

United Nations Development Programme (UNDP). (2010). Summary. *Human Development Report 2010: The Real Wealth of Nations: Pathways to Human Development* (pp. ii. - iv, 1-13). New York: Author.
<http://hdr.undp.org/en/reports/global/hdr2010/>

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Summary

Human Development Report **2010**

20th Anniversary Edition

The Real Wealth of Nations: Pathways to Human Development



Published for the
United Nations
Development
Programme
(UNDP)

Foreword

In 1990 UNDP published its first *Human Development Report*, with its newly devised Human Development Index. The premise of the HDI, considered radical at the time, was elegantly simple: national development should be measured not simply by national income, as had long been the practice, but also by life expectancy and literacy.

The new HDI had its shortcomings, as the Report's authors forthrightly acknowledged, including a reliance on national averages, which concealed skewed distribution, and the absence of "a quantitative measure of human freedom." Yet it successfully advanced the Report's central thesis, stated succinctly in its first sentence: "People are the real wealth of a nation."

Twenty years later the conceptual brilliance and continuing relevance of that original human development paradigm are indisputable. It is now almost universally accepted that a country's success or an individual's well-being cannot be evaluated by money alone. Income is of course crucial: without resources, any progress is difficult. Yet we must also gauge whether people can lead long and healthy lives, whether they have the opportunity to be educated and whether they are free to use their knowledge and talents to shape their own destinies.

That was the original vision and remains the great achievement of the creators of the *Human Development Reports*, Mahbub ul-Haq of Pakistan and his close friend and collaborator, Amartya Sen of India, working with other leading development thinkers. Their concept has guided not just 20 years of global *Human Development Reports*, but more than 600 National Human Development Reports—all researched, written and published in their respective countries—as well as the many provocative regionally focused reports supported by UNDP's regional bureaus.

Perhaps most important, the human development approach has profoundly affected an entire generation of policy-makers and development specialists around the world—including thousands within UNDP itself and elsewhere in the UN system.

This 20th anniversary milestone presents an opportunity to review human development achievements and challenges systematically at both the global and national levels—a task not attempted since the first Report—and to analyse their implications for policy and future research.

On one crucial point the evidence is compelling and clear: there is much that countries can do to improve the quality of people's lives even under adverse circumstances. Many countries have made great gains in health and education despite only modest growth in income, while some countries with strong economic performance over the decades have failed to make similarly impressive progress in life expectancy, schooling and overall living standards. Improvements are never automatic—they require political will, courageous leadership and the continuing commitment of the international community.

Data from the past 40 years also reveal an enormous diversity of pathways to human development achievement: there is no single model or uniform prescription for success.

This Report shows significant progress by most countries in most areas, with the poorest countries often showing the largest gains. While perhaps not a surprise to statisticians, it was far from universally assumed four decades ago that most low-income nations would make the strong strides forward that the record now shows in health, education and (to a lesser extent) income.

Not all the trends are positive, as we know too well. Sadly, several countries have moved backwards in absolute HDI achievement since the 1990 Report. These countries offer lessons on the devastating impact of conflict, the AIDS epidemic and economic and political mismanagement. Most suffered from more than one if not all these factors.

I especially welcome the continuation of the *Human Development Report* tradition of measurement innovation. Three new measures—capturing multidimensional inequality, gender disparities and extreme deprivation—are introduced in this year's Report. The Inequality-adjusted HDI, Gender Inequality Index and Multidimensional Poverty Index, building on innovations in the field and advances in theory and data, are applied to most countries in the world and provide important new insights.

These new measurement tools reinforce the continuing validity of the original human development vision. Going forward, future Reports will have to grapple with even more difficult issues, including the increasingly critical area of sustainability, as well as inequality and broader notions of empowerment. Many of the analytical and statistical challenges identified in the original 1990 Report continue to confront us today.

UNDP can take appropriate pride in its backing of this intellectually independent and innovative Report for the past two decades, but *Human Development Reports* have never been a UNDP product alone. The Reports rely heavily on knowledge and insights from sister UN agencies, national governments and hundreds of scholars from around the world, and we have always been grateful for that collaboration. As this year's 20th anniversary edition persuasively demonstrates, we can and should continue to be guided by the *Human Development Report's* values and findings for the next 20 years—and beyond.



Helen Clark
Administrator
United Nations Development Programme

The analysis and policy recommendations of this Report do not necessarily reflect the views of the United Nations Development Programme or its Executive Board. The Report is an independent publication commissioned by UNDP. The research and writing of the Report was a collaborative effort by the Human Development Report team and a group of eminent advisors led by Jeni Klugman, Director of the Human Development Report Office.

Introduction by Amartya Sen

In 1990 public understanding of development was galvanized by the appearance of the first *Human Development Report*. Led by the visionary Mahbub ul Haq, it had a profound effect on the way policy-makers, public officials and the news media, as well as economists and other social scientists, view societal advancement. Rather than concentrating on only a few traditional indicators of economic progress (such as gross national product per capita), “human development” accounting proposed a systematic examination of a wealth of information about how human beings in each society live and what substantive freedoms they enjoy.

At the time Mahbub ul Haq became the pioneering leader of the human development approach, several voices of discontent were demanding an approach broader than standard economic measurements provided and were proposing constructive departures. With remarkable insight Mahbub saw the possibility of harnessing these initiatives towards the development of a capacious alternative outlook that would be at once practical and inclusive. The *Human Development Reports* made room for a rich variety of information and analyses related to different aspects of human life.

The difficulty, however, of replacing a simple number like GNP with an avalanche of tables (and a large set of related analyses) is that the latter lacks the handy usability of the crude GNP. So a simple index, the Human Development Index (HDI), was devised explicitly as a rival to GNP and concentrating only on longevity, basic education and minimal income. Not surprisingly, the HDI, which proved very popular in public discussion, has a crudeness that is somewhat similar to that of the GNP. This diagnosis is not meant as an “unkind” description. As someone who was privileged to work with Mahbub in devising the HDI, I would claim that the crude HDI did what it was expected to do: work as a simple measure like GNP but, unlike GNP, without being oblivious of everything other than incomes and commodities. However, the huge breadth of the human development approach must not be confused, as it sometimes is, with the slender limits of the HDI.

The world has moved on since 1990. There have been many gains (in literacy for example), but the human development approach is motivationally committed to concentrating on what remains undone—what demands most attention in the contemporary world—from poverty and deprivation to inequality and insecurity. New tables continue to appear in the steady stream of *Human Development Reports*, and new indices have been devised to supplement the HDI and enrich our evaluation.

As it happens, the new challenges we face have also intensified—for example, those surrounding the conservation of our environment and the sustainability of our well-being and

substantive freedoms. The human development approach is flexible enough to take note of the future prospects of human lives on the planet, including the prospects of those features of the world that we value, whether related to our own welfare or not (for example, we can be committed to the survival of threatened animal species on grounds that transcend our own well-being). It would be a great mistake to cram more and more considerations into one number like the HDI, but the human development approach is sophisticated enough to accommodate new concerns and considerations of future prospects (including forecasts of future levels of the HDI) without muddled attempts at injecting more and more into one aggregate measure.

