



Overview

The world has a unique opportunity in the current decade to use global markets for the benefit of all nations and all people.

Human Development Report 1992 looks at the workings of these global markets—at how they meet, or fail to meet, the needs of the world's poorest people.

The global issues in this Report supplement the analysis of domestic policy issues in the first two Reports, which stressed that the real causes of poverty and human deprivation lie deep in the national policy actions of the developing countries. Improvements in external environment can help greatly, but they can never substitute for domestic reforms.

This Report attempts to place global markets in proper perspective. Competitive markets are the best guarantee for efficient production. But these markets must be open to all the people, they require a skilfully crafted regulatory framework, and they must be supplemented by judicious social policy action. "It is not a question of state or market: each has a large and irreplaceable role", as World Bank's *World Development Report 1991* aptly summed up.

If global markets were truly open, they would allow capital, labour and goods to flow freely round the world—and help equalize economic opportunities for all. But global markets are neither free nor efficient. At a time when national markets are opening, global markets remain greatly restricted. The developing countries, with some notable exceptions, are finding it difficult to exploit fully the potential of these markets. This reflects the weakness in their policies and the restrictions on global markets.

This Report analyses global markets from a human perspective. Markets may be im-

pressive economically or technologically. But they are of little value if they do not serve human development. Markets are the means. Human development is the end.

The Report presents a disturbing new analysis of the global distribution of income and opportunities—demonstrating that income disparities have in recent years widened dramatically.

In 1960, the richest 20% of the world's population had incomes 30 times greater than the poorest 20%. By 1990, the richest 20% were getting 60 times more. And this comparison is based on the distribution between rich and poor *countries*. Adding the maldistribution within countries, the richest 20% of the world's *people* get at least 150 times more than the poorest 20%.

How can such disparities persist and even widen? Why do world markets seem not to have benefited the poorest? The Report identifies two main reasons.

First, where world trade is completely free and open—as in financial markets—it generally works to the benefit of the strongest. Developing countries enter the market as unequal partners—and leave with unequal rewards.

Second, in precisely those areas where developing countries may have a competitive edge—as in labour-intensive manufactures and the export of unskilled labour—the market rules are often changed to prevent free and open competition.

The Report concludes that if developing countries are to trade on a more equal basis, they will need massive investments in people—because knowledge and the mastery of new technology are a country's best competitive advantage today. The Report also argues for major changes to enable

Markets are the means. Human development is the end.

global markets to work more efficiently and equitably.

The concept of human development

Previous *Human Development Reports* have defined human development as the process of enlarging the range of people's choices—increasing their opportunities for education, health care, income and employment, and covering the full range of human choices from a sound physical environment to economic and political freedoms.

While many of the policy messages of human development are widely understood, some misunderstandings still exist. There is a real danger that the concept of human development may become more a fashion than a practice, more a slogan than a blueprint for action.

Some analysts have incorrectly described human development as antigrowth, arguing that it focuses on the distribution rather than the generation of income, that it is a social rather than a developmental concern. In reality, nothing could be further from the truth. Human development is concerned both with developing human capabilities *and* with using them productively. The former requires investments in people, the latter that people contribute to GNP growth and employment. Both sides of the equation are essential.

Another misconception is that human development is primarily sectoral—concerned with investments in education, health and other social services. This is incorrect. Development of people is certainly vital, but it is only one part of the picture. Human development also means development *for* people, including the creation of economic opportunities for all. And it means development *by* people, requiring participatory approaches. Human development encompasses all three aspects, not just one.

Yet another misunderstanding is that human development strategies are valid only for the poorest societies, with the primary goal of satisfying basic needs. It is true that human needs and goals are at the centre of such strategies. But these goals can range from the most basic ones of human survival to the most advanced human agenda of

modern science and technology. People's choices take centre stage, but the choices differ at different stages of development.

Human development is thus a broad and comprehensive concept. It covers all human choices in all societies at all stages of development. It broadens the development dialogue from a discussion of mere *means* (GNP growth) to a discussion of the ultimate *ends*. It is as concerned with the generation of economic growth as with its distribution, as concerned with basic needs as with the entire spectrum of human aspirations, as concerned with the human dilemmas of the North as with the human deprivation in the South. The concept of human development does not start with any predetermined model. It draws its inspiration from the long-term goals of a society. It weaves development around people, not people around development.

