



**Kevin Watkins**

**"Inequality as a barrier to human development"**

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Let me start by thanking the Stockholm School of Economics for hosting this event, the European Commission and the United Nations Development Programme (UNDP) for inviting me to deliver the Ryszard Kapuściński lecture. It is a huge privilege to follow in a long line of distinguished speakers.

In recent years Ryszard Kapuściński's reputation has come under the spotlight for a number of reasons, not all of them favourable. But his writing from and about Africa has stood the test of time.

One of Kapuściński's greatest gifts was his talent for capturing the lives of ordinary people. His endless capacity for escaping press minders and straying off the beaten track brought him into contact with people living in the back streets, refugee camps and war-zones. And that contact produced some compelling accounts of life on the margins in post-colonial Africa.

Life on the margins is central to our theme for today's discussion.

Amartya Sen has defined human development as a process of expanding the freedom that people enjoy and the real choices they are able to make. Not all inequality is a constraint on freedom. But the extreme inequalities of wealth and of opportunity in evidence across so many countries are barriers to human development.

These inequalities limit social mobility. They restrict choice and increase the weight of circumstances – parental poverty, gender, ethnicity and location – in determining what people are able to achieve. And they have limited progress towards the Millennium Development Goals (MDGs). Failure to mitigate extreme inequalities and to redress the power relationships that perpetuate those inequalities will compromise our ability to rise to the great moral challenges of our day – challenges like the eradication of hunger and extreme poverty, avoidable child mortality, illiteracy and climate change.

With the dialogue on the post-2015 MDGs gathering pace, I want to make the case for putting inequality at the heart of the agenda. The case rests on two foundations.

First, the extreme inequalities that characterise so many countries are unacceptable. They represent a source of social injustice, an affront to the shared values and principles that underpin the MDGs, and a violation of basic human rights. They are intrinsically wrong.

Second, failure to prioritise inequality will act as a brake on progress toward vital post-MDG goals. We could be the generation that eradicates extreme poverty and the worst forms of absolute deprivation in areas such as child and maternal mortality. But if the eradication of extreme poverty and deprivation is the goal, then greater equity is a condition for achieving that goal. That is why we need intermediate equity targets as stepping-stones to the post-2015 goals.

The post-2015 MDG dialogue provides a unique window of opportunity for governments, civil society and aid agencies to come together to address one of the great development challenges of our day – the stark disparities in opportunity that destroy so much human potential. It also provides an opportunity for the High-Level Group established by the UN Secretary General to guide the framing of the post-2015 goals to tap into the energy, drive and ambition of civil society groups, social movements and wider constituencies working for a more equitable world.

In this lecture I want to focus on some of the more tangible potential benefits of equity for achieving our shared ambitions on the MDGs. But what is at stake goes beyond the MDGs. Taking equity as a starting point fundamentally changes how we think about development. Mahatma Gandhi once commented that all governments should assess their policies against one fundamental criterion: their potential for improving the lives of the most disadvantaged. Or as President Roosevelt once said on a similar theme: “The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little.”

And in today’s world we need to think beyond our own lives. Can any community claim adherence to civilized values when it take a conscious decision to impose suffering, whether by design or through neglect, on future generation. Yet that is surely what our generation is doing though our failure to steer a course away from dangerous climate event – an approach that threatens to put human development into reverse gear during the course of the 21<sup>st</sup>. Century.

So far, the High Level Group has circled somewhat nervously around the inequality problem. It is time now for bold action. The post-2015 MDGs should provide the vision that unites the international community, civil society, and others behind an agenda for social justice and equity.

Don’t get me wrong. I don’t want to suggest that UN targets, however imaginatively framed, are a sufficient condition for achieving change. But at a time when international cooperation on development is flagging, and with the momentum generated by the MDGs waning, the post-2015 vision could play an important role in setting a compelling agenda for action.

I want to structure this lecture around three themes. I’ll start with some brief remarks on inequality. After that I’ll turn to the interplay between inequality and the MDG goals. I’ll try to show that accelerated progress towards poverty reduction and the goals in education and health depends on greater equity. Finally, I’ll conclude with a few remarks on what equity-based post-2015 targets might look like.

### **Inequality and the MDGs**

Concern over inequality is hardly new.

Plato despaired at the wealth disparities he saw emerging in Greek city-states. Elizabethan England had its advocates for equity. Shakespeare's King Lear declared: "distribution should undo excess, and each man have enough." Adjusted for gender, that's not a bad MDG target – though I'm sure defining the word 'enough' would take a few dozen UN conferences.

Globalisation has been a long-standing precursor to debates on equity. It is now almost 150 years since Henry George, writing during the first great wave of global integration at the end of the 19<sup>th</sup> Century, railed against the 'great enigma' of poverty in the midst of plenty.

"So long as all the increased wealth which modern progress brings," wrote George, "goes but to build up great fortunes, to increase luxury and make sharper the contrast between the House of Have and the House of Want, progress is not real and cannot be permanent." Those words – 'progress is not real and cannot be permanent' – have a resonance for any reflection on inequality today. Can we really talk of progress in a world that has over one billion people living with malnutrition? Poverty in the midst of plenty is also the great enigma of our age.

Henry George was concerned with the distribution of monetary wealth. But the distribution of opportunities – or what Amartya Sen calls capabilities – in areas such as health, nutrition and education goes beyond the monetary dimension, as does the opportunity to influence decisions that affect your life, or political voice.

There are, of course, many different dimensions of inequality. In policy terms, it helps to be clear about 'inequality of what' – and many of the debates on this subject are highly technical. Yet it also reminding ourselves that public concerns over inequality are driven not by detached technical considerations, but by a sense of fairness, moral values and empathy. As behavioural economists have discovered (in some cases to the horror of their norm-averse colleagues), fairness turns out to be a deeper element in our DNA than 'rational utility optimisation'.

Today, inequality is back on the agenda. Political leaders in Africa have recognised that the region's growth surge is leaving the poor behind. The Chinese government now sees inequality as a threat to social stability. America's wealth divide figured prominently in the last presidential election. European protest movements contrast the wealth of bankers with the deprivation that comes with austerity. Equity is a core element in the glue that binds social justice movements.

Concern over inequality has even breached the walls of some unlikely fortresses. Economists at the IMF used to fret first and foremost about fiscal deficits. Now they have discovered that inequality hurts financial stability and economic growth. As Christine Lagarde, the Executive Director of the IMF, put it at 2013 World Economic Forum in Davos: "Now all of us—including the IMF—have a better understanding that a more equal distribution of income allows for more economic stability, more sustained economic growth, and healthier societies with stronger bonds of cohesion and trust."

Never mind social justice. When the IMF decides inequality is bad for growth, it makes headlines. Ms Lagarde's audience in Davos was highly responsive to her message on equity – and for good reason. The World Economic Forum's survey placed 'severe economic disparity' at the top of a list of global risks for the decade ahead.

Beyond the confines of the corporate world development organisations like Oxfam and Save the Children have made inequality a central theme in their campaigning activities. I would urge those of you not persuaded by the case for equity to read Save the Children's excellent reports on the issue.

Yet despite this backdrop, the international development community remains somewhat schizophrenic in its embrace of inequality. There's a general consensus that inequality is a problem. We're just not sure what the problem is, or what to do about it.

Should we focus on eradicating absolute deprivation rather than pursuing a change in distribution? Are we concerned principally with income inequality or with wider inequalities in opportunities? Where is the dividing line between acceptable and unacceptable inequality? What is the right balance between inequalities associated with incentives for growth and policies for equity? And should we care about inequality because it matters in itself, or because it is bad for other things like economic growth and investment?

Failure to reach a consensus on these and other questions has led not just the economics profession but also the wider policy community to downplay the importance of inequality. One consequence – and a highly damaging one – has been the lack of connection between the post-2015 MDG dialogue and the social movements driving forward the equity agenda.

### *The post-2015 dialogue*

Let me say at the outset that the post-2015 MDG dialogue is a debate that matters.

The achievements of the MDGs can be over-stated – and they often are. But the 2015 goals put poverty on the international agenda. They signalled intent, incentivised action, and provided a focal point for political mobilisation on extreme poverty, child and maternal mortality, access to water and sanitation and other priorities.

You can question the design and targets. Yet the MDGs tapped into deeper currents of concern about the state of our world and our shared responsibility to combat poverty. And they provided a tangible benchmark against which to monitor progress and hold governments to account.

The high-level panel appointed by the UN Secretary General to frame the post-2015 goals has been given a challenging remit. Framing the next generation of MDGs is a tough ask. It has to be said also that the barrage of demands from groups advocating for their own causes is a weak guide to action. The 'shopping list' model is not going to deliver a compelling guide to action.

The high-level panel has been mandated to produce a vision that will "end extreme poverty in all its forms (...) and have in place the building blocks of sustained prosperity for all."

That is a destination we all want to arrive at. But the road map for that journey has to include clear signposts for equity. In fact, I would go so far as to say that an unrelenting focus on reducing inequality is a requirement for any meaningful vision.