Twenty years after the appearance of the first *Human Development Report*, there is much to celebrate in what has been achieved. But we also have to be alive to ways of improving the assessment of old adversities and of recognizing—and responding to—new threats that endanger human well-being and freedom. That continuing commitment is indeed a part of the large vision of Mahbub ul Haq. The need for that commitment has not diminished over time.

Human Development Report 2010

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The real wealth of nations: pathways to human development

“People are the real wealth of a nation.” With these words the 1990 *Human Development Report (HDR)* began a forceful case for a new approach to thinking about development. That the objective of development should be to create an enabling environment for people to enjoy long, healthy and creative lives may appear self-evident today. But that has not always been the case. A central objective of the *HDR* for the past 20 years has been to emphasize that development is primarily and fundamentally about people.

This year’s Report celebrates the contributions of the human development approach, which is as relevant as ever to making sense of our changing world and finding ways to improve people’s well-being. Indeed, human development is an evolving idea—not a fixed, static set of precepts—and as the world changes, analytical tools and concepts evolve. So this Report is also about how the human development approach can adjust to meet the challenges of the new millennium.

The past 20 years have seen substantial progress in many aspects of human development. Most people today are healthier, live longer, are more educated and have more access to goods and services. Even in countries facing adverse economic conditions, people’s health and education have greatly improved. And there has been progress not only in improving health and education and raising income, but also in expanding people’s power to select leaders, influence public decisions and share knowledge.

Yet not all sides of the story are positive. These years have also seen increasing inequality—both within and across countries—as well as production and consumption patterns that have increasingly been revealed as unsustainable. Progress has varied, and people in some regions—such as Southern Africa and the former Soviet Union—have experienced

periods of regress, especially in health. New vulnerabilities require innovative public policies to confront risk and inequalities while harnessing dynamic market forces for the benefit of all.

Addressing these issues requires new tools. In this Report we introduce three measures to the *HDR* family of indices—the Inequality-adjusted Human Development Index, the Gender Inequality Index and the Multi-dimensional Poverty Index (for definitions of basic terms used in the Report, see box 1). These state-of-the-art measures incorporate recent advances in theory and measurement and support the centrality of inequality and poverty in the human development framework. We introduce these experimental series with the intention of stimulating reasoned public debate beyond the traditional focus on aggregates.

Today’s challenges also require a new policy outlook. While there are no silver bullets or magic potions for human development, some policy implications are clear. First, we cannot assume that future development will mimic past advances: opportunities today and in the future are greater in many respects. Second, varied experiences and specific contexts preclude overarching policy prescriptions and point towards more general principles and guidelines. Third, major new challenges must

Very high, high, medium, low human development groups. Country classifications based on Human Development Index (HDI) quartiles. A country is in the very high group if its HDI is in the top quartile, in the high group if its HDI is in percentiles 51–75, in the medium group if its HDI is in percentiles 26–50 and in the low group if its HDI is in the bottom quartile. Earlier *Human Development Reports* used absolute rather than relative thresholds.

Developed/developing. Countries in the very high HDI category are referred to as developed, and countries not in this group are referred to as developing. The terms are used for convenience only, to distinguish countries that have attained the highest HDI levels.

Human Development Index (HDI). A composite measure of achievements in three basic dimensions of human development—a long and healthy life, access to knowledge and a decent standard of living. For ease of comparability the average value of achievements in these three dimensions is put on a scale of 0 to 1, where greater is better, and these indicators are aggregated using geometric means.

Inequality-adjusted HDI (IHDI). A measure of the average level of human development of people in a society once inequality is taken into

account. Under perfect equality the HDI and IHDI are equal; the greater the difference between the two, the greater the inequality.

Gender Inequality Index (GII). A measure that captures the loss in achievements due to gender disparities in the dimensions of reproductive health, empowerment and labour force participation. Values range from 0 (perfect equality) to 1 (total inequality).

Multidimensional Poverty Index (MPI). A measure of serious deprivations in the dimensions of health, education and living standards that combines the number of deprived and the intensity of their deprivation.

Hybrid HDI. HDI calculated using the new functional form described in the full Report and the same three dimensions, measured in terms of life expectancy, literacy, gross enrolment and per capita GDP. Better data availability means that this construct is more suitable for the analysis of long-term trends.

Top/bottom movers. The countries that have made the greatest or least progress in improving their HDI as measured by the deviation from fit criterion, which calculates changes in a country's indicators relative to the average change for countries starting from the same point.

Note: See full Report and Technical notes 1–4 for details on the new indices.

be addressed—most prominently, climate change.

Many challenges lie ahead. Some are related to policy: development policies must be based on the local context and sound overarching principles; numerous problems go beyond the capacity of individual states and require democratically accountable global institutions. There are also implications for research: deeper analysis of the surprisingly weak relationship between economic growth and improvements in health and education and careful consideration of how the multidimensionality of development objectives affects development thinking are just two examples.

Celebrating 20 years of human development

Twenty years ago the world had just experienced a decade of debt, adjustment and austerity, and a host of political transformations were under way. With eloquence and humanity the first *HDR* called for a different

approach to economics and development—one that put people at the centre. The approach was anchored in a new vision of development, inspired by the creative passion and vision of Mahbub ul Haq, the lead author of the early *HDRs*, and the groundbreaking work of Amartya Sen.

In this, the 20th edition of the *HDR*, we reaffirm human development's enduring relevance. We show how the human development approach has been ahead of the curve—how its concepts, measures and policies produced important insights about patterns of progress and how it can help chart a course for people-centred development.

The 1990 *HDR* began with a clear definition of human development as a process of “enlarging people's choices,” emphasizing the freedom to be healthy, to be educated and to enjoy a decent standard of living. But it also stressed that human development and well-being went far beyond these dimensions to encompass a much broader range of capabilities, including political freedoms, human rights and, echoing Adam Smith, “the ability to go

about without shame.” Its enthusiastic reception by governments, civil society, researchers and the media demonstrated the deep resonance of this innovative approach in the development community and beyond.

A reaffirmation

Although the first *HDR* was careful in presenting a nuanced vision of human development, over time the short-hand description of “enlarging people’s choices” became widely used. This description is fundamental—but not enough. Human development is about sustaining positive outcomes steadily over time and combating processes that impoverish people or underpin oppression and structural injustice. Plural principles such as equity, sustainability and respect for human rights are thus key.

Inherent in the human development tradition is that the approach be dynamic, not calcified. We propose a reaffirmation consistent with development practice on the ground and with the academic literature on human development and capabilities:

Human development is the expansion of people’s freedoms to live long, healthy and creative lives; to advance other goals they have reason to value; and to engage actively in shaping development equitably and sustainably on a shared planet. People are both the beneficiaries and the drivers of human development, as individuals and in groups.