This year's Report furthers the exploration of human development by considering the interaction between people and their natural environment. If the objective of development is to improve people's choices, it must do so not only for the current generation but also for future generations. In other words, development must be sustainable.

Global poverty is one of the greatest threats to the sustainability of the physical environment and to the sustainability of human life. Most of the poor live in the most ecologically vulnerable areas—80% of the poor in Latin America, 60% in Asia and 50% in Africa. They overuse their marginal lands for fuel wood and for subsistence and cash-crop production, further endangering their physical environment, their health and the lives of their children. In developing countries, it is not the quality of life that is at risk—it is life itself.

For these societies, there simply is no choice between economic growth and environmental protection. Growth is not an option—it is an imperative. The issue is not only *how much* economic growth, but *what kind* of growth. The growth models of developing and industrial countries must become models of sustainable human development.

For industrial societies, the options are larger. They can afford to slow down their energy-intensive material growth and nev-

The issue is not only how much economic growth, but what kind of growth

ertheless improve their well-being. They must adopt new technologies and comprehensive policies to reduce the pressures they put on the carrying capacity of the earth.

Environmental concerns also differ at different stages of development. The industrial countries are preoccupied with the destruction of the ozone layer and global warming—resulting from overconsumption of natural resources. The concerns of the developing countries are more immediate: water and land. Polluted water is a threat to life, and eroded land is a threat to livelihood.

The Report discusses many concrete policies to make development sustainable—ranging from national capacity building to payments for ecological space to automatic sources of finance to new institutions for sustainable development. It also offers proposals on how to integrate environmental concerns in the measurement of human development.

The human development index

Human Development Report 1990 introduced a new human development index (HDI), which combines life expectancy, educational attainment and income indicators to give a composite measure of human development. This Report updates the index with the latest available information. All the components of this year's index are based on 1990 data.

The updating of HDI has altered the rankings for many countries. In the ranking of industrial countries, Canada has displaced Japan at the top though Romania still lingers at the bottom. For the developing countries, Barbados remains at the top, while Guinea has replaced Sierra Leone at the bottom.

The HDI is an average for each country. It does not reveal disparities among different social, economic or regional groups. But for a selected group of countries for which data are available, separate HDIs have been prepared to account for gender, income, and regional differences. In addition, HDIs have been prepared for a series of earlier years, so that changes in human development can be tracked over time.

Human Development Report 1991 pro-

posed a new human freedom index (HFI). Subsequent debate revealed that much more conceptual and methodological work is required for a quantification of freedom. So, this year a new methodology is being suggested for the construction of a political freedom index (PFI) to assess the status of human rights according to generally accepted concepts and values.

Indices such as the HDI and the PFI cannot hope to reflect the breadth and complexity of the questions they cover. But they can help stimulate and clarify debate on subjects whose difficult and frequently controversial nature often permits them to escape full national and international attention. The debate on the nature and measurement of human development will continue in future Reports.

Each Report focuses on one important theme. Earlier Reports looked at human development at the national level. This year, the Report reviews human development in a global context. It comes to five major conclusions.

1. Economic growth does not automatically improve people's lives, either within nations or internationally.

Income disparities within countries are considerable. The worst national disparity is in Brazil: 26 times between the richest 20% of the people and the poorest 20% according to their per capita income. But the international disparity is far greater: today, it is at least 150 times—having doubled over the past 30 years.

The link between economic growth and human development breaks down at the international level for many of the same reasons as it does at the national level.

The poor have limited access to credit, capital, technology and other production inputs in their countries. Not regarded as creditworthy, they often turn to money lenders and to the informal sector for their needs. The situation is similar, if not worse, at the international level. The poorest 20% of the world's population receives only 0.2% of global commercial bank lending, 1.3% of global investment, 1% of global trade and 1.4% of global income.

The richest 20% of the world's people are at least 150 times richer than the poorest 20%

Disparities in technology and information systems have widened

Many poor countries are already being marginalized in the world trading system—particularly Sub-Saharan Africa and the least developed countries. The share of Sub-Saharan Africa in global trade has been reduced to a quarter of its 1960 level; the share of the least developed countries has been halved during the same period. The poor—unless helped through vigorous policy action—tend to drop out of the marketplace, whether within nations or at the international level.

