress on the MDGs. Unequal progress means that the rich see diminishing returns as they reach the natural limits of human development (e.g. life expectancy or primary school enrolment ratios), while the poor see little progress. This brings national averages down (Vandemoortele, 2010).

Inequities have undermined economic growth and its poverty reducing potential. National demand has fallen as resources shift from those

Figure 1: Millennium Development Goals (MDGs)



Source: United Nations (www.unescap.org/unis/press/2007/jul/n31.asp?print=true).

with a high propensity to consume locally produced goods and services (low- and middle-income earners) to those who have a lower propensity to consume such goods (the super-rich). Rising income inequality stimulates not only conspicuous consumption – which tends to have a high import content and is capital-intensive, doing little to boost or support the national economy – but also risky investments. This has contributed to financial instability. In addition, cross country studies have shown that not only do high levels of income inequality reduce the poverty reducing potential of economic growth, but that reductions in income inequality also accelerate poverty reduction.

Increasing inequality has entrenched special interests and delayed policy reforms. This has reduced demand for investments in human development and counter-cyclical economic policies. A study on the links between structural inequality and financial liberalisation has found that higher inequality in schooling reduces the impetus for policy change as ‘powerful interests are more likely to dominate politics’ (Behrman et al., 2009:15). Political instability and the

loss of social cohesion linked to rising inequity has also shortened the time horizon of policy-makers, favouring short-sighted policies at the cost of long-term macroeconomic stability (Birdsall et al., 2008).

Third, rising inequity leads to more financial instability and vulnerability to external economic shocks, not only because of the political consequences of rising inequities, but also because inequity increases borrowing to achieve aspirational levels of consumption (Turner, 2008). Low- and middle-income earners with falling wages have maintained or increased their consumption on borrowed funds.

When lending practices are poorly regulated, as happened before the global financial crisis, rising demand for borrowing fuels unsustainable debt levels. A credit-fuelled boom offset the social and political tensions of increased inequity – at least temporarily. But boom turned to bust when borrowers defaulted, as we saw in the US and UK financial crises. Growing debt also increases household vulnerability to external shocks such as illness, unemployment and natural disaster. Households rely on their incomes or on capital markets to finance basic services such as housing, pensions, education and health care (Milanovic, 2009; Turner, 2008). A report by the Robert Wood Johnson Foundation (2010) suggests that the middle class in the US is losing health insurance faster than any other income group.

Fourth, inequity contributes to poor health. Peoples’ health is shaped by the conditions in which they live, including their access to health care, education, their working conditions and their environment. New evidence from the UK illustrates the relationship between economic inequity and poor health: economic inequity is related to shorter, unhealthier and unhappier lives, and to higher rates of teenage pregnancy, obesity, violence, addiction and imprisonment, and the consequences are felt by all members of society, not just poor people (Wilkinson and Pickett, 2009). Figures from the World Health Organization (2006) indicate that the probability of a man dying between the ages of 15 and 60 is smaller in countries where there is less inequity, and higher in countries with greater inequity, with a probability of just 8.2% in Sweden rising to 48.5% in the Russian Federation and to 84.5% in Lesotho.

The case for focusing on equity, therefore, goes far beyond economic benefits. If the poor do not participate in and benefit from national progress, it will be impossible to reach the global MDG-targets by 2015. If, on the other hand, policies ensure reductions in inequity, progress on the MDGs can be accelerated, even at this late stage.

Two policy approaches

Equitable progress means ensuring that the benefits of development are shared across the population. It means that poor people and middle-income earners – the largest proportion of any society – benefit in a greater proportion than the better-off, so that

improvements are equalising. Concretely, this means that improved access to education benefits girls, who have lagged behind in terms of enrolment, as well as boys. Essentially, equitable progress occurs when disparities are narrowed in access to economic, political and social activities (e.g. health and education services). And no country in history has achieved sustained economic growth without tackling rampant illiteracy, malnutrition and ill-health.

Two policy approaches have helped reduce inequity: equitable public investment in a social security system, and a two-track approach to trade liberalisation.

Equitable public investment in a social security system. A universal social security system is essential to reduce inequity and boost economic development. Szreter (2007) explains how the 17th century English Poor Laws offered everyone, even the poorest, food security and protection from personal misfortune. This helped England outpace Europe's leading economies at the time – France and the Netherlands – and drove improvements in human development, including reduced mortality (Box 1).