This is partly because the post-2015 framework needs to recognise that, however difficult it may be to define the boundaries, there are limits to acceptable levels of inequality – and that we have crossed those limits.

But it is also because failure to tackle inequality will slow the pace of progress towards the eradication of absolute deprivation, both in income poverty and in wider opportunities. Put differently, if our ambition is the eradication of extreme poverty by 2030, that ambition has to go hand-in-hand with a more inclusive pattern of economic growth.

Let me make one observation at this point. There is a tendency in the current dialogue on equity and the MDGs to differentiate between income-related distribution and the distribution of opportunities for health and education. That differentiation is flawed. As Francesco Ferreira at the World Bank has demonstrated, extreme disparities in income go hand-in-hand with reduced social mobility and with wider inequalities in opportunities – an issue that I'll return to below.

### **Inequality as a barrier to the MDGs – absolute poverty and distribution**

It was Thomas Malthus who reputedly secured for economics the soubriquet of 'the dismal science'. Lucky, then, that he wasn't around to monitor progress towards the MDGs. To put it mildly, there's plenty of bad news out there.

Yet it is easy to understate what has been achieved. To mention progress in just a few areas:

- *The global incidence of absolute poverty has fallen by half since 1990.* While the biggest gains have been in China, Africa has seen the first decline in headcount poverty for over a generation; and South Asia has reduced the incidence of poverty from 53 per cent to 36 per cent.
- *In 2010 there were 5 million fewer child deaths than in 1990.* Sub-Saharan Africa, the region with the worst indicators, has doubled the rate of decline for child mortality, from 1.2 per cent annually in the 1990s to 2.4 per cent since 2000.
- *The number of out of school children has fallen by over 40 million since the end of the 1990s.* Despite demographic pressures, enrolment rates in low-income countries have increased dramatically, from 58 per cent to over 80 per cent since the end of the 1990s.

Given the rate of progress, why do we need a post-2015 framework that increases the emphasis on inequality? Why not stick with a marginally adjusted business-as-usual model?

The answer: because business-as-usual will not get us to where we need to be.

#### *Inequality and income poverty – why distribution matters*

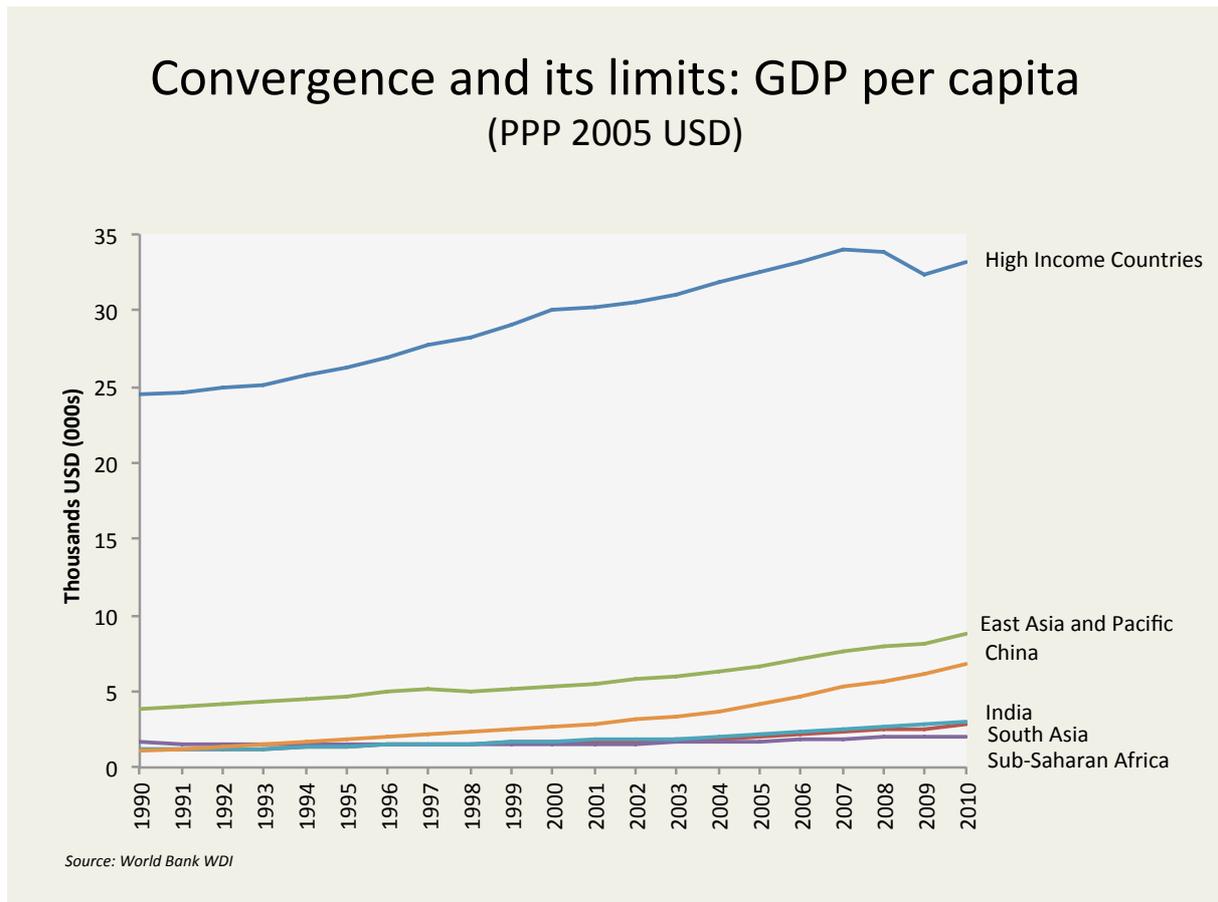
Asked about his record on combating poverty in the UK at a time of rising inequality, Tony Blair once said: "It's not a burning ambition for me to make sure that David Beckham earns less money."

Put less personally, if the absolute income of the poor is rising, who cares about what is going on at the top end of the wealth distribution? That perspective is sometimes visible in the MDG debate on eradicating absolute poverty.

Unfortunately, it is misplaced. If you care about absolute poverty, then income distribution matters. To explain why, let me start with a bird's eye view of global wealth distribution and work downwards.

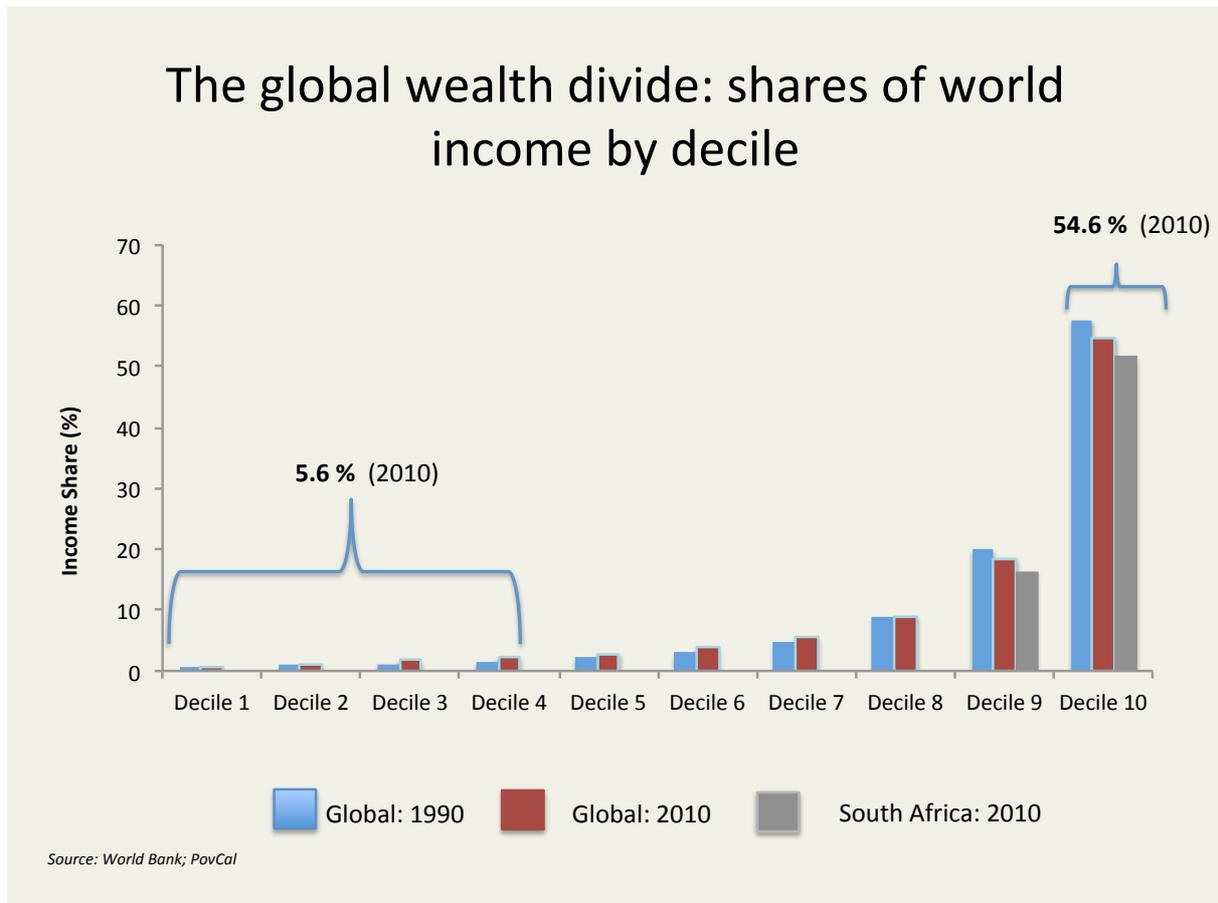
The headline story of the past two decades of globalisation can be summarised in a simple phrase: global convergence with national divergence. As a global community, we are becoming richer and slightly less unequal. High growth in developing countries is shrinking the average income gap *between* rich and developing countries (**Slide 1**).