Global disparities in indicators of basic human survival (primary education, life expectancy, infant and child mortality) have narrowed considerably during the past three decades. But disparities in technology and information systems have tended to widen. The countries of the North have, on a per capita basis, nine times the number of scientists and technical personnel in the South, nearly five times the tertiary enrolment ratio and 24 times more investment in technological research. They also have a far superior communications infrastructure, with 18 times as many telephone connections per capita, six times as many radios and eight times as many newspapers. Access to technology is particularly well-guarded. And in global competition, this edge in technology and information proves decisive.

Much of the policy and institutional framework that creates a better link between economic growth and human development at the national level is simply missing at the international level.

- Within nations, people can move in search of employment and income-earning opportunities. Across nations, immigration laws deny workers the opportunity to equalize the rate of return on labour.
- Within nations, institutions are set up to increase the access of the poor to production opportunities and financial credit—for example, the Grameen Bank in Bangladesh. There are no international Grameen Banks.
- Within nations, central banks are responsible for creating and distributing liquidity to various sectors of the economy, to various income and population groups and to different geographical regions. At the global level, the IMF has never been allowed to function as a central bank.

- Within nations, progressive income tax systems and expenditure policies are often adopted to transfer income and opportunities to the poor. There are no international mechanisms for such transfers.

2. Rich and poor countries compete in the global market-place as unequal partners. If developing countries are to compete on a more equal footing, they will require massive investments in human capital and technological development.

Developing countries have very weak bargaining power in international markets. Most have only limited domestic markets and few goods and services to sell—depending on the export of primary commodities, which often make up 90% of the exports of countries in Africa and 65% of those in Latin America. The prices of these commodities fell dramatically in the 1980s, reinforcing the long-term trend of deteriorating commodity markets. This was partly because world demand was falling but also because many countries were suddenly called on to repay their debts. They had to step up production and exports to generate sufficient foreign exchange—and then found themselves competing furiously with each other in a shrinking market.

For developing countries, the relevant real interest rate on their foreign debt is the nominal interest rate adjusted by the rate of change in their dollar export prices. As a result primarily of the fall in their export prices, developing countries effectively paid an average real interest rate of 17% during the 1980s compared with 4% paid by the industrial nations.

The attempted liquidation of their debts could not keep up with the fall in the prices of their exports that it caused. This phenomenon—first identified during the depression of the 1930s—has a paradoxical and disturbing outcome: *the more debtors pay, the more they owe.*

The World Bank and the International Monetary Fund were intended to even out such swings in international lending and to strengthen the access of developing countries to global financial markets. They did increase their net credits to the developing

countries in the early 1980s. But because they had neither the necessary resources, nor the official mandate, to intervene in global markets in a meaningful way, they could not sustain such policies. So, far from dampening the swings, they amplified them. Between 1983 and 1987, when developing countries faced a sudden exodus of commercial bank lending, net IMF transfers turned from plus \$7.6 billion to minus \$7.9 billion. Net World Bank transfers also turned negative—to minus \$500 million in 1991.

The market weakness of developing countries is also evident in their inability to attract adequate amounts of direct foreign investment. Investors look for the highest return on their capital, and in recent years this has consistently been found in industrial countries. As a result, 83% of direct foreign investment goes to the industrial countries. And the developing countries that do receive foreign investment tend to be the already better off—68% of the annual flow to developing countries went to just nine countries in Latin America and East and South-East Asia.

This may seem strange, since capital might be thought to yield a higher return in capital-scarce countries that have abundant labour. What seems to count just as much, however, is the quality and technological capability of workers. Countries that have more educated and more highly skilled workforces—as well as investment climates that are politically and economically more stable—tend to offer better returns. Even nationals of developing countries invest their funds in industrial countries, adding to the seemingly perverse flow of funds from poor countries to rich.

This weakness of developing countries is neither inherent nor inevitable. They can improve their prospects—through sound economic policies, management and *major* investments in human capital. Some developing countries have made impressive gains—in life expectancy, in school enrolment, in adult literacy, in nutritional levels and in gender equality. But if they are to improve their competitive edge significantly and strengthen their position in global markets, they will have to meet a dual chal-

lenge—broadening the basic level of human development and concentrating on more advanced areas.