This reaffirmation underlines the core of human development—its themes of sustainability, equity and empowerment and its inherent flexibility. Because gains might be fragile and vulnerable to reversal and because future generations must be treated justly, special efforts are needed to ensure that human development endures—that it is sustainable. Human development is also about addressing structural disparities—it must be equitable. And it is about enabling people to exercise individual choice and to participate in, shape and benefit from processes at the household,

community and national levels—to be empowered.

Human development insists on deliberation and debate and on leaving the ends of development open to discussion. People, individually and in groups, shape these processes. The human development framework applies to all countries, rich and poor, and to all people. It is sufficiently open ended, robust and vibrant to provide a paradigm for the new century.

The evolution of well-being: an uneven ascent

A major contribution of this Report is the systematic assessment of trends in key components of human development over the past 40 years. This retrospective assessment, an important objective for the 20th anniversary, is the most comprehensive analysis of the *HDR* to date and yields important new insights.

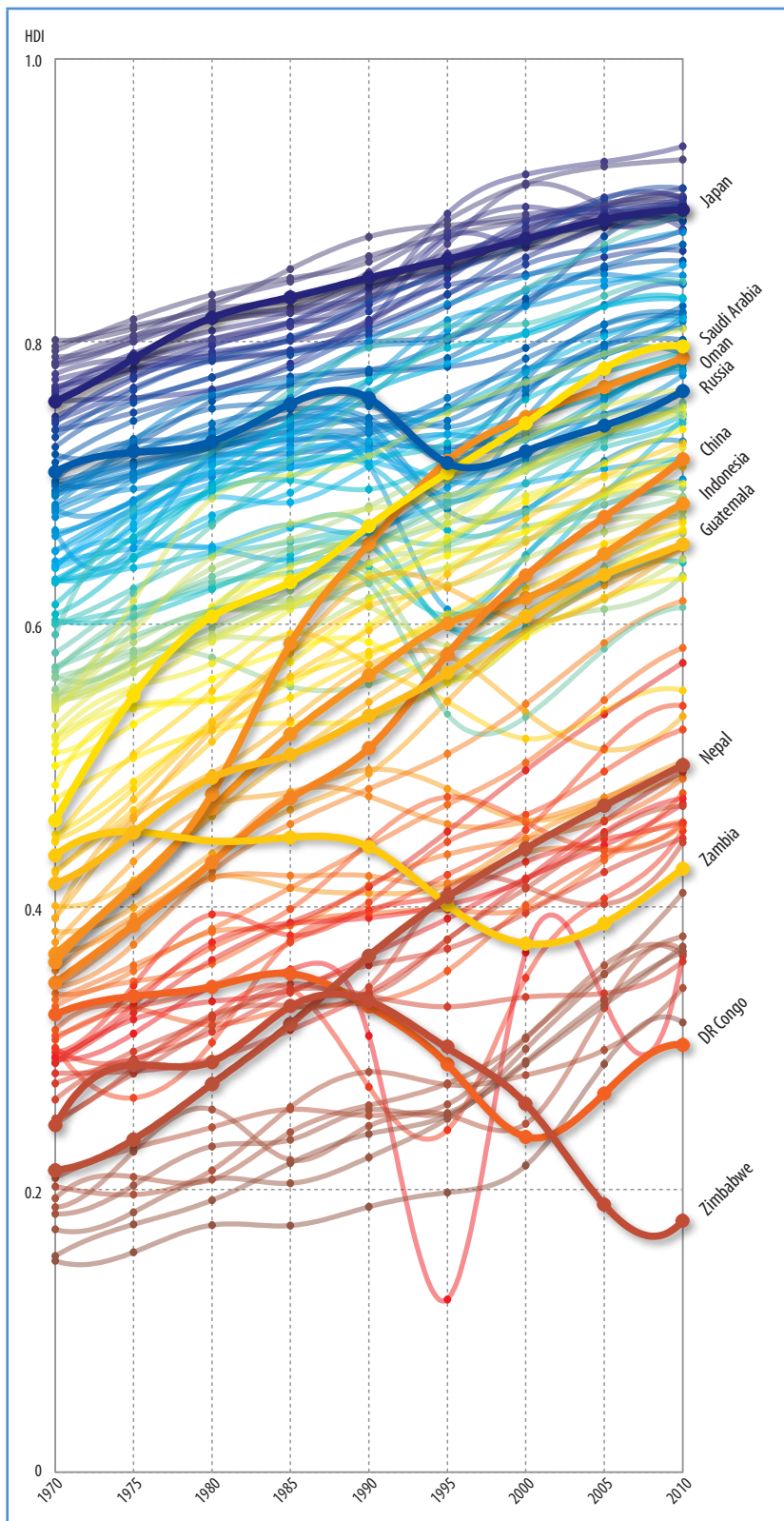
In some basic respects the world is a much better place today than it was in 1990—or in 1970. Over the past 20 years many people around the world have experienced dramatic improvements in key aspects of their lives. Overall, they are healthier, more educated and wealthier and have more power to appoint and hold their leaders accountable than ever before. Witness, for example, the increases in our summary measure of development—the Human Development Index (HDI), which combines information on life expectancy, schooling and income in a simple composite measure (figure 1). The world’s average HDI has increased 18 percent since 1990 (and 41 percent since 1970), reflecting large aggregate improvements in life expectancy, school enrolment, literacy and income. But there has also been considerable variability in experience and much volatility, themes to which we return below.

Almost all countries have benefited from this progress. Of 135 countries in our sample for 1970–2010, with 92 percent of the world’s people, only 3—the Democratic Republic of the Congo, Zambia and Zimbabwe—have a lower HDI today than in 1970 (see figure 1).

Overall, poor countries are catching up with rich countries in the HDI. This

A major contribution of this Report is the systematic assessment of trends in key components of human development over the past 40 years. We find substantial progress, but not all sides of the story are positive

FIGURE 1 Overall progress, significant variability: worldwide trends in the Human Development Index, 1970–2010



Note: Results are for a sample of 135 countries based on the hybrid HDI described in box 1. The top movers are Oman, China, Nepal, Indonesia and Saudi Arabia; the bottom movers are DR Congo, Zambia and Zimbabwe.

Source: HDRO calculations using data from the HDRO database.

convergence paints a far more optimistic picture than a perspective limited to trends in income, where divergence has continued. But not all countries have seen rapid progress, and the variations are striking. Those experiencing the slowest progress are countries in Sub-Saharan Africa struck by the HIV epidemic and countries in the former Soviet Union suffering increased adult mortality.

The top HDI movers (countries that have made the greatest progress in improving the HDI) include well known income “growth miracles” such as China, Indonesia and South Korea. But they include others—such as Nepal, Oman and Tunisia—where progress in the nonincome dimensions of human development has been equally remarkable (table 1). It is striking that the top 10 list contains several countries not typically described as top performers. And Ethiopia comes in 11th, with three other Sub-Saharan African countries (Botswana, Benin and Burkina Faso) in the top 25.