**Slide 1**



However, we still live in a desperately unequal world (**Slide 2**). In 2010, the poorest 20 per cent of the world's population – an approximation for 1 billion people living on less than US\$1.25 a day – accounted for 1.7 per cent of world income. At the other end of the spectrum, the richest 10 per cent accounted for 54 per cent.

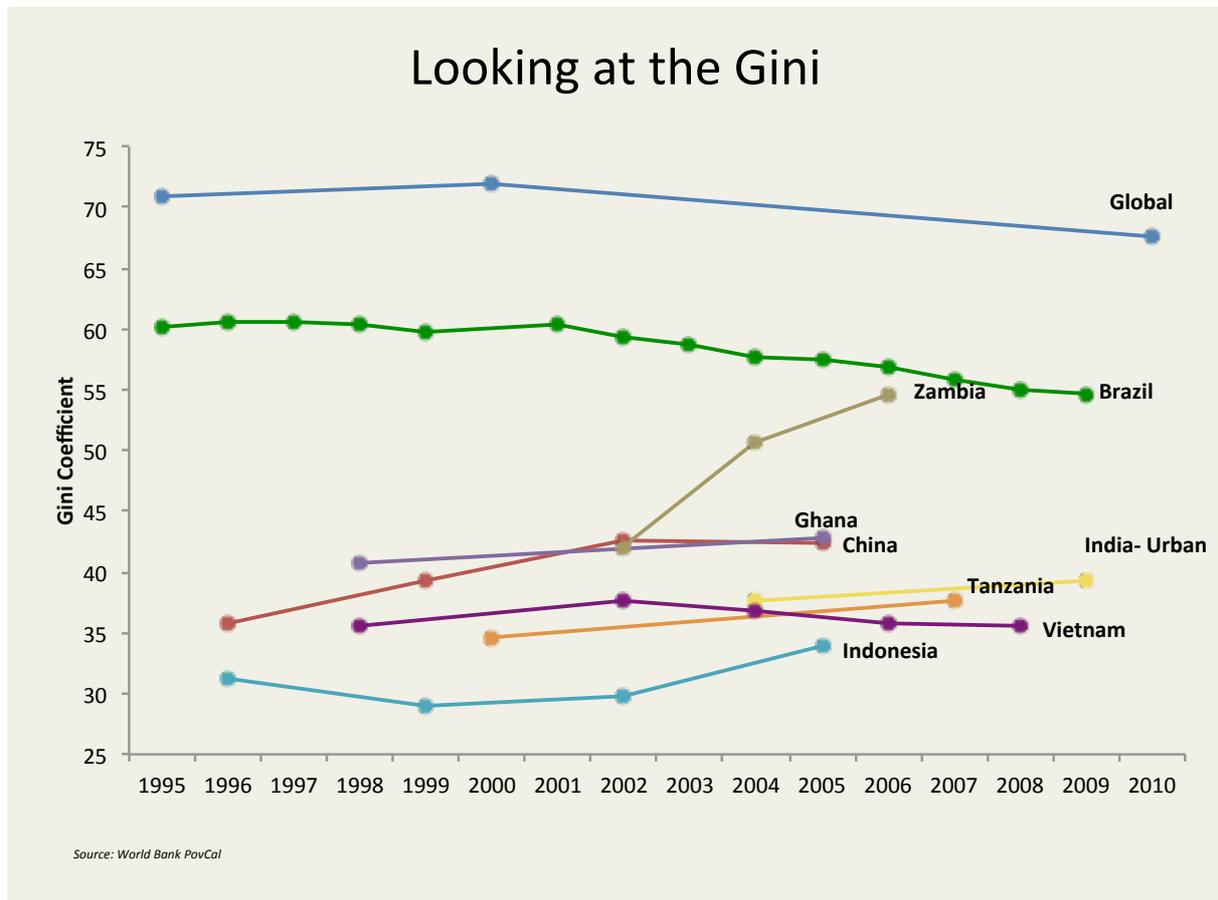
## Slide 2



As a global community we are more unequal than any country in the world, including South Africa. Why the persistently high global inequality? Because divergence *within* countries is counteracting the equalising effects of global convergence.

Inequality is rising across a large group of countries. That is true in a spectacular sense for the United States and on a more modest basis for most OECD countries. And it is true for much of the developing world (**Slide 3**).

### Slide 3



Slide 3 uses the Gini coefficient to chart inequality. But it's worth recognising that the Gini systemically under-estimates the wealth of the very rich. By how much is hard to assess – but the magnitudes are probably very significant.

Individual country experiences are at once anecdotal but instructive. Take the case of India. In the mid-1990s, the country had just two dollar billionaires. Their combined wealth was equivalent to around 1 per cent of GDP. Today, India is a world leader in the growth rate of its billionaire community. The country has 47 dollar billionaires accounting for 10 per cent of GDP. In the Philippines, the rise in reported wealth of the 40 richest people in the country in 2011 was equivalent to 76 per cent of the total increase in GDP for the entire country. These are numbers that move Ginis - or they would if they were captured in the surveys. Billionaires in India and the Philippines are not well represented in household expenditure surveys.

Billionaire wealth aside, why do these growing wealth gaps matter for poverty reduction? For the simple reason that poverty reduction is ultimately a function of two things: economic growth and the *share* of growth captured by the poor.

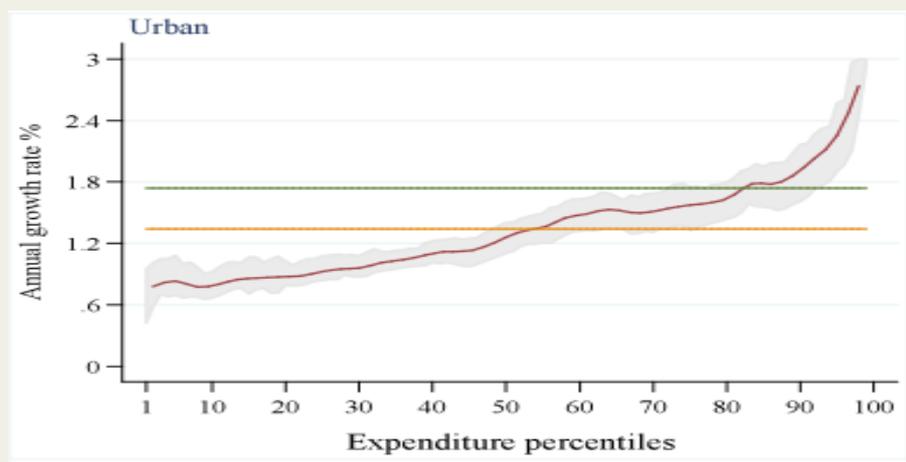
*Two growth paths – India and Brazil*

One way of illustrating the interplay between absolute poverty reduction and distribution is to compare the recent records of Brazil and India. Over the past decade and more, India has been growing at almost twice the rate of Brazil. Yet it has registered a far slower rate of poverty reduction. As Martin Ravallion at the World Bank has shown, every percentage point of growth in Brazil cuts poverty at five times the rate in India.

The difference is a function of distribution. Urban India has been following a path of growth with redistribution – redistribution, that is, in favour of the rich (**Slide 4**). Incomes have been growing far more rapidly at the top end of the wealth distribution than in the lower reaches.