The priority for meeting such essential human needs as basic education and primary health care must remain unchallenged, as the first two *Human Development Reports* argued. No inverted pyramid of human capital formation can ever be stable. But the developing countries must go beyond basic concerns of human survival and invest heavily in all levels of human capital formation—particularly in technical and managerial skills. Unless developing countries acquire greater control over the expanding “knowledge industry”, they will languish forever in the backwaters of low-value-added production.

The world is unlikely ever to have an equal distribution of physical capital. But improving the distribution of knowledge and skills is a much more manageable proposition—and it can help equalize the distribution of development opportunities both nationally and globally.

Several countries, industrial and developing, have shown just what can be achieved by clear strategies of human capital formation and market penetration. The industrial “tigers” of East and South-East Asia—including the Republic of Korea, Thailand and Malaysia—are leapfrogging several decades of development.

Determined national action can thus propel individual countries to much higher levels of human development and economic growth. But if the developing countries as a whole are to make progress, there will also have to be international reforms.

3. Global markets do not operate freely. This, together with the unequal partnership, costs the developing countries \$500 billion a year—10 times what they receive in foreign assistance.

The restrictions are most evident for goods and for labour. Tariff and non-tariff barriers keep out many manufactures from developing countries, and immigration restrictions prevent workers from migrating in search of higher returns for their labour.

Trade barriers in industrial countries

Improving the distribution of knowledge and skills is a manageable proposition

Poverty needs no passport to travel across international frontiers

protect national markets from imports from a whole range of countries—rich and poor. Non-tariff measures, for example, are imposed mostly on products in which developing countries are more competitive—on labour-intensive exports such as textiles, clothing and footwear. And tariff levels, for a wide range of goods, increase with the level of processing. This is true for spices, jute and vegetable oils as well as for tropical fruits, vegetables and beverages. Such increases discourage developing countries from processing their primary commodities—from making chocolate out of cocoa or carpet-backing out of jute.

According to a World Bank study, trade restrictions reduce developing countries' GNPs by 3%—an annual loss of \$75 billion. Another estimate suggests that, for textiles and clothing alone, phasing out the Multi-Fibre Arrangement could increase the exports of developing countries by about \$24 billion a year.

These barriers have actually been increasing. Twenty of 24 industrial countries now are more protectionist than they were 10 years ago. Almost 28% of all OECD imports from developing countries are affected by non-tariff barriers. It is true that developing countries use protectionist policies to protect infant and other industries. But the real irony is that—when the level of average protection in developing countries is beginning to come down, partly as a result of structural adjustment programmes—the protectionist trends in the industrial nations are gaining ground.

The General Agreement on Tariffs and Trade (GATT) was created so that such barriers could steadily be removed—to the benefit of world trade as a whole. But its influence has been very limited. Many areas—including agriculture, tropical products, textiles, services, intellectual property rights and investment flows—do not conform to its principles. In fact, only 7% of world trade is in full conformity with GATT principles.

Goods from developing countries cannot, therefore, move freely across national borders. Restrictions are even tighter on the migration of labour.

An extra 38 million people join the labour

force of developing countries each year—adding to the more than 700 million people unemployed or underemployed. If job opportunities are not created for them, many more will be tempted to join the growing stream of international migrants, legally or illegally. About 75 million people from developing countries are on the move each year—as economic migrants, transient workers, refugees or displaced persons.

In response, the industrial countries are becoming much more selective about the immigrants they accept. They have set higher and higher levels of qualification—giving preferences to skilled workers, or to those who bring capital with them, or to political refugees.

These policies are costly for developing countries. They lose highly skilled people—scientists and professionals, in whose education they have invested many billions of dollars. But in addition, they lose remittances that unskilled migrant workers might have sent home. Remittances are an important source of income for many developing countries. They come not just from industrial countries, but also from migrants who have moved to other—often faster-growing or oil-producing—developing countries. In 1989 alone, total remittances from industrial countries and the Gulf amounted to \$25 billion.

It is clearly unrealistic to expect that industrial countries will greatly lower their immigration barriers. Instead, sufficient economic opportunities will have to be created in the developing world to reduce the pressures for migration.