Thus, the broader human development perspective provides an assessment of success very different from, say, that of the Spence Commission on Growth and Development. This perspective reveals that progress in health and education can drive success in human development—in fact, 7 countries enter the top 10 list thanks to their high achievements in health and education, in some cases even with unexceptional growth.

Not all countries have progressed rapidly, and the variation is striking. Over the past 40 years a quarter of developing countries saw their HDI increase less than 20 percent, another quarter, more than 65 percent. These differences partly reflect different starting points—less developed countries have on average faster progress in health and education than more developed ones do. But half the variation in HDI performance is unexplained by initial HDI, and countries with similar starting points experience remarkably different evolutions, suggesting that country factors such as policies, institutions and geography are important (figure 2).

Health advances have been large but are slowing. The slowdown in aggregate progress is due largely to dramatic reversals in

19 countries. In nine of them—six in Sub-Saharan Africa and three in the former Soviet Union—life expectancy has fallen below 1970 levels. The causes of these declines are the HIV epidemic and increased adult mortality in transition countries.

Progress in education has been substantial and widespread, reflecting not only improvements in the quantity of schooling but also in the equity of access to education for girls and boys. To a large extent this progress reflects greater state involvement, which is often characterized more by getting children into school than by imparting a high-quality education.

Progress in income varies much more. Despite aggregate progress, there is no convergence in income—in contrast to health and education—because on average rich countries have grown faster than poor ones over the past 40 years. The divide between developed and developing countries persists: a small subset of countries has remained at the top of the world income distribution, and only a handful of countries that started out poor have joined that high-income group.

In sum, we see great advances, but changes over the past few decades have by no means been wholly positive. Some countries have

TABLE 1 Fastest progress in human development comes in different ways: top movers in HDI, nonincome HDI and GDP, 1970–2010

Rank	Improvements in		
	HDI	Nonincome HDI	Income
1	Oman	Oman	China
2	China	Nepal	Botswana
3	Nepal	Saudi Arabia	South Korea
4	Indonesia	Libya	Hong Kong, China
5	Saudi Arabia	Algeria	Malaysia
6	Lao PDR	Tunisia	Indonesia
7	Tunisia	Iran	Malta
8	South Korea	Ethiopia	Viet Nam
9	Algeria	South Korea	Mauritius
10	Morocco	Indonesia	India

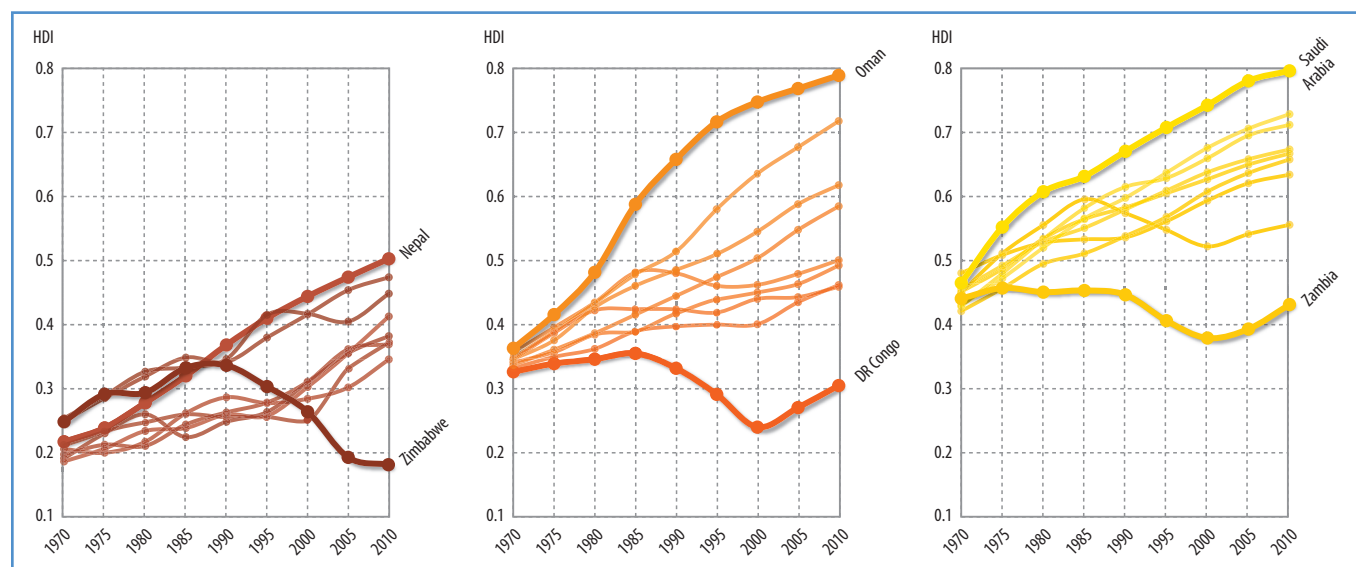
Note: Improvements in HDI and nonincome HDI are measured by the deviation from fit—how well a country does relative to other countries starting from the same point (see full Report). Improvements in income are measured by annual percentage growth in per capita GDP.

Source: HDRO calculations using data from the HDRO database.

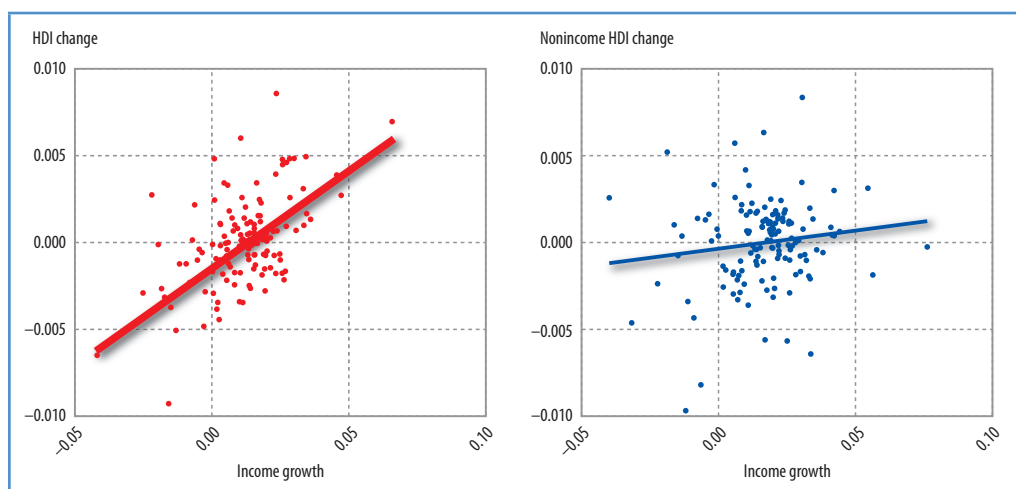
suffered serious setbacks—particularly in health—sometimes erasing in a few years the gains of several decades. Economic growth has been extremely unequal—both in countries experiencing fast growth and in groups benefiting from national progress. And the gaps in human development across the world, while narrowing, remain huge.