**Slide 4**

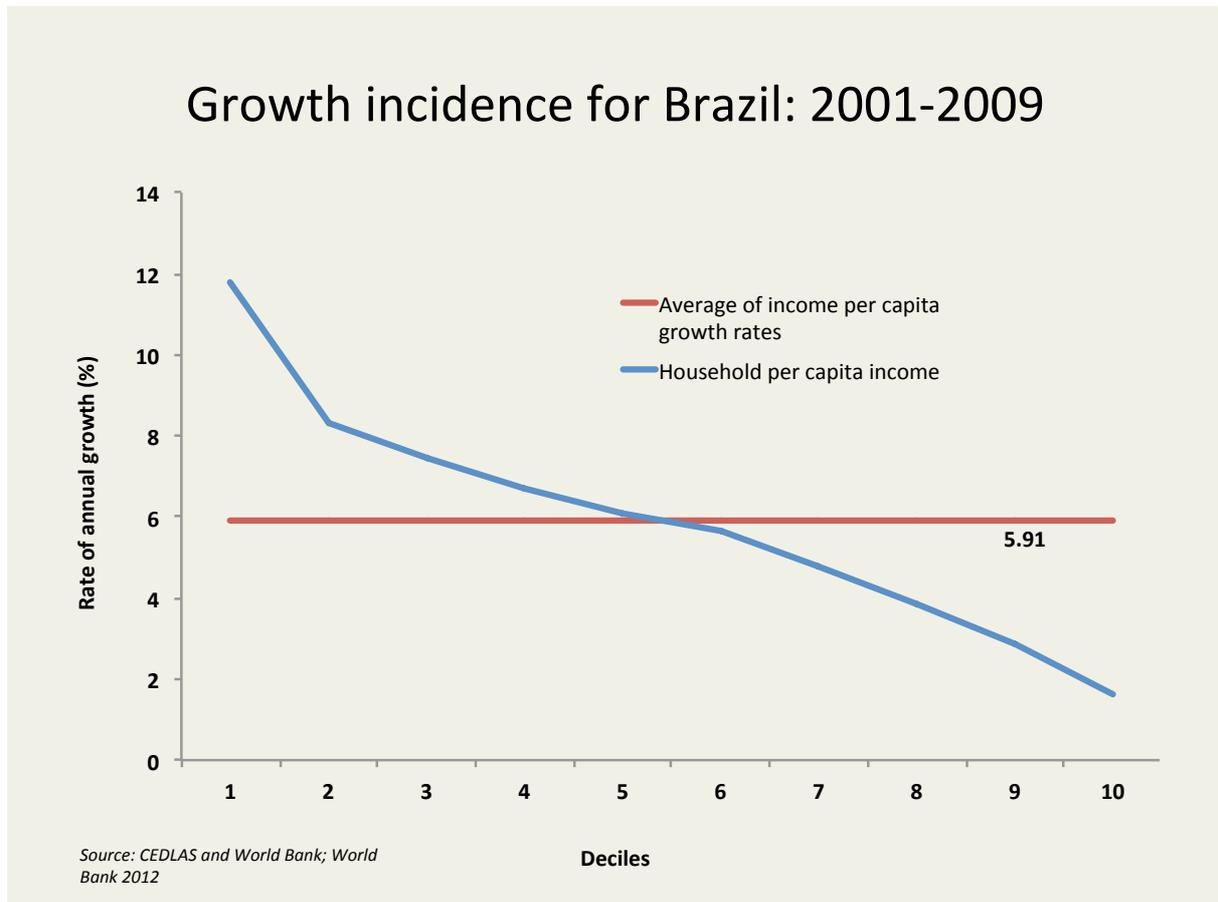
## Pattern of growth in per capita expenditure in India: 1994-2005



Source: Walton 2010; National Sample Survey

Brazil has been following a path of more equitable growth (**Slide 5**). According to the Economic Commission for Latin America, around half of the 12 percentage point reduction in poverty in Brazil can be traced to redistributive effects.

### Slide 5



Some of these effects (probably around one third) have occurred through conditional cash transfers under the *Bolsa Familia* program. But labour markets have played the more significant role. Growth has been relatively employment-intensive; and legislation has reduced the gap between the minimum wage and the average wage.

It is worth adding that Brazil has also been far more successful than India in translating income growth into improved well-being in other areas. Over the decade to 2005, high-growth India secured a close to zero reduction in malnutrition. The percentage of underweight children fell from 52 per cent to 46 per cent. Meanwhile, Brazil cut malnutrition by two-thirds.

#### *Evidence from Africa*

Evidence from sub-Saharan Africa provides another cautionary tale for those who want to downplay the importance of distribution.

Over the past decade, the region has sustained a remarkable growth surge. In 2012, six of the ten fastest growing economies in the world were African. Angola has been matching the growth rate in China. Nigeria, Zambia and Tanzania are outperforming India. This is a remarkable and welcome turnaround. Yet the record on poverty reduction has been far less impressive than the record on growth.

Tanzania may have recorded one of the lowest rates of conversion from growth to poverty reduction in history. Poverty incidence fell by just 1 per cent in the period 1999-2006 – a period when the economy was growing at 6 per cent a year.

Extraordinarily, high growth Zambia registered an increase in poverty from 2002 to 2006, from 64 per cent to 68 per cent. According to the World Bank, poverty reduction since then has been negligible. Nigeria's strong economic growth performance has produced weak results for poverty reduction.

Why the mismatch? Much of Africa's growth can be traced back to sectors – mining, financial services and construction – that are capital-intensive (rather than labour-intensive) and urban. Rural areas have been left behind. And given that the vast majority of the poor in most countries are smallholder farmers living in rural areas, growth is bypassing the poor. In Zambia, the share of the poorest 10 per cent in national income has halved since 2000, to just 1.2 per cent of the total.

In marked contrast to the approach in Brazil, few African governments have sought to use the revenues generated by minerals and economic growth to develop safety nets, finance the development of infrastructure for smallholder farmers, or break down the barriers that perpetuate wealth-based and gender-based disparities in access to education, health and other basic services.

Comparisons between average income and human wellbeing tell their own story. Africa's fastest growing and most resource-rich countries register some of the biggest gaps between their ranking on the global league table for income, and their ranking on the Human Development Index league table. Equatorial Guinea registers a gap of 91 places, Angola 38 and Nigeria 12 places.

To paraphrase President Kennedy, Africa's growth is a rising tide that is lifting some boats but not others – notably the boats occupied by the poor. Changing this picture will require measures that secure for Africa's poor an increased share of national wealth.

That theme was powerfully captured by Kofi Annan, the former UN Secretary General, and one of the architects of the MDGs, in the 2012 report of the Africa Progress Panel. His introduction to the report serves as a useful antidote to the view that inequality is a peripheral concern: *"Not all inequalities are unjust, but the levels of inequality across much of Africa are unjust and profoundly unfair. Extreme disparities in income are slowing the pace of poverty reduction and hampering the development of broad-based economic growth."*

Changing this picture will require a greater emphasis on policies that secure a fairer distribution.

Social protection is one key area. Smallholder farmers in Africa are acutely vulnerable to climate-related risks. Droughts and erratic rainfall are not just a source of humanitarian suffering. They also lock poor households into cycles of poverty, wiping out savings and forcing the sale of productive assets. As climate change intensifies the risks facing these households- social protection, allied to wider targeted support measures, offers a mechanism for simultaneously lowering risk and providing people with the resources to produce their way out of poverty.

*Going global*

Part of the ambition for the post-2015 goals is pre-defined. The eradication of extreme poverty by 2030 is likely to figure with some prominence.

If our ambition is to eliminate absolute poverty, why trouble ourselves with relative distribution? In a single word – ‘realism’.

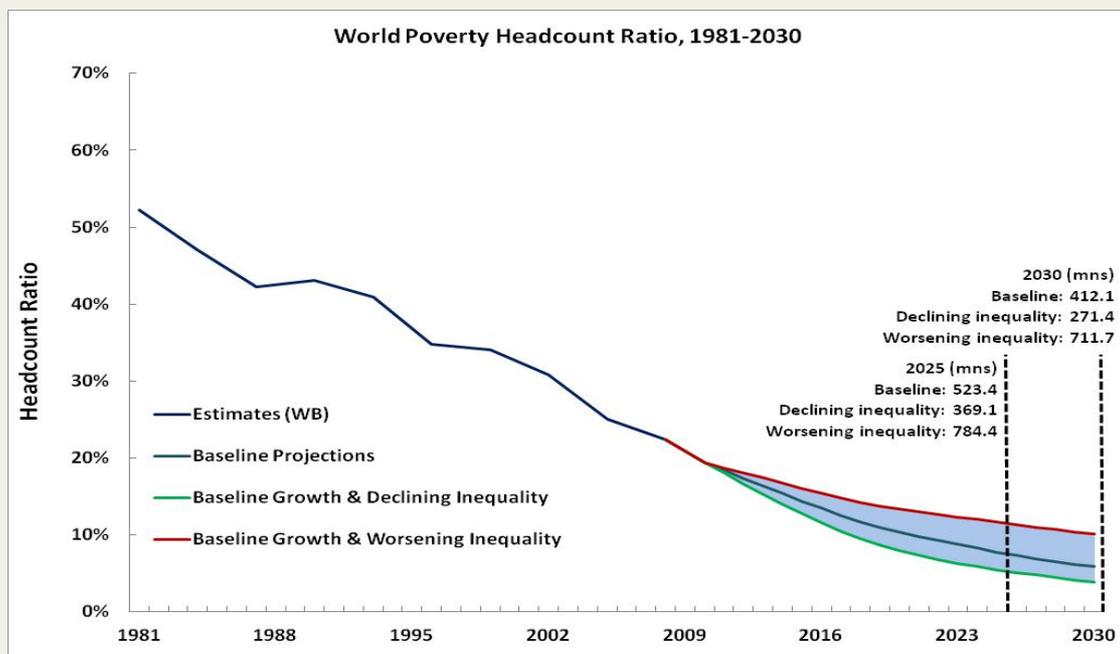
Growth alone will not get us to zero poverty by 2030. What is needed is a pattern of equitable growth.