More recent examples include Brazil and Uganda. Brazil has reduced inequity substantially and consistently in the past two decades. Key contributors to this reduction in inequity are cash transfer programmes, including the Benefício assistencial de prestação continuada (BPC), a cash transfer programme for the elderly and for extremely poor individuals with disabilities; and Bolsa Família which targets poor families and incorporates conditionalities that include a requirement of 85% attendance at school for school-age children, backed by the introduction of updated immunisation cards for children aged 0-6 and pre- and post-natal visits to health centres. Additional activities target adults and include positive discrimination in favour of the poor in training programmes, in employment, in income generating programmes and identification-registration processes. This programme has been identified as a key factor in reducing inequity in Brazil. Meanwhile, Uganda's elimination of user fees at health facilities in 2001 resulted in an 80% increase in public visits, with the poorest 20% of the population accounting for half of this increase (UNDP, 2003).

Dual-track approach to liberalisation. Links between trade liberalisation, investments in human development and economic growth are dynamic. Experience shows that it is successful and inclusive growth and development that triggers integration into the world economy. Countries that are now rich protected their markets at key points in their own development in a way that is inconsistent with many of the free market and neo-liberal policies espoused today (Chang, 2007).

Recent evidence from the East Asian economies demonstrates the benefits to both economic growth and human development of a gradual, country-specific and sequenced approach. Viet Nam employed a two-track process to liberalisation that enabled it to integrate rapidly into the global economy in

Box 1: Universal social security in 17th century England

The English Poor Laws (c. 1600-1830), a comprehensive system of social protection, had five components:

Progressive taxation, which mandated that every parish in England create a parish fund financed by a local tax on property.

Parish registers, which kept a record of individuals' births, marriages and deaths, and provided information for the social protection system. These were the foundation of 'identity rights'.

Justices of the Peace, to address potential problems of corruption.

Settlement laws, to prevent free-riding (i.e. consuming more than one's fair share) and establish eligibility criteria for obtaining relief from a particular parish. This meant that individuals could move from their original parish and transfer their entitlement to relief to their new parish.

Social and legal protection, with parishes offering their members legal security for their property as well as social protection all year round.

Poor laws enabled wealthy land-owners to shed labour (otherwise limited by the knowledge they would be taxed to feed unemployed workers) which paved the way for productivity-raising innovations in agriculture. The new system facilitated capital mobility, resulted in falling mortality rates and reduced migration from rural to urban areas. This entitlement-based social security system also freed English citizens from the fear of mortality during food crises.

Source: (ODI, 2009).

the long run. It maintained import monopolies and retained quantitative restrictions and some high tariffs on agricultural and industrial imports. In 2006, it joined the World Trade Organization.

China and India implemented trade reform after their economies started to accelerate. The onset of growth in China started in the late 1970s, and significant trade liberalisation did not start until much later – the second half of the 1990s. In the case of India, growth rose substantially in the early 1980s and trade reform did not start in earnest until the early 1990s.

Mauritius also employed a two-track strategy, complementing both orthodox and heterodox trade policies. In the 1970s, using the rents from the sugar sector (where prices were high because of European Union (EU) protection of sugar), it invested in clothing factories. The political economy context under which this export processing zone was established included a stable political context, a well-organised labour movement, a participatory political system and a growth strategy that promoted diversification.

On the other hand, some sub-Saharan African and Latin American countries, which underwent comprehensive trade liberalisation by cutting import tariffs and removing quantitative restrictions, have made little progress in integrating into the global economy, and have seen little growth as a result of opening their borders. Many of these countries also saw poverty and inequities increase.

Policy recommendations

Policies to promote equity can accelerate progress towards the MDGs. Equity is part of the development



Overseas Development
Institute
111 Westminster Bridge
Road, London SE1 7JD
Tel +44 (0)20 7922 0300
Fax +44 (0)20 7922 0399
Email
publications@odi.org.uk

Readers are encouraged to quote or reproduce material from ODI Briefing Papers for their own publications, as long as they are not being sold commercially. As copyright holder, ODI requests due acknowledgement and a copy of the publication.

The views presented in this paper are those of the author(s) and do not necessarily represent the views of ODI or SDC.

© Overseas Development Institute 2010
ISSN 0140-8682



debate, from the *Financial Times*, to the corridors and publications of the UN and the World Bank (see van der Hoeven, 2008). But equity has not been integrated into policy design or implementation. Why is this, and what can be done?

At the international level, **more attention is needed for the non-economic dimensions of progress**. Until recently, progress in development has been measured in general by using economic indicators, reflecting the priority given to growth as a cure for all development ills. The MDG indicators provide a more comprehensive way to assess progress in human development.

Focus on measuring equitable progress. MDGs continue to be measured at the aggregate level – concealing inequitable progress at national and sub-national level. Recent improvements in data collection allow for a more disaggregated analysis of progress by wealth groups, by rural-urban location, by gender, by ethnicity, etc.