FIGURE 2

Diversity of paths: evolution of the Human Development Index from similar starting points in 1970



Source: HDRO calculations using data from the HDRO database.

FIGURE 3**Weak relationship between economic growth and changes in health and education, 1970–2010**

Note: Based on the analysis of deviation from fit (see full Report); income is per capita GDP. Thicker regression line indicates that the relationship is statistically significant.

Source: HDRO calculations using data from the HDRO database.

Understanding the patterns and drivers of human development

Global progress has coincided with substantial variability across countries. This suggests that global forces have made progress more feasible for countries at all levels of development but that countries differ in how they take advantage of the opportunities.

One of the most surprising results of human development research in recent years, confirmed in this Report, is the lack of a significant correlation between economic growth and improvements in health and education (figure 3). Our research shows that this relationship is particularly weak at low and medium levels of the HDI. This is traceable to changes in how people become healthier and more educated. The correlation in levels today, which contrasts with the absence of correlation in changes over time, is a snapshot that reflects historical patterns, as countries that became rich were the only ones able to pay for costly advances in health and education. But technological improvements and changes in societal structures allow even poorer countries today to realize significant gains.

The unprecedented flows of ideas across countries in recent times—ranging from

health-saving technologies to political ideals and to productive practices—have been transformative. Many innovations have allowed countries to improve health and education at very low cost—which explains why the association between the income and nonincome dimensions of human development has weakened over time.

Income and growth remain vital. To conclude otherwise is to ignore the importance of income in expanding people's freedoms. Income is critical in determining people's command over the resources necessary to gain access to food, shelter and clothing and in making possible much broader options—such as working in meaningful and intrinsically rewarding activities or spending more time with loved ones. Income growth can indicate that opportunities for decent work are expanding—though this is not always so—and economic contractions and associated job losses are bad news for people around the world. Income is also the source of the taxes and other revenues that governments need in order to provide services and undertake redistributive programs. Thus, increasing income on a broad basis remains an important policy priority.

Nor do our results negate the importance of higher income for increasing poor people's access to social services, a relationship

supported by extensive microeconomic evidence. The strong correlation between socioeconomic status and health often reflects wealthier people's relative advantage in gaining access to health services. But the analysis in this Report sheds doubt on whether economywide income growth is sufficient to further health and education in low and medium HDI countries. And that is good news, at least insofar as sustained growth has often been elusive.

Our results also confirm, with new data and analysis, two central contentions of the *HDR* from the outset: that human development is different from economic growth and that substantial achievements are possible even without fast growth. Early *HDR*s pointed to the Indian state of Kerala and countries such as Costa Rica, Cuba and Sri Lanka that attained much higher human development than other countries at their incomes. These achievements were possible because growth had decoupled from the processes determining progress in the non-income dimensions of human development.

How institutions matter

The policies and reforms compatible with progress vary widely across institutional settings and depend on structural and political constraints. Attempts to transplant institutional and policy solutions across countries with different conditions often fail. And policies typically must be informed by the prevailing institutional setting to bring about change. For instance, economic liberalization in India sought to ease an overly restrictive and family-dominated business environment by reducing regulation and introducing more competition. In short, while institutions are a key determinant of human development, how they interact with their context merits careful investigation.

One important aspect is how relationships between markets and states are organized. Governments have addressed, in a range of ways, the tension between the need for markets to generate income and dynamism and the need to deal with market failures. Markets may be necessary for sustained economic dynamism, but they do not automatically bring progress in other

dimensions of human development. Development that overly favours rapid economic growth is rarely sustainable. In other words, a market economy is necessary, but not enough.

These observations hark back to Karl Polanyi's brilliant exposition more than 60 years ago of the myth of the self-regulating market—the idea that markets could exist in a political and institutional vacuum. Generally, markets are very bad at ensuring the provision of public goods, such as security, stability, health and education. For example, firms that produce cheap labour-intensive goods or that exploit natural resources may not want a more educated workforce and may care little about their workers' health if there is an abundant pool of labour. Without complementary societal and state action, markets can be weak on environmental sustainability, creating the conditions for environmental degradation, even for such disasters as mud flows in Java and oil spills in the Gulf of Mexico.

Regulation, however, requires a capable state as well as political commitment, and state capability is often in short supply. Some developing country governments have tried to mimic the actions of a modern developed state without having the resources or the capacity to do so. For example, import substitution regimes in many Latin American countries floundered when countries tried to develop a targeted industrial policy. In contrast, an important lesson of the East Asian successes was that a capable, focused state can help drive development and the growth of markets. What is possible and appropriate is context specific. Beyond the state, civil society actors have demonstrated the potential to curb the excesses of both the market and the state, though governments seeking to control dissent can restrict civil society activity.

The dynamics can be virtuous when countries transition to both inclusive market institutions and inclusive political institutions. But this is difficult and rare. Oligarchic capitalism tends to spell its own demise, either because it stifles the productive engines of innovation—as in the failed import substitution regimes of Latin America and the Caribbean—or because material progress increases people's aspirations

Our results confirm two central contentions of the *HDR* from the outset: that human development is different from economic growth and that substantial achievements are possible even without fast growth

and challenges the narrow elite's grip on power, as in Brazil, Indonesia and South Korea since the 1990s.

Good things don't always come together

Human development is not only about health, education and income—it is also about people's active engagement in shaping development, equity and sustainability, intrinsic aspects of the freedom people have to lead lives they have reason to value. There is less consensus about what progress on these fronts entails, and measures are also lacking. But lack of quantification is no reason to neglect or ignore them.

Even when countries progress in the HDI, they do not necessarily excel in the broader dimensions. It is possible to have a high HDI and be unsustainable, undemocratic and unequal just as it is possible to have a low HDI and be relatively sustainable, democratic and equal. These patterns pose important challenges for how we think about human development, its measurement and the policies to improve outcomes and processes over time.