Research carried out by my colleague Laurence Chandy and his team at the Brookings Institution illustrates the point I want to make here. Briefly summarized, the Brookings research charts, on the basis of past performance and plausible growth scenarios, a range of possible poverty reduction outcomes. Their baseline scenario suggests that, despite the performance of recent years, the world is not on track to eradicate absolute poverty by 2030: there will still be 412 million in poverty in that year.

Improving the distribution of income by transferring 0.25 per cent of the income of the richest 10 per cent to the bottom 40 per cent each year would dramatically enhance poverty reduction prospects. It would reduce the number of people living in poverty by 2025 by 154 million (**Slide 6**).

**Slide 6**

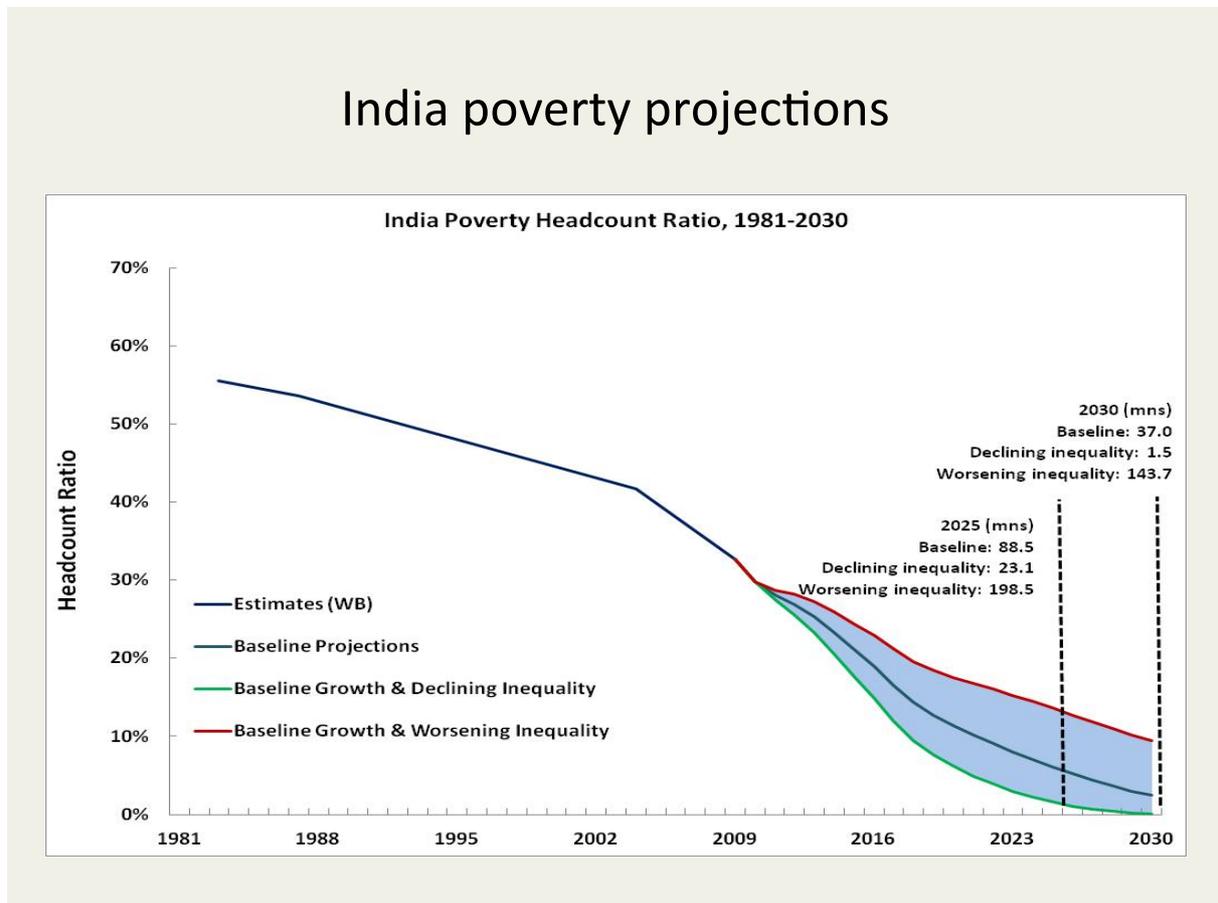
## Global poverty projections: scenarios for inequality



Continuing on the current trajectory of growth with rising inequality would worsen prospects for poverty reduction. In a bad case scenario under which the richest 10 per cent capture 0.25 per cent per annum of the income of the poorest 40 per cent, another 300 million people will be living in poverty in 2030.

In the case of India, the more equitable growth pathway would lead to the near eradication of poverty (**Slide 7**). By 2025, growth with reduced inequality would take another 55 million people out of poverty, leaving around 1.5 million in poverty by 2030. Worsening inequality would double the number of people in poverty in 2025, leaving 145 million below the US\$1.25 threshold by 2030.

## Slide 7



The take home message here for the post-2015 framing exercise is that distribution matters. In fact, it matters more than the numbers I've cited suggest. There is compelling evidence that high levels of inequality act as a brake on growth. This is for some fairly straightforward reasons. Extreme inequality limits the development of markets; it leads to market failures, including lower levels of investment by poor people; and it contributes to financial instability.

In short, there is a double-whammy effect under which extreme inequality simultaneously lowers growth *and* reduces the conversion rate from growth to poverty reduction.

### **Beyond income – wider disparities in opportunity**

Some commentators on the MDG dialogue on inequality more widely make a strong distinction between income disparities on the one side and social disparities in wider opportunities.

While that distinction may appear intuitive, it is misplaced. If we care about social mobility and equal opportunities for health, education and nutrition, then income distribution matters. Alan Krueger, the Chairman of President Obama's Council of Economic Advisors, has persuasively argued that rising income inequality in the United States has led to deepening inequalities in opportunities in other dimensions of well-being.

Francesco Ferreira at the World Bank provides empirical evidence of the same point. His Inequality of Opportunity Index shows that in high inequality countries, factors over which people have no control – their race, parental education, gender, birthplace, and so on – restrict social mobility. In a country like Norway, it is very hard to predict on the basis of information about a child's background where they will end up in the national distribution. That is not the case for Nigeria. You can predict with 90 per cent plus confidence that a rural girl born into poverty will stay in poverty and not make it to secondary school – a point I'll come back to shortly.