Global market restrictions and unequal partnership cost the developing countries about \$500 billion—around 20% of their GNP and more than six times what they spend on human development priorities, such as basic education, primary health care, safe water and the elimination of malnutrition. If this \$500 billion were available to developing countries—and used well—it could have a major impact on the reduction of poverty. It should never be forgotten that poverty needs no passport to travel across international frontiers—in the form of migration, environmental degradation, drugs, disease and political instability.

Radical reforms are needed for markets to work in the interests of poor countries and poor people. But markets alone cannot protect people against absolute poverty. Also required are strong—and efficient—social safety nets, both globally and nationally.

4. The world community needs policies in place to provide a social safety net for poor nations and poor people.

The free workings of markets often tend to increase the disparities between rich and poor. National governments try to offset such tendencies by redistributing income through systems of progressive income tax. They also supplement this with social safety nets to prevent people from falling into absolute destitution.

The United States, for example, “recycles” around 15% of its national income through the public budget—to social services, unemployment benefits and welfare payments. In Sweden, the figure is around 30%, and even many developing countries have social policies that recycle between 5% and 15% of GDP.

No such systems operate to redistribute income effectively at the global level. Some beginnings are now being made at the regional level, within the European Community. But the closest the world comes to a global social safety net—providing enabling support to poorer population groups—is the current system of official development assistance (ODA), which is fatally flawed in many respects:

- *Quantity*—ODA currently amounts to only 0.35% of the combined GNP of the OECD countries, compared with the international target of 0.7%. This is clearly inadequate. Donor countries consider it necessary to recycle about 25% of their incomes to meet the needs of their people, including 100 million of those who fall below poverty-line incomes of around \$5,000. But to help meet the needs of more than one billion of the absolute poor in developing countries, they allocate just 0.35%.

- *Equity*—ODA contributions do not increase progressively with the per capita incomes of the donors: some of the richest nations give a much smaller proportion of

their GNP than the less wealthy countries give. In fact, some 80% of the current shortfall of \$51 billion from the overall 0.7% target is the responsibility of just two wealthy nations—the United States and Japan.

- *Allocation*—Aid is often unrelated to the level of poverty. South Asia receives \$5 per person while aid-receiving countries in the Middle East (with more than three times South Asia’s per capita income) receive \$55 per person. India has 34% of the world’s absolute poor, yet receives only 3.5% of total ODA. Indeed, the 10 countries that together have more than 70% of the world’s poorest people receive only a quarter of global aid. The countries that get the most aid are often those using their resources unwisely: high military spenders get roughly twice as much aid per capita as moderate spenders, and over 25% more than low military spenders. Nor is aid allocated to what should be human priority concerns. Basic education, primary health care, safe drinking water and nutrition programmes get only 10% of multilateral ODA, and 6.5% of bilateral ODA. Since the prospects for a major increase in the total volume of ODA are rather dim, every opportunity must be seized to improve the quality of foreign assistance.

If ODA is genuinely to serve as a social safety net for the world’s poor, it will have to be based on a new framework—where commitments to the aid effort are treated as firm obligations, where annual flows move predictably, where the burden is distributed progressively, and where aid allocations are made rationally and equitably in accord with agreed global goals. This aid should preferably be channelled through multilateral organizations, which can operate without the political pressures that determine much bilateral aid. And the distribution of ODA should be based on a new policy dialogue stressing that aid should be directed to human priority concerns and encouraging recipients to reduce their military spending and respect human rights.

Such a fundamental restructuring of ODA can take place only if it is based on international agreements that permit both rich and poor nations to protect their legiti-

It is essential to combine global efficiency with global equity

Failures of the past should be a source of instruction, not of political paralysis

mate interests. What is needed is a new global compact.

6. Industrial and developing countries have the opportunity to design a new global compact—and to ensure sustainable human development for all in a peaceful world.

The dustbin of history is full of grand global designs that were never implemented—a sobering reflection before making yet another attempt. But the failures of the past should be a source of instruction, not of political paralysis. Past proposals often came to nothing for several reasons. Many were unilateral—based on concessions by the North to the South, rather than on mutual interest. Often they were overly ambitious—demanding from industrial countries substantial and politically unpopular increases in foreign assistance, rather than offering well-considered reforms in global markets from which everyone could gain. Many were narrowly focused—on either an economic or political issue. And some proposals were just made at inappropriate moments—when the time for change was not ripe.