The time is right for league tables to measure progress in economic and social development, with equity-adjusted indicators that capture disparities across socio-economic groupings. League tables can foster public debate on development, and ODI is working with partners to develop just such a set of league tables for the 2010 MDG review meeting.

At national level, **reducing inequity requires more than ‘business as usual’**. It demands a comprehensive and coherent macro-policy framework to reduce inequity. Line ministries, the donor community, the private sector and civil society must collaborate in the design and implementation of a macro-policy framework. The challenges to achieving this level of coordination towards a shared vision lie in the political-economic disincentives to collaborate

across ministries, donors and sectors of society, as well as elite capture. In societies with high levels of inequity, those who control the resources also tend to control the political system and use it to support their interests, marginalising the rest of society.

Recognise that human development, equality and poverty reduction are central for growth rather than seeing these critical factors as secondary. Policy design continues to focus on aggregate economic growth, often disregarding the aspect of sustainability and the distributional impacts of growth. Financial regulations, for example, are often portrayed as anti-growth and, therefore, anti-development. However, the recent financial crisis illustrates the importance of adequate financial regulation to avoid unsustainable growth patterns, speculative bubbles (Mexico 1995, Thailand 1997-1998, UK and USA 2008) and capital flight (Argentina 2001, Iceland 2008). Chang (2007) writes ‘To sum up, history is on the side of the regulators’ (2007:96).

Learn from success, including the Asian Tigers and Mauritius (sequenced liberalisation and investment in human capital), Brazil (inclusive growth), and West African countries (closing the gap between girls’ and boys’ education). These lessons can then be translated across county contexts.

We know that equity matters for accelerating progress in development and – by extension – on the MDGs. What is needed now is the courage to put these lessons into widespread action.

By Milo Vandemoortele, ODI Research Officer, Growth and Equity programme (m.vandemoortele@odi.org.uk). We are grateful for financial support from the Swiss Agency for Development and Cooperation (SDC) for this Briefing Paper.

References

- Behrman, J. R., Birdsall, N. and Pettersson, G. (2009) *Schooling Inequality, Crises, and Financial Liberalization in Latin America*. Washington, DC: Center for Global Development.
- Birdsall, N., De La Torre, A. and Menezes, R. (2008) *Fair Growth: Economic Policies for Latin America’s Poor and Middle-Income Majority*. Baltimore: Brookings Institute Press.
- Chang, H.-J. (2007) *Bad Samaritans. Rich Nations, Poor Policies and the Threat to the Developing World*. London: Random House.
- Klasen, S. and Nowak-Lehmann, F. (2009) ‘Poverty, Inequality, and Policy in Latin America: An Introduction’. In S. Klasen, and F. Nowak-Lehmann, *Poverty, Inequality, and Policy in Latin America*. Boston, MA: Massachusetts Institute of Technology.
- Milanovic, B. (2009, 4 May) ‘Two Views on the Cause of the Global Crisis – Part I’. YaleGlobal.
- Overseas Development Institute (2009) ‘Enabling Growth and Promoting Equity in the Global Financial Crisis’. Growth & Equity Programme Conference. London: ODI.
- Robert Wood Johnson Foundation (2010) *Barely Hanging On: Middle-Class and Uninsured*. Princeton, NJ: RWJF.
- Szreter, S. (2007) ‘The right of registration: development, identity registration and social security – an historical perspective’, *World Development* 35 (1): 67-86.
- Turner G. (2008) *The Credit Crunch: Housing Bubbles, Globalization and the Worldwide Economic Crisis*. London: Pluto Press.
- UN Development Programme (2003) *Making Global Trade Work for People*. London: Earthscan.
- UNESCO (2010) *Education for All – Global Monitoring Report: Reaching the marginalized*. Paris: UNESCO.
- United Nations General Assembly (UNGA) (2000) *United Nations Millennium Declaration*. New York: UN.
- Vandemoortele, J. (2010) ‘Poverty, Growth and Children: What’s the Right Sequence?’ In A. Minujin and L. Daniels, *Child Poverty*. New York: Policy Press.
- Vandemoortele, J. and Delamonica, E. (2010) ‘Taking the MDGs Beyond 2015: Hasten Slowly’, *IDS Bulletin* 41 (1).
- van der Hoeven, R. (2008) ‘Income Inequality Revisited: Can one bring sense back into economic policy?’. ISS Public Lecture Series 2008, No. 2. The Hague: ISS.
- Wilkinson, R. and Pickett, K. (2009) *The Spirit Level: why more equal societies almost always do better*. London: Allen Lane.
- World Health Organization (2006) *The World Health Report 2006 – Working together for Health*. Geneva: WHO.

Photo credit: flickr/Joe Athialy