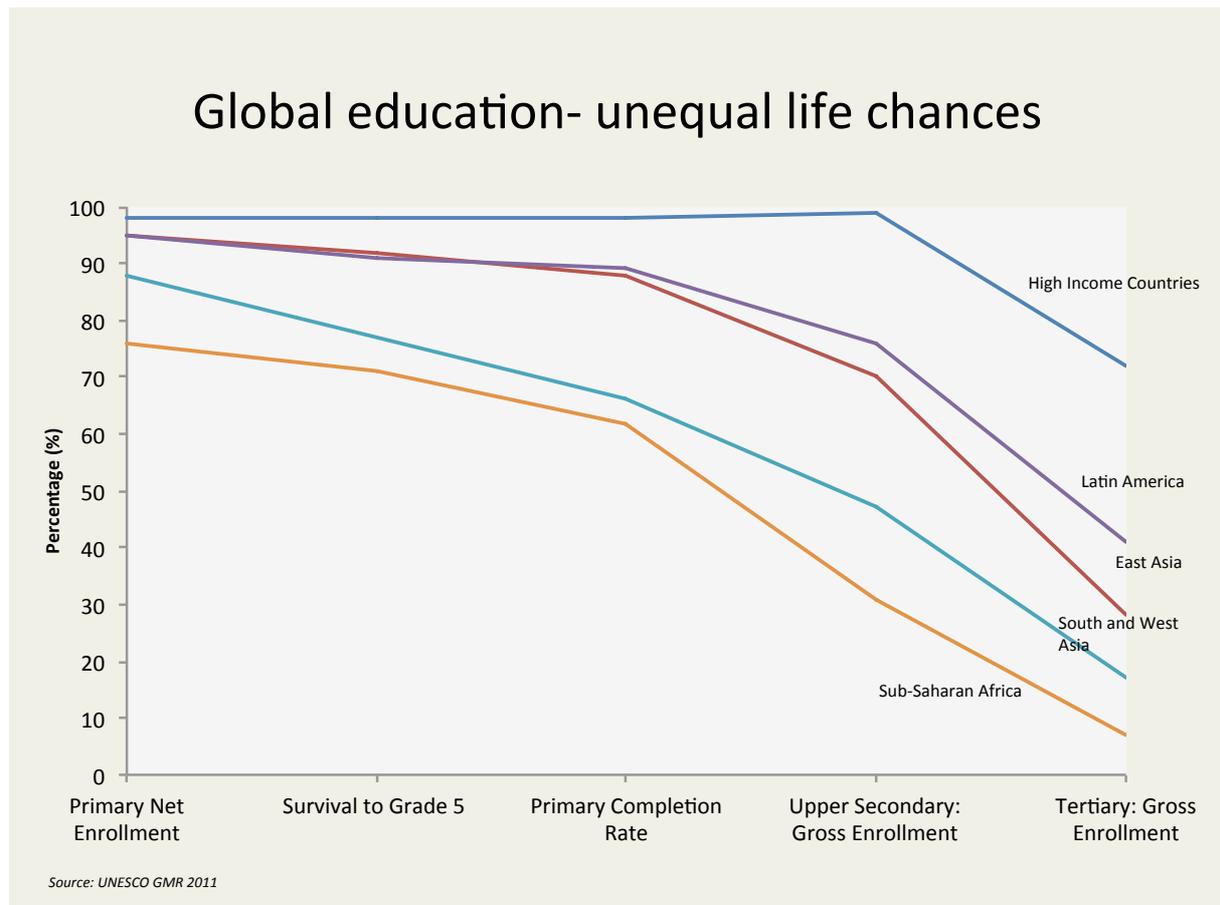
### *Education and health*

So far I have focused on the mechanical relationship between income distribution and poverty reduction. But inequality is also at the heart of some of the wider human development challenges on the post-2015 agenda.

Let's take education as a starting point. In our increasingly knowledge-based global economy, the premium on education is rising. What countries and people are able to achieve depends critically on the skills imparted through education. There is a very real sense in which today's education inequalities between and within countries are tomorrow's inequalities in growth, income, employment and other social indicators.

And when it comes to education, we live in a deeply divided world (**Slide 8**). We are holding this event in a country where some 70 per cent of the children entering primary education today can expect to progress through to tertiary education. In sub-Saharan Africa, the equivalent figure is 7 per cent – and less for girls. In fact, a child in Africa has less chance of getting through primary school than a child in Sweden has of going to university. Factoring in the disparity in the quality of schooling and learning achievement would dramatically widen the education gap.

## Slide 8



Earlier on, I highlighted some of the great strides that have been taken towards the fairly minimalist 2015 MDG target of universal primary education. That was the good news part of the story. The bad news is that progress towards universal primary education has now stalled. In sub-Saharan Africa, there is worrying evidence that we have slipped into reverse gear. Countries that have progressed towards universal enrolment and crossed the 90 per cent threshold are now struggling to reach the last 10 per cent.

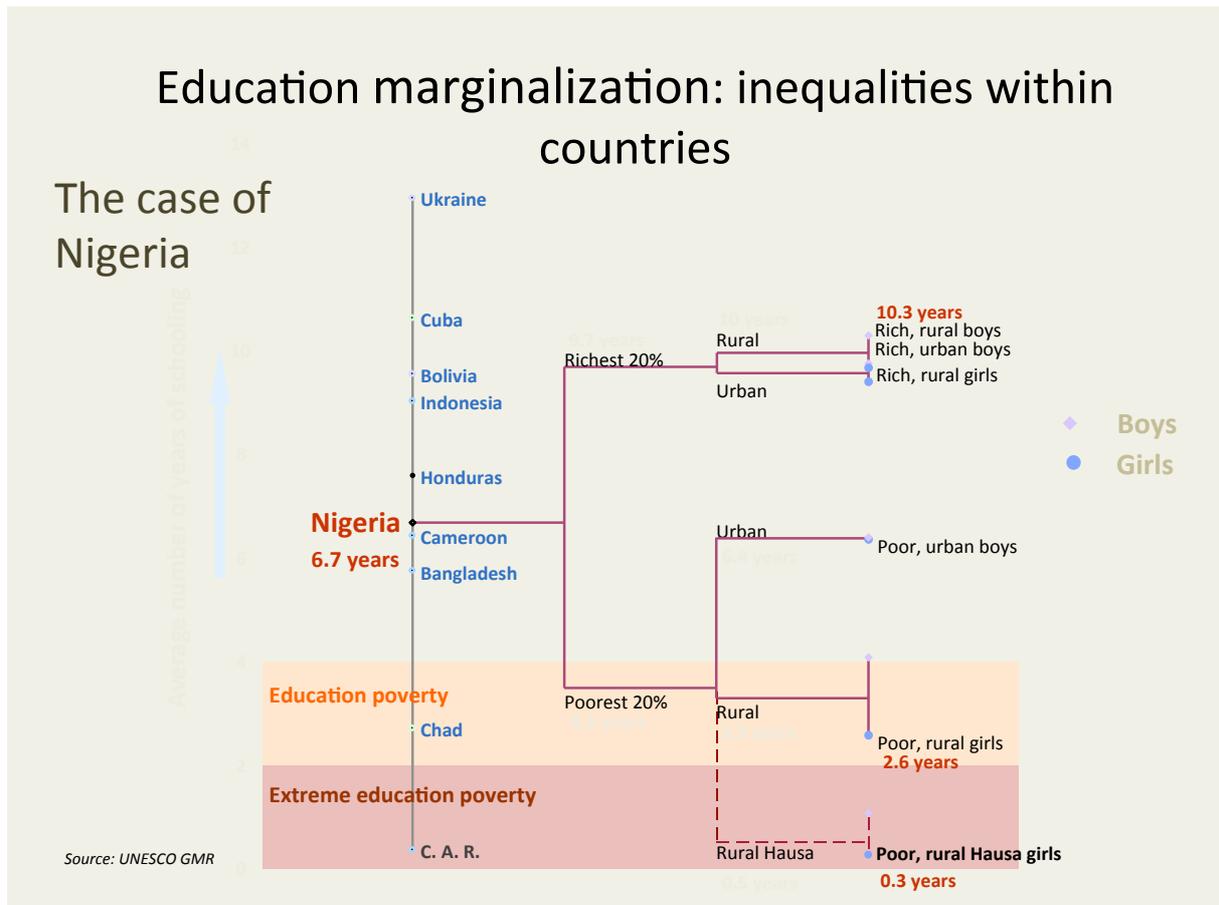
There is a reason for this. The 'last 10 per cent' comprises children facing acute and deeply entrenched disadvantages. They include the estimated 15 million primary school age children that the Center for Understanding Child Work in Rome estimates to be working as child labourers, rather than attending school. They include the poorest rural girls and ethnic or linguistic minorities. The disabled figure prominently.

And the barriers facing these children are not just economic. Social attitudes, gender and location also have a powerful bearing on the distribution of opportunity, magnifying the effects of poverty.

Let me illustrate the overlapping and interlocking patterns of disadvantage by reference to the two countries accounting for the largest number of out-of-school children – Nigeria and Pakistan.

In Nigeria (**Slide 9**), an average 17-22 year old has received seven years of schooling. However, there is a 6 year 'wealth gap' separating the richest from the poorest Nigerian. And cutting across the wealth gap are deep disparities linked to the rural-urban divide and gender. Young girls from poor, rural households in northern Nigeria average less than one year of schooling.

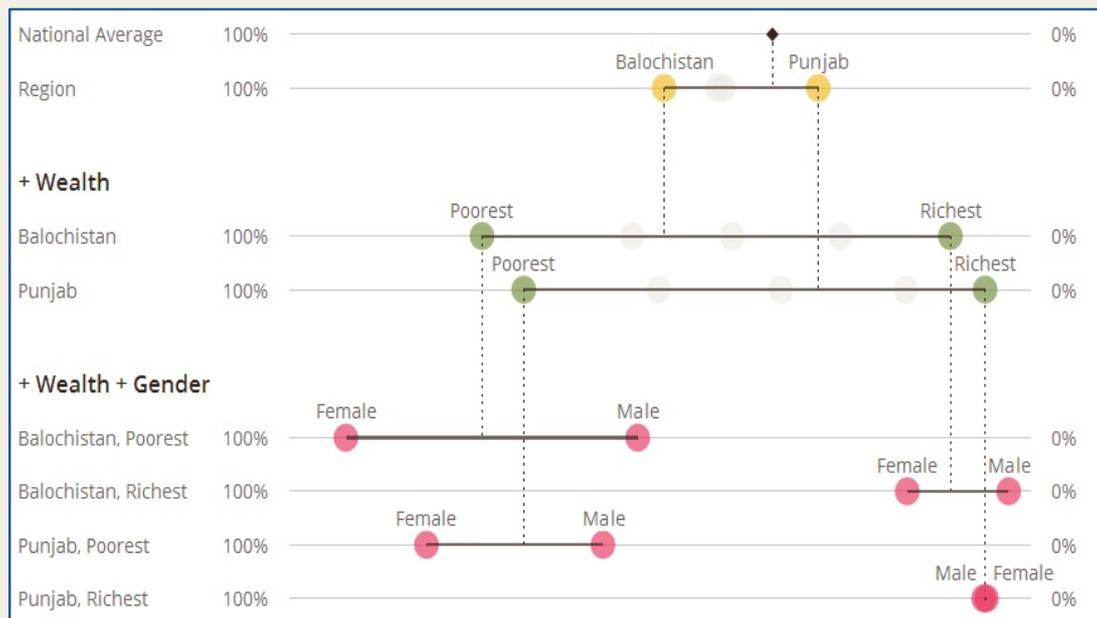
Slide 9



The evidence from Pakistan (**Slide 10**) highlights deep fault lines in the distribution of opportunities for education linked to states, the rural-urban divide, and gender. These are snapshots from two countries. But the picture that emerges is part of a common pattern. In the midst of the overall progress that has taken place in education, millions of children are being left behind.