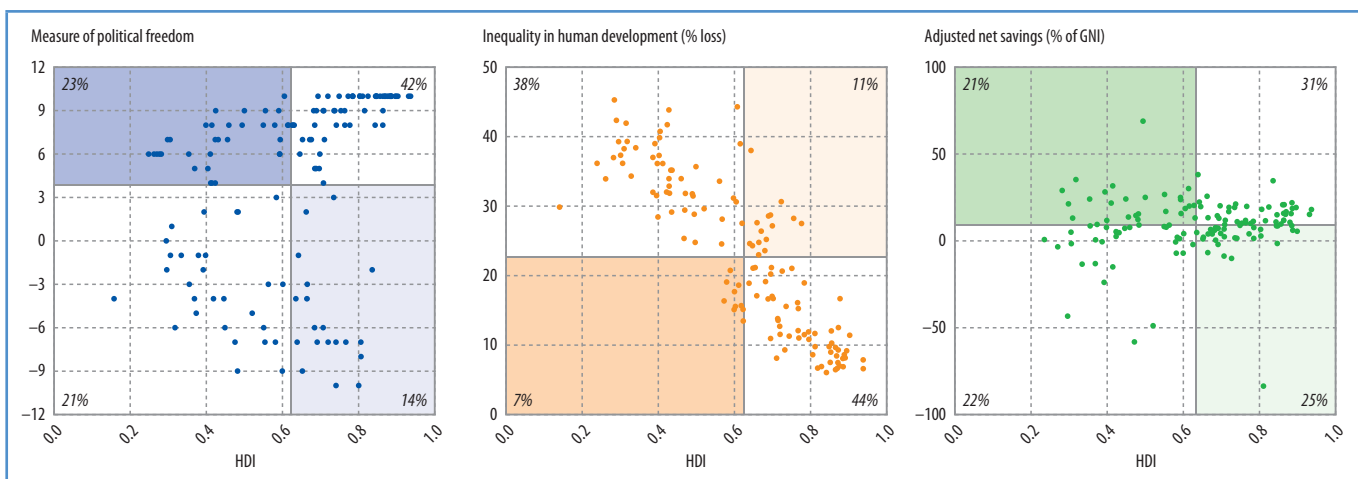
There is no straightforward pattern relating the HDI to other dimensions of human

development such as sustainability and empowerment (figure 4). An exception is inequality, which is negatively related to the value of the HDI, but even that relationship shows wide variation. The lack of correlation can be seen in the large number of countries that have high HDI values but perform poorly on the other variables: about a quarter of countries have a high HDI but low sustainability; we can see a similar though less marked picture for political freedoms.

Trends conducive to empowerment include the vast increases in literacy and educational attainment in many parts of the world that have strengthened people's ability to make informed choices and hold governments accountable. The scope for empowerment and its expression have broadened, through both technology and institutions. In particular, the proliferation of mobile telephony and satellite television and increased access to the Internet have vastly increased the availability of information and the ability to voice opinions.

The share of formal democracies has increased from fewer than a third of countries in 1970 to half in the mid-1990s and to three-fifths in 2008. Many hybrid forms of political organization have emerged. While real change and healthy political functioning have varied,

FIGURE 4 Correlation between the Human Development Index and broader dimensions of human development: empowerment, inequality and sustainability, 2010



Note: Data are for 2010 or most recent year available. The lines show the means of the distributions. The percent values reflect the share of countries in each quadrant. See full Report for details on measures of political freedom, environmental sustainability and inequality.

Source: HDRO calculations using data from *World Development Indicators 2010*, Washington, D.C.: World Bank and M. Marshall and K. Jagers, 2010, "Polity IV Project, Political Regime Characteristics and Transitions, 1800–2008," *Integrated Network for Societal Conflict Research Program*, College Park, Md.: Center for International Development and Conflict Management, University of Maryland.

and many formal democracies are flawed and fragile, policy-making is much better informed by the views and concerns of citizens. Local democratic processes are deepening. Political struggles have led to substantial change in many countries, greatly expanding the representation of traditionally marginalized people, including women, the poor, indigenous groups, refugees and sexual minorities.

But averages can be misleading. Since the 1980s, income inequality has risen in many more countries than it has fallen. For every country where inequality has improved in the past 30 years, in more than two it has worsened, most markedly in countries of the former Soviet Union. Most countries in East Asia and the Pacific also have higher income inequality today than a few decades ago. Latin America and the Caribbean is an important recent exception: long the region with the widest income and asset disparities, major recent improvements have led to more progressive public spending and targeted social policies.

Recent years have also exposed the fragility of some of our achievements—perhaps best

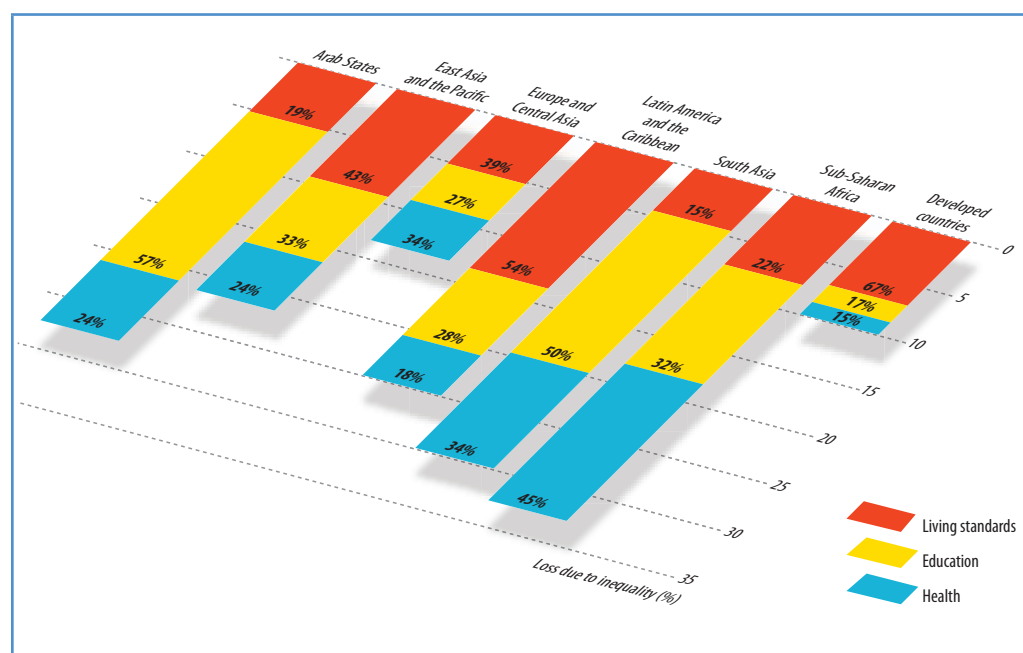
illustrated by the biggest financial crisis in several decades, which caused 34 million people to lose their jobs and 64 million more people to fall below the \$1.25 a day income poverty threshold. The risk of a “double-dip” recession remains, and a full recovery could take years.

But perhaps the greatest challenge to maintaining progress in human development comes from the unsustainability of production and consumption patterns. For human development to become truly sustainable, the close link between economic growth and greenhouse gas emissions needs to be severed. Some developed countries have begun to alleviate the worst effects through recycling and investment in public transport and infrastructure. But most developing countries are hampered by the high costs and low availability of clean energy.

New measures for an evolving reality

Pushing the frontiers of measurement has always been a cornerstone of the human

FIGURE 5 Loss in the Human Development Index and its components due to inequality, by region



Note: Numbers inside bars are the percentage share of total losses due to inequality attributable to each HDI component.

Source: HDRO calculations using data from the HDRO database.