With the cold war over, military spending on the decline, economic and political freedom expanding, and a growing public awareness of environmental issues, the world now has a unique opportunity to make a substantial break with the past. The time has come for a new *global compact on human development*—an agreement to put people first in national policies and in international development cooperation.

But a realistic global compact must be very clearly defined—in the objectives it plans to fulfil, in the resources it needs, in the strategy for its implementation and in the institutional framework required to support it. And it would have to involve give and take on all sides.

Such a compact would also have to be prepared through a process of worldwide consultations. A world summit on human development should be convened to enlist the support of the world's political leaders for the objectives of the compact and their commitment to the resource requirements it will entail.

Objectives

While the overall objective of the new global compact would be to improve levels of human development worldwide, developing and industrial countries may want to make this objective more concrete.

DEVELOPING COUNTRIES might want to see the compact help them achieve at least the following:

- *Essential human goals*—to be attained by the year 2000. These goals should include universal basic education for men and women, primary health care and safe water for all, the elimination of serious malnutrition, and at least 80% access to family planning.
- *Employment*—to create sufficient job opportunities to absorb the new additions to the labour force and reduce absolute poverty by 50%.
- *GDP growth rate*—to be accelerated significantly to implement the foregoing objectives.

INDUSTRIAL COUNTRIES might want the compact also to cover some of the shared global objectives that are of immediate priority concern to them:

- *Drug trafficking and pollution*—to be tackled by close cooperation among all countries in the world.
- *Immigration pressures*—to be relieved through creating more job opportunities within poor nations.
- *Nuclear threats*—to be eliminated as international tensions are defused and countries willingly accept reductions of nuclear weapons, including non-proliferation policies.

Certainly, developing and industrial countries would *jointly* agree that the foregoing goals cannot be successfully pursued without firm policy commitment to the following:

- *Global peace and disarmament*—besides strengthening global and regional peace arrangements, military spending to be reduced progressively in both industrial and developing countries.
- *Development security*—to prevent the accumulation of unmanageable debt burdens, whether environmental, financial or social.

Resource needs

The global human development compact will have costs. And these will not only be financial. First and foremost, the compact calls for a firm policy commitment to the set objectives. Only if policy-makers are committed to the *ends* will they agree on the *means*.

But to reach agreement on the financial resource requirements of the compact, it is important that its objectives are, as far as possible, fully costed and that there is a clear identification of the funding sources to be tapped. These could include:

- *The peace dividend*—All countries, industrial and developing, should commit themselves to reducing military expenditures during the 1990s by at least 3% a year. This reduction would yield by the year 2000 a total peace dividend of around \$1.5 trillion—\$1.2 trillion in the industrial countries and \$279 billion in the developing countries.
- *A reformed system of official development assistance*—The world needs a new ODA system that is progressive, predictable and equitable. Since it will take time to develop such a comprehensive reform, the major focus should be on improving the quality of current ODA. At least two-thirds of ODA should be channelled to the poorest nations (compared with the present one-quarter) and at least 20% should go to human priority expenditure (compared with the present 7%).
- *A global debt bargain*—A new bargain must be struck with the severely indebted nations to halt the current debt-related net transfer of \$50 billion a year from the developing to the industrial countries. This will involve a major write-down of debts by official donors and commercial banks as well as by multilateral institutions.
- *Open global markets*—Global markets should be liberalized both in goods and services, to accelerate global growth and to ensure much better distribution of this growth. In particular, the existing restrictions on the export of textiles, clothing and agricultural, tropical and resource-based products should be eliminated. This should enable developing countries to increase their

exports by \$40 billion a year and thus gain new employment and income earning opportunities for their people.

Strategy

To ensure that the resource mobilization measures are linked to the attainment of the agreed-on objectives of the compact, it will be necessary to base the design of the compact and its implementation on carefully crafted strategies. These are needed not just internationally but within regions and countries. Although the strategies will naturally differ from one country and one region to another, there are likely to be common elements.

DEVELOPING COUNTRIES should adopt improved policies of national governance to make them fully responsive to the needs of their people. This might include more open government, based on respect for human rights and on wide participation, both in political life and in development planning. Public administration should run with greater transparency and accountability. And public policy should provide a framework combining private initiative, energetic entrepreneurship and the efficient functioning of national and international markets with well-defined policies and targets for human development.