### Slide 10

## Pakistan's education inequality tree: share of 17-22 year-olds with < 4 years schooling



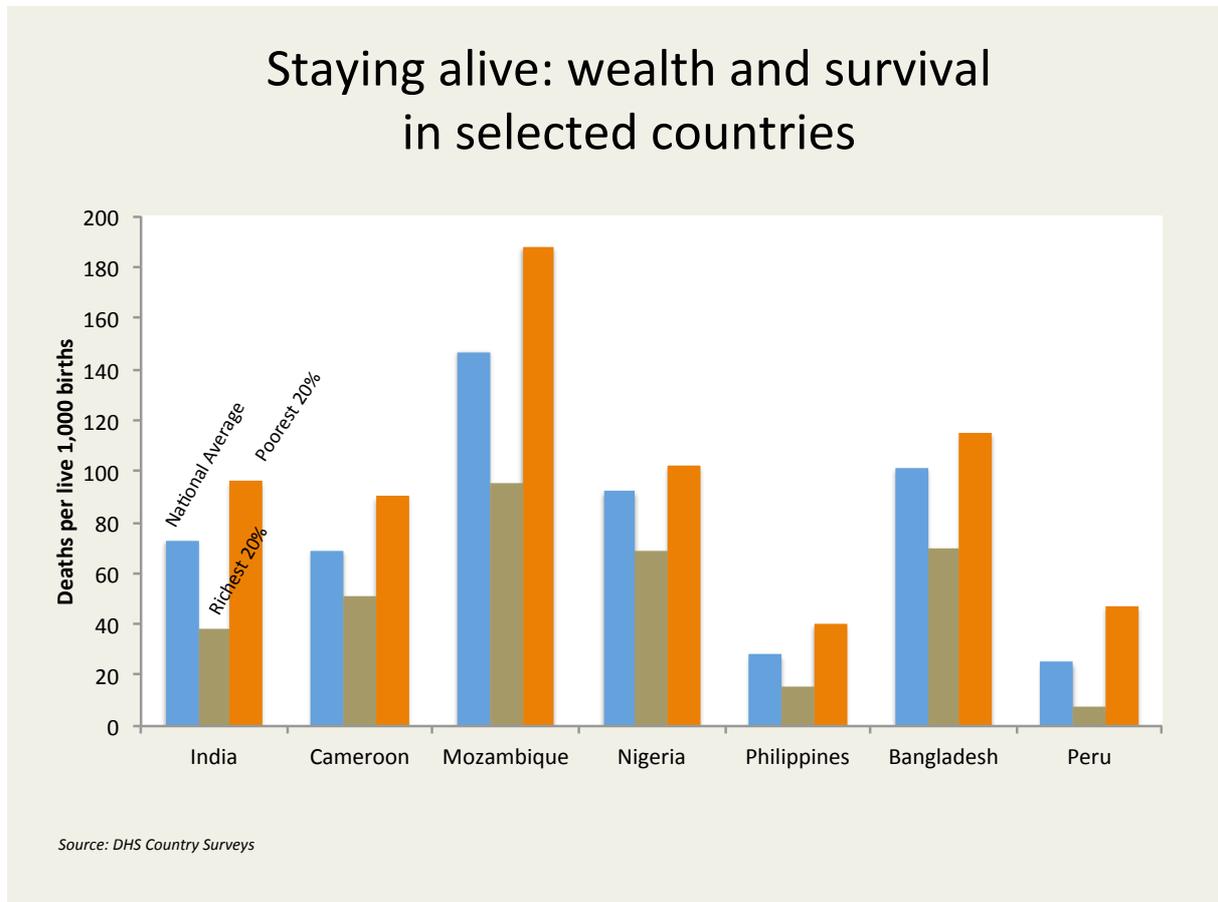
Source: UNESCO

These children have been pre-selected for a life of diminished opportunity because they happen to have been born into poor households, or because of their gender, ethnicity and where they happen to live.

Disparities in opportunity for learning have consequences that go far beyond schooling in the narrow sense. Levels of education are intimately connected to levels of child mortality, nutritional status, and use of basic services such as antenatal care. They are also connected to poverty – and to income inequality. Perhaps most fundamentally of all from a human development perspective, education is one of the most powerful determinants of human capabilities and choice. Young Africans lacking basic literacy skills are not free to choose a secure livelihood; and Asian women denied an education are not free in any meaningful sense to make choices in managing their reproductive health.

Health disparities mirror those in education. No human opportunity is more fundamental than the opportunity to survive infancy. Yet the steep social gradient in child survival remains intact (**Slide 11**).

### Slide 11



What does all this mean for equity and the MDGs? As in the case of income poverty, there is some fairly basic arithmetic at play. Countries that want to accelerate progress towards the 2015 goal of universal primary education need to reach their most marginalised children – a point that Gordon Brown, the former Prime Minister of the United Kingdom and now UN Special Envoy on Education, has repeatedly made in his efforts to galvanise international action on education. And reaching marginalised children requires joined-up policy interventions designed to break the underlying structures of disadvantage.

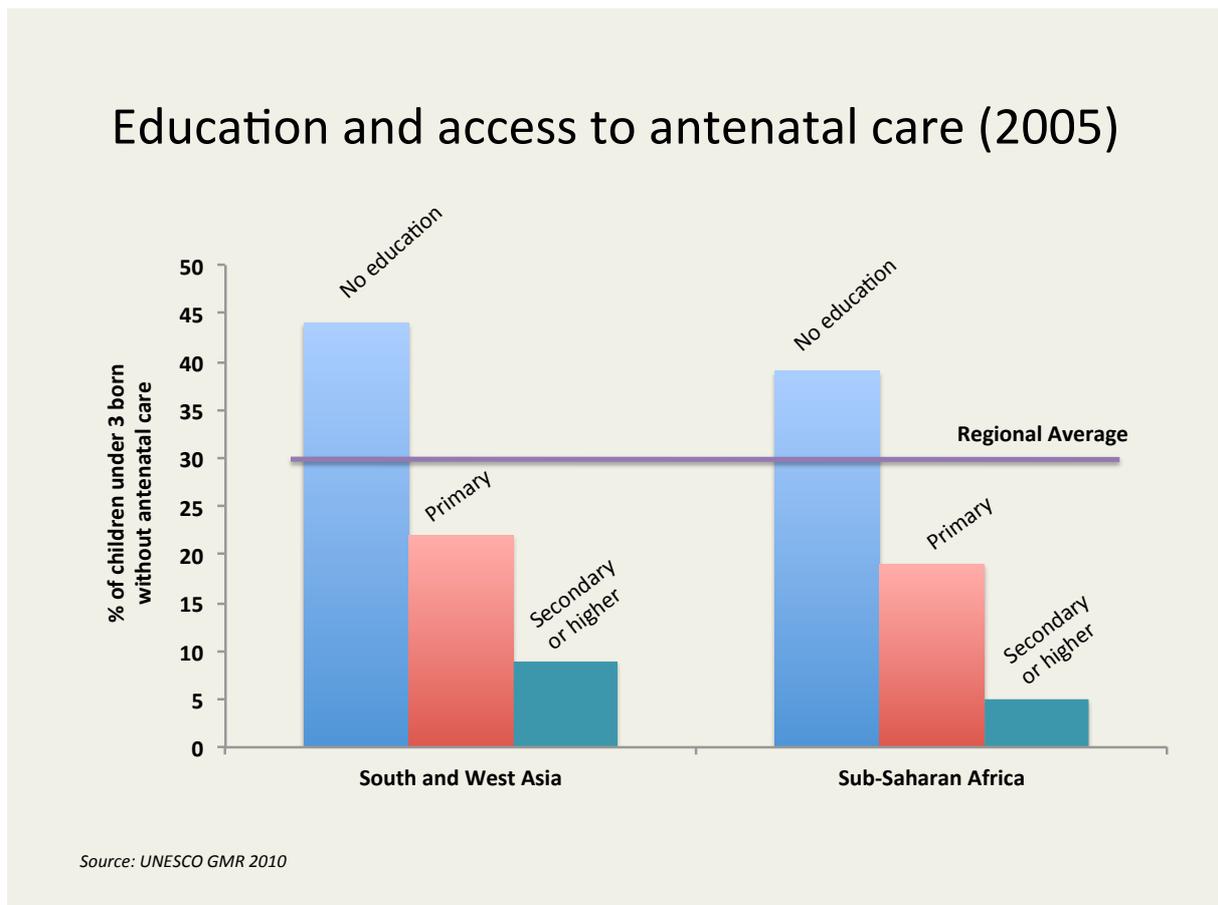
At risk of stating the obvious, the marginal cost and the marginal effort entailed in reaching children denied access to education are not the same as the average cost and effort. Overcoming malnutrition, breaking the transmission of poverty and parental illiteracy across generations, getting children out of labour markets and into school entails interventions that go beyond the average effort. That is why equity is about more than providing an equivalent amount of public spending to children facing non-equivalent levels of disadvantage. Yet it is surprising – even shocking – how few governments adopt progressive public spending policies aimed at equalizing opportunity. Most prefer to operate from an inversion of the principles espoused by Saint Matthew in the New Testament: ‘to those that have, so shall yet more be given’

The same logic holds in health. In the case of child mortality, the death rate differential implies that the fastest route to accelerate progress is to reduce the death rate among the poor at a proportionately higher rate than the national average. After all, this is where the

majority of deaths occur. Alarmingly, however, research by Save the Children suggests that the social gradient in mortality may be widening even as the overall rate of child deaths come down.