We introduce three new indices to capture multidimensional aspects of well-being for inequality, gender equity and poverty that reflect advances in methods and better data availability

development approach. But it has never been measurement for the sake of measurement. The HDI has enabled innovative thinking about progress by capturing the simple yet powerful idea that development is about much more than income. Over the years the *HDR* has introduced new measures to evaluate progress in reducing poverty and empowering women. But lack of reliable data has been a major constraint.

This year we introduce three new indices to capture important aspects of the distribution of well-being for inequality, gender equity and poverty. They reflect advances in methods and better data availability. We also present a refined version of the HDI, with its same three dimensions, but that addresses valid criticisms and uses indicators more pertinent for evaluating future progress.

Adjusting the Human Development Index for inequality. Reflecting inequality in each dimension of the HDI addresses an objective first stated in the 1990 *HDR*. This Report introduces the Inequality-adjusted HDI (IHDI), a measure of the level of human development of people in a society that accounts for inequality. Under perfect equality the HDI and the IHDI are equal. When there is inequality in the distribution of health, education and income, the HDI of an average person in a society is less than the aggregate HDI; the lower the IHDI (and the greater the difference between it and the HDI), the greater the inequality. We apply this measure to 139 countries. Some findings:

- The average loss in the HDI due to inequality is about 22 percent—that is, adjusted for inequality, the global HDI of 0.62 in 2010 would fall to 0.49, which represents a drop from the high to the medium HDI category. Losses range from 6 percent (Czech Republic) to 45 percent (Mozambique), with four-fifths of countries losing more than 10 percent, and almost two-fifths of countries losing more than 25 percent.
- Countries with less human development tend to have greater inequality in more dimensions—and thus larger losses in human development. People in Namibia

lost 44 percent, in Central African Republic 42 percent and in Haiti 41 percent because of multidimensional inequality.

- People in Sub-Saharan Africa suffer the largest HDI losses because of substantial inequality across all three dimensions. In other regions the losses are more directly attributable to inequality in a single dimension—as for health in South Asia (figure 5).

A new measure of gender inequality. The disadvantages facing women and girls are a major source of inequality. All too often, women and girls are discriminated against in health, education and the labour market—with negative repercussions for their freedoms. We introduce a new measure of these inequalities built on the same framework as the HDI and the IHDI—to better expose differences in the distribution of achievements between women and men. The Gender Inequality Index shows that:

- Gender inequality varies tremendously across countries—the losses in achievement due to gender inequality (not directly comparable to total inequality losses because different variables are used) range from 17 percent to 85 percent. The Netherlands tops the list of the most gender-equal countries, followed by Denmark, Sweden and Switzerland.
- Countries with unequal distribution of human development also experience high inequality between women and men, and countries with high gender inequality also experience unequal distribution of human development. Among the countries doing very badly on both fronts are Central African Republic, Haiti and Mozambique.

A multidimensional measure of poverty. Like development, poverty is multidimensional—but this is traditionally ignored by headline figures. This year's Report introduces the Multidimensional Poverty Index (MPI), which complements money-based measures by considering multiple deprivations and their overlap. The index identifies deprivations across the same three dimensions as the HDI and shows the number of people who are poor (suffering a

given number of deprivations) and the number of deprivations with which poor households typically contend. It can be deconstructed by region, ethnicity and other groupings as well as by dimension, making it an apt tool for policy-makers. Some findings:

- About 1.75 billion people in the 104 countries covered by the MPI—a third of their population—live in multidimensional poverty—that is, with at least 30 percent of the indicators reflecting acute deprivation in health, education and standard of living. This exceeds the estimated 1.44 billion people in those countries who live on \$1.25 a day or less (though it is below the share who live on \$2 or less). The patterns of deprivation also differ from those of income poverty in important ways: in many countries—including Ethiopia and Guatemala—the number of people who are multidimensionally poor is higher. However, in about a fourth of the countries for which both estimates are available—including China, Tanzania and Uzbekistan—rates of income poverty are higher.
- Sub-Saharan Africa has the highest incidence of multidimensional poverty. The level ranges from a low of 3 percent in South Africa to a massive 93 percent in Niger; the average share of deprivations ranges from about 45 percent (in Gabon, Lesotho and Swaziland) to 69 percent (in Niger). Yet half the world’s multidimensionally poor live in South Asia (51 percent, or 844 million people), and more than a quarter live in Africa (28 percent, or 458 million).

* * *

These new measures yield many other novel results—and insights—that can guide development policy debates and designs. Large HDI losses due to inequality indicate that society has much to gain from concentrating its efforts on equity-improving reforms. And a high MPI coinciding with low income poverty suggests that there is much to gain from improving the delivery of basic public services. The measures open exciting new possibilities for research, allowing us to tackle

critical questions. Which countries are most successful in lowering inequality in human development? Are advances in gender equity a cause or a reflection of broader development trends? Does reduced income poverty bring about reduced multidimensional poverty, or vice versa?

Guiding the way to future human development

What are the implications for the policy agenda, both national and international? The story is encouraging but also cautionary. Progress is possible even without massive resources: the lives of people can be improved through means already at the disposal of most countries. But success is not guaranteed, and the pathways to advancing human development are varied and specific to a country’s historical, political and institutional conditions.

Much development discourse has looked for uniform policy prescriptions that can be applied across the vast majority of countries. The shortcomings of that intellectual project are now evident and widely accepted. They underline the need to recognize the individuality of countries and communities alongside the basic principles that can inform development strategies and policies in different settings. A global report like this one can draw general lessons and push the research and policy agenda and discussions into complementary domains.

If one size fits all solutions are inherently misguided, how do we guide policy-making? Policies are being devised and implemented every day around the world, and concrete advice is sought from development institutions and researchers. Some basic ideas:

- *Think of principles first.* Asking whether a particular policy is a general prescription for human development is not the best approach, because many policies work well in some settings but not in others. We must ask what principles we can use to evaluate alternative policies. Examples include putting equity and poverty at the forefront of policy and designing institutions to manage

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conflict and resolve disputes. How this translates into specific policies will vary by setting. Careful consideration of experience and of institutional, structural and political constraints is vital.

- *Take context seriously.* State capacity and political constraints are examples of why and how context matters. A common cause of failure is assuming that a well functioning state and regulatory system already exist or can be readily transplanted or created. Similarly, national policies ignore the broader political economy at their peril. Policy design that is not rooted in an understanding of these institutional realities is likely to be irrelevant.
- *Shift global policies.* Numerous challenges such as international migration, effective and equitable trade and investment rules, and global threats such as climate change, are beyond the capacity of individual states. A global governance system that promotes democratic accountability, transparency and inclusion of the least developed countries—and that seeks a stable and sustainable global economic environment—should be broadly applied to such challenges.

The impacts of the *HDR* have illustrated that policy thinking can be informed and stimulated by deeper exploration into key dimensions of human development. An important element of this tradition is a rich agenda of research and analysis. This Report suggests ways to move this agenda forward through better data and trend analysis. But much is left to do. Three priorities: improving data and analysis to inform debates, providing an alternative to conventional approaches to studying development, and increasing our understanding of

inequality, empowerment, vulnerability and sustainability.