INDUSTRIAL COUNTRIES will have to ensure that their peace dividend is carefully managed. The resources released will be needed for structural adjustment programmes if industrial countries are to liberalize their markets in goods, capital, technology and labour—as well as to finance higher levels of human development at home and abroad.

ALL COUNTRIES will need to come together in joint action programmes to combat some of the most serious global problems—including poverty, hunger, illiteracy, drug trafficking and abuse, nuclear proliferation, international terrorism, illegal migration, the depletion of non-renewable resources and the spread of pollution. These must be based on a recognition that the world cannot be made safe without the full collaboration of all—rich and poor, North and South. Only through cooperation can

*A peace dividend
of around
\$1.5 trillion
can be realized
by the year 2000*

Global reforms are a complement to—not a substitute for—determined national action

the world achieve sustainable human development.

Needed today are a clear vision of human goals over the next decade and a new institutional framework for their implementation. Human destiny is a choice, not a chance.

Institutional framework

The world needs a new vision of global cooperation for the next century. Global institutions of the 21st century might include a global central bank, a system of progressive income tax, an international trade organization and a strengthened UN system. In the meantime, reforms of the existing institutions should be examined as a transitional strategy.

THE UNITED NATIONS should be greatly strengthened—politically, managerially and financially. All nations, large and small, should accept the collective umbrella and discipline of the UN and pay a contribution assessed by income level and size, and more in line with existing development needs. A permanent, multilateral peacekeeping force should be created under the umbrella of the UN. These reforms would enable the UN to respond quickly and effectively, both to political conflicts and to development and humanitarian needs.

The United Nations should also play an increasingly important role in economic and social matters. This could be achieved through the creation of a 22-member Development Security Council, with 11 permanent and 11 rotating members. The Council would arrive at a political consensus on development policy—to be implemented by the appropriate agencies. It would consider all major global issues—including poverty eradication, human development, food security, trade negotiations, commodity prices, debt, development assistance, drug trafficking, refugees and the management of the global commons.

THE WORLD BANK should re-establish its role as a sympathetic intermediary between developing countries and the global capital markets. It might develop new lending instruments to recycle funds better from industrial to developing countries. Possibili-

ties include creating new bonds through an international investment trust, and opening a new intermediate lending window to meet the needs of countries that no longer qualify for concessional funds from IDA (the Bank's soft-loan window) but are not yet ready to meet the stiffer terms of the IBRD (the Bank's commercial window).

THE INTERNATIONAL MONETARY FUND should be strengthened to enable it to impose adjustment programmes not just on developing countries but also on industrial nations. The IMF should, above all, move much more towards assuming the role of a global central bank—providing and managing global liquidity.

THE GLOBAL ENVIRONMENT FACILITY, which UNDP, UNEP and the World Bank now manage jointly, should also be restructured so that it can play a more significant part in global environmental protection and support for ecologically sustainable development. This would involve broadening the Facility's management structure to give a greater voice to the developing nations, focusing more on the domestic environmental policies of developing countries and enlarging the Facility's financial base. The UN Conference on Environment and Development and its follow-up activities will offer a unique opportunity to achieve concrete progress in these areas.

THE GENERAL AGREEMENT ON TARIFFS AND TRADE should have its mandate enlarged to cover most international trade. As suggested by the ongoing Uruguay Round of multilateral trade negotiations, this would mean applying GATT principles to agriculture, tropical products, textiles and trade-related aspects of services, intellectual property rights and investment flows. The GATT Secretariat would also be more effective if it had a small executive board—one that carried sufficient regulatory clout.

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The global reforms in the years ahead should aim at improving the well-being of all the world's more than five billion people. *Human Development Report 1992* analyses the functioning of global markets from this human perspective. And although the reforms emphasized in this Report are global, they are intended as a complement to—not a

substitute for—determined national action.

The basic message of this year's Report is that the world has a unique opportunity to use global markets to the benefit of all. Removing many of the restrictions on world trade will help global markets to deliver

more fully the benefits they have always promised. And by making a substantial investment in human capacity building, economic management and technology, developing countries can engage in world trade as equal partners and earn equal benefits.