We need to bear in mind that the real lives of people are not MDG silos. If we want progress in one area, we have to pursue progress across a broad front. One of the most powerful vehicles for reducing both child mortality and social disparities in child health is the empowerment of young girls through education (**Slide 12**). On one estimate, getting every girl in Africa into secondary education would have the effect of saving 1.2 million lives annually through lower levels of child mortality.

### Slide 12



### Extreme inequality, public policy and the post-2015 goals

Back in the early 1990s, J.K. Galbraith wrote a book called the *Culture of Contentment*. He described an emerging process of social, economic and political disenfranchisement. The government, Galbraith argued, was playing a shrinking role in providing opportunities for the poor. And an affluent upper class was signalling an unwillingness to pay for the services needed by marginalised groups to mitigate risks, build human capital and escape poverty.

That theme has been picked up in more recent political science and economics research in the United States. There is compelling evidence that the recent surge in inequality has been accompanied by the rise of vested interests, the decline of a political system capable of advancing the interests of the poor, and the emergence of social attitudes inimical to fair distribution.

What does any of this have to do with developing countries, inequality and the MDGs? Here, too, the lack of concern over distribution can be traced back in part to a culture of contentment.

Part of the rise in the inequalities that I outlined earlier can be traced back to the economic, financial and technological forces behind globalisation. The development of global production systems and markets has expanded opportunities for wealth creation. International trade and new technologies are reconfiguring labour markets. We are witnessing on an international scale what the economist Jan Tinbergen once described as the primary engine of wage inequality – a ‘race between education and technology.’ From the United States to Kenya, India and China the losers in that race are falling further behind.

But powerful as the economic and technological forces may be, it is politics that creates the environment for rising – or falling – inequality. Highly unequal societies are good at reproducing themselves. More accurately, perhaps, the political and commercial elites that hold sway in those societies are adept at pursuing their own interests with scant regard for the public good – and still less regard for the marginalised.

This is not the place to explore in detail the politics of extreme inequality. But I do want to emphasise the role of public policy in perpetuating the power structures and the distribution of opportunity that hampers progress towards international development goals.

To take just a few illustrative examples of the wider point. Pakistan urgently needs a national education system capable of equipping the country’s youth with skills, and girls with opportunities. But this is a country with a political system that has engineered a tax system designed to facilitate evasion and low levels of tax on the wealthy. The resulting revenue-to-GDP guarantees chronic under-financing in education.

Transparency has to be central to any strategy for equity. Yet across Africa’s resource-rich nations, political elites have enriched themselves through opaque state mineral companies, diverting resources that could be used to enhance human development. We can, I think, assume that the daughter of Angola’s President, Isobel dos Santos, did not make it on to the Forbes list of billionaires without a little help from her country’s oil revenues.

One of the most vital roles of government is to provide the basic services and social protection that poor people need to build human capital, mitigate risk, and recover from external shocks. Yet visit any slum in Africa or Asia and you’ll find some of the world’s poorest people paying for their own education. In India, the absence of a credible public health system leaves poor households to fund their health care – and many can’t afford to pay.

Failure to provide vulnerable people with access to basic services is one of the starkest of all examples of state failure. Throwing the poor back on their own resources to finance education, health and risk management is not just inequitable, it is also inefficient. Yet many commentators and some donors have in my view drawn the wrong conclusion from state failure. The proliferation of proposals aimed at supporting the development of ‘low fee’ private provision of basic services in effects take state failure as a given. Many of these proposals would in fact worsen the level of failure by transferring resources from public to private providers. But surely, if state failure is the problem then the priority has to be fixing

the underlying causes of that failure, notably through proper financing and the development of more accountable governance and delivery systems

Inequitable approaches to revenue collection and public spending are fundamental drivers of inequality. In Kenya, the arid and semi-arid regions account for the bulk of out-of-school children. Yet the public spending system skews resources to the most advantaged parts of the country. It is the same story in Ghana, where public spending in education favours the wealthier South over the poorer North.

This is part of a much wider pattern. Why build a social protection system or provide cash transfers aimed at getting children out of work and into school, when you can fund tax cuts for the wealthy or irrigation subsidies for large farmers? Why prioritise the financing for early childhood development, teacher recruitment or a national scheme that creates financial incentives against early marriage when you can follow the example of Chad, the Democratic Republic of Congo and others, and use oil revenues to buy arms and replenish foreign bank accounts?

Perhaps I'm over-stating my case. But the point I want to make is that the inequalities that are holding back progress towards the MDGs and will hold back progress towards the 2015 goals, are rooted in public policy choices.

Reading a recent speech on education in her country by the Nigerian finance minister Ngozi Okonjo-Iweala, I was struck by the overlap between her concerns and those raised twenty years ago about America by JK Galbraith:

*It is not good enough for you and me to bail out and send our children to private school in and out of the country. The issue is we must think of the millions of children in our public schools who do not have that luxury or opportunity. If we do not come together to properly educate them, all of us will suffer the consequences of unenlightened leadership and retarded and blighted development.*

*The case for equity-based goals*

That brings me back via the long route to where I came in – the post-2015 MDGs.

As I said earlier, no vision or set of targets adopted by the UN is going to fundamentally change the power relationships that reinforce inequality. What they can do is lend a hand. Just as the 2015 goals signaled a change that pushed poverty up the list of priorities in international cooperation and development assistance, so the post-2015 goals can put the drive for equity on the map.

What does this mean in practice?

You'll be delighted to hear that I don't have a blueprint. And I recognise that the setting of parameters for greater equity is technically, not to mention politically, challenging.

In this context I want to promote a vested interest of my own by referring you to the excellent work carried out at the Overseas Development Institute by my colleague Claire Melemed. Her work sets out the range of choices and options facing the High Level Panel.

My own view is that we need to adopt what I would describe as 'stepping stone' goals for equity. These goals would be designed to accelerate progress towards the MDGs by

focusing on those who are being left behind. They would turn the spotlight away from the national average and towards the policies needed to improve distribution.

To cite some illustrative examples of 'stepping stone' goals:

*The eradication of absolute poverty*

For countries with Gini coefficient in excess of 50, a 7 point reduction by 2025; for those with Ginis in excess of 40, a 5 point reduction.

*Child and maternal mortality*

By 2025, halving mortality gaps between the richest and poorest quintile, the best-performing and worst performing region, and between social groups.

By 2020, eliminating gender-based disparities in child mortality.

*Universal education*

By 2020, eliminating wealth, gender, group-based and location related disparities in primary education.

By 2020, halving learning achievement gaps between the best-performing and worst performing localities (Bangladesh has already introduced such an approach).

By 2025, the elimination of wealth, gender, group-based and location gaps in secondary education.

By 2025, provision made for the education of all disabled children.

What difference would any of this make?

One difference would relate to the collection of data. At risk of understatement, our current state of knowledge about real progress towards the MDGs and social disparities is limited. We need more real time reporting and survey data – and this should be an integral part of any equity-based approach.

But the deeper purpose is political and results-based. Most governments would happily sign-up in 2015 for a target in 2030, safe in the knowledge that they will never be held accountable for the outcome three political cycles down the line. They might take the exercise more seriously if they are required to report to their citizens and the international community on a three yearly basis on their progress in closing disparities.

In this lecture, I skipped, partly by design and partly because of time constraints, many of the wider problems associated with extreme inequality. Yes, it probably is bad for growth, financial market stability and investment. It almost certainly damages social cohesion and contributes to conflict. And it is part of the structure of state fragility in many countries.

For all of these reasons and plenty more, there are grounds for the international development community to tackle the inequality challenge head on.

In the case of the post-2015 MDG dialogue, there is a simpler and more compelling case for action. It's the right thing to do – and it's the only route for achieving a world free of poverty.