The economics of growth and its relationship with development, in particular, require radical rethinking. A vast theoretical and empirical literature almost uniformly equates economic growth with development. Its models typically assume that people care only about consumption; its empirical applications concentrate almost exclusively on the effect of policies and institutions on economic growth.

The central contention of the human development approach, by contrast, is that well-being is about much more than money: it is about the possibilities that people have to fulfil the life plans they have reason to choose and pursue. Thus, our call for a new economics—an economics of human development—in which the objective is to further human well-being and in which growth and other policies are evaluated and pursued vigorously insofar as they advance human development in the short and long term.

“Human progress,” wrote Martin Luther King, Jr., “never rolls in on wheels of inevitability. It comes through tireless efforts and persistent work. . . . Without this hard work, time itself becomes an ally of the forces of social stagnation.” The idea of human development exemplifies these efforts, brought about by a committed group of intellectuals and practitioners who want to change the way we think about the progress of societies.

But fully realizing the human development agenda requires going further. Putting people at the centre of development is much more than an intellectual exercise. It means making progress equitable and broad-based, enabling people to be active participants in change and ensuring that current achievements are not attained at the expense of future generations. Meeting these challenges is not only possible—it is necessary. And it is more urgent than ever.

Key to countries

2010 HDI rank and change in rank from 2005 to 2010

Afghanistan	155	↑	1	El Salvador	90		Mali	160	↑	2	Switzerland	13			
Albania	64	↓	1	Equatorial Guinea	117	↑	1	Malta	33	↓	3	Syrian Arab Republic	111	↓	3
Algeria	84	↑	1	Estonia	34	↓	3	Mauritania	136			Tajikistan	112		
Andorra	30	↑	2	Ethiopia	157	↑	3	Mauritius	72	↓	2	Tanzania, United Republic of	148	↑	1
Angola	146	↑	2	Fiji	86	↓	9	Mexico	56	↓	2	Thailand	92	↑	1
Argentina	46	↑	4	Finland	16	↓	2	Micronesia, Federated States of	103	↓	5	The former Yugoslav Republic of Macedonia	71	↑	1
Armenia	76			France	14	↑	5	Moldova, Republic of	99			Timor-Leste	120	↑	11
Australia	2			Gabon	93	↑	1	Mongolia	100	↑	2	Togo	139	↓	4
Austria	25	↓	1	Gambia	151	↓	1	Montenegro	49	↓	1	Tonga	85	↓	6
Azerbaijan	67	↑	16	Georgia	74	↓	3	Morocco	114	↑	1	Trinidad and Tobago	59	↑	1
Bahamas	43	↓	3	Germany	10	↓	1	Mozambique	165			Tunisia	81	↑	5
Bahrain	39	↓	1	Ghana	130	↓	2	Myanmar	132	↑	6	Turkey	83	↓	1
Bangladesh	129	↑	1	Greece	22	↑	3	Namibia	105	↑	2	Turkmenistan	87		
Barbados	42	↓	1	Guatemala	116			Nepal	138	↑	5	Uganda	143	↑	4
Belarus	61	↑	1	Guinea	156	↓	1	Netherlands	7	↑	3	Ukraine	69	↓	3
Belgium	18	↓	1	Guinea-Bissau	164	↓	1	New Zealand	3			United Arab Emirates	32	↑	5
Belize	78	↓	9	Guyana	104	↑	1	Nicaragua	115	↓	2	United Kingdom	26	↓	4
Benin	134			Haiti	145	↓	6	Niger	167	↓	1	United States	4		
Bolivia, Plurinational State of	95	↓	3	Honduras	106			Nigeria	142			Uruguay	52		
Bosnia and Herzegovina	68	↓	4	Hong Kong, China (SAR)	21	↑	2	Norway	1			Uzbekistan	102	↓	1
Botswana	98	↑	2	Hungary	36	↓	1	Pakistan	125	↓	2	Venezuela, Bolivarian Republic of	75	↑	3
Brazil	73			Iceland	17	↓	10	Panama	54	↑	4	Viet Nam	113	↑	1
Brunei Darussalam	37	↓	4	India	119	↑	1	Papua New Guinea	137			Yemen	133	↑	8
Bulgaria	58	↓	1	Indonesia	108	↑	2	Paraguay	96			Zambia	150	↑	1
Burkina Faso	161			Iran, Islamic Republic of	70	↑	10	Peru	63	↑	4	Zimbabwe	169		
Burundi	166	↑	1	Ireland	5			Philippines	97	↓	2				
Cambodia	124	↑	1	Israel	15			Poland	41	↑	3				
Cameroon	131	↓	2	Italy	23	↑	4	Portugal	40	↑	3				
Canada	8			Jamaica	80	↓	6	Qatar	38	↓	4				
Cape Verde	118	↓	1	Japan	11	↑	1	Romania	50	↑	1				
Central African Republic	159	↓	1	Jordan	82	↑	2	Russian Federation	65	↑	3				
Chad	163	↓	6	Kazakhstan	66	↓	1	Rwanda	152	↑	2				
Chile	45	↑	2	Kenya	128	↓	1	São Tomé and Príncipe	127	↓	3				
China	89	↑	8	Korea, Republic of	12	↑	8	Saudi Arabia	55	↓	2				
Colombia	79	↑	2	Kuwait	47	↓	2	Senegal	144						
Comoros	140	↓	8	Kyrgyzstan	109			Serbia	60	↓	1				
Congo	126	↓	4	Lao People's Democratic Republic	122	↑	4	Sierra Leone	158	↑	1				
Congo, Democratic Republic of the	168			Latvia	48	↓	2	Singapore	27	↑	1				
Costa Rica	62	↓	1	Lesotho	141	↓	1	Slovakia	31	↑	5				
Côte d'Ivoire	149	↓	4	Liberia	162	↑	2	Slovenia	29						
Croatia	51	↓	2	Libyan Arab Jamahiriya	53	↑	3	Solomon Islands	123	↓	4				
Cyprus	35	↑	4	Liechtenstein	6	↑	5	South Africa	110	↓	6				
Czech Republic	28	↓	2	Lithuania	44	↓	2	Spain	20	↑	1				
Denmark	19	↓	3	Luxembourg	24	↓	6	Sri Lanka	91						
Djibouti	147	↓	1	Madagascar	135	↓	2	Sudan	154	↓	2				
Dominican Republic	88			Malawi	153			Suriname	94	↓	5				
Ecuador	77	↓	2	Malaysia	57	↓	2	Swaziland	121						
Egypt	101	↑	2	Maldives	107	↑	4	Sweden	9	↓	3				

NOTE

Arrows indicate upward or downward movement in the country's ranking over the period 2005–2010 using consistent data and methodology, while a blank indicates no change.