

1970s. In any event, his proposal received little attention at first from either policy makers or academic economists. In 1978 policy makers were caught up in competitive pressures to deregulate financial and commodity markets, and most mainstream economists, conflating financial with trade liberalization, were egging them on by pointing up alleged efficiency gains from doing both.

More recently, however, worries over destabilizing financial dynamics and loss of monetary-fiscal policy autonomy that had motivated Tobin's proposal have been overtaking the earlier euphoria over the efficiency gains from liberalizing and globalizing of financial markets. The greater rapidity and lower cost with which global markets can now exchange assets and hedge individual risks have been paralleled by efficiency losses as measured by more socially relevant welfare criteria. The performance of the world economy has worsened in each successive decade since the 1960s as regards the global growth of output, trade, investment, and employment, and the domestic and international distribution of income. The October 1987 Crash motivated prominent economists to propose taxes on transactions in domestic financial assets to dampen financial volatility and reverse the excessive absorption of human and physical resources in financial speculation.² The "efficient market hypothesis," on which many economists had based their theoretical case for decontrolling financial markets, is being widely rejected by mainstream economists on both empirical and theoretical grounds. Following the successful speculative runs in September 1992 which virtually demolished the EU's Exchange Rate Mechanism, the influential free marketeering *Economist* concluded an accolade to Tobin's 1978 article with the observation that "lately, one imagines, a good many government economists have been dusting down their copies of that article."³ Even prominent international bankers, such as Wilfried Guth of the Deutsche Bank and Alexandre Lamfalussy, long-time General Manager of the Bank for International Settlements, are viewing free capital mobility as incompatible with free trade.⁴

These concerns have focused chiefly on the disruptive impact of free capital mobility on the advanced industrial economies. But the impact tends to be even more pronounced on the less-developed countries (LDCs). Their less flexible productive structures adjust more slowly to "real" shocks than do those of the industrialized countries, and their thinner financial sectors absorb financial shocks with more difficulty. As the governments of LDCs are even less able than those of the industrial countries individually to offset perverse capital movements with conventional monetary-fiscal policies, the contradictions between trade and financial liberalization are intensified for the LDCs.

Thus many Latin American countries are currently relying on inflows of hot money to stabilize their nominal exchange rate and slow inflation while they pursue trade liberalization. This has produced increasingly overvalued "real" exchange rates that discourage exports and balloon imports. Financing the growing balance of payments deficits on current account has become dependent on a continual expansion of capital inflows, the likelihood of which diminishes as the deficits keep expanding. But alternatives more compatible with trade liberalization, such as devaluing the real exchange rate, and/or monetary-fiscal tightening to depress aggregate demand, evoke the fear that hot money outflows could re-ignite the explosive devaluation-inflation cycle which stabilizing the nominal exchange rate had damped. Even the East Asian countries, despite their booming exports, are registering discomfort. At the recent meeting of the 18 Asian-Pacific Economic Cooperation (APEC) countries, hot money was high on the agenda, Indonesia's finance minister complaining that "our open capital account leaves us

susceptible to potential disruptions by speculative flows of 'hot money.' Abrupt movements of such funds can disrupt local economies. Indonesia and others in the region are increasingly concerned." The APEC finance ministers accordingly instructed their technicians to jointly review issues and policies regarding such flows.⁵

This convergence of advanced country and LDC concerns is creating a window of opportunity for proposals directed at curbing international financial volatility. A Tobin tax proposal entered formally into the international policy arena by, say, the United Nations, can no longer be peremptorily dismissed as addressing a non-problem. But while a Tobin tax, as argued later in this paper, is probably superior on various counts, including technical feasibility, to alternative proposals that have been floated, getting it formally into the policy arena involves overcoming a "bell the cat" obstacle. The financial sectors that have fattened on globalization have also grown stronger political claws. Academics run little risk in proposing measures directed at reducing some of the fat, but politicians do. So do career-minded economists and technicians of government agencies and international institutions like the IMF and the World Bank with financial sector links and a strong ideological commitment to full-scale market liberalization.

Thus recent IMF and World Bank studies, while highlighting various perverse aspects of financial globalization and their threat to global economic stability, nevertheless ignore or dance around proposals to tax financial transactions. They fall back, instead, on vague exhortations for broad-scale international coordination of tax, expenditure and monetary policies to tranquilize financial markets. In this they are evidently submitting to the IMF's party line as reiterated recently by its Managing Director, Michel Camdessus, in an address honoring the 50th anniversary of Bretton Woods.⁶ In it M. Camdessus begins by acknowledging that "exchange rate volatility hinders international trade and investment" and that the ability of official intervention to contain the volatility is very limited, but then goes on to urge that the Fund's Articles of Agreement be revised to require members to make their currency freely convertible for all capital as well as current account transactions, with the IMF to oversee compliance. The purpose of the revision would be to "lock in the freedom of capital movements already achieved and encourage wider liberalization." The United Nations, relatively untrammelled by such tight ideological inhibitions, thus seems best situated to "bell the cat," i.e., to get the Tobin tax proposal into the policy arena.

The remainder of this paper elaborates on the tax proposal by responding to questions and issues submitted by the HDRO. Many of the answers are necessarily tentative, but I hope they are of some help.

II. Responses to HDRO Questions Concerning the Feasibility of a Tobin Tax

A. How consistent is the Tobin tax proposal with free trade or free capital movement theory?

My short answer is that the proposal is quite compatible with free trade, but that free capital movement is not compatible with free trade. Since the latter was also the view shaping the Bretton Woods Articles of Agreement, and, as indicated above, is now once again on the rise, a comparison of the Bretton Woods monetary regime with the flexible exchange rate-free capital

mobility regime that took over in the 1970s is a useful way of expanding on the answer and its theoretical and empirical basis. The focus is on the experience of the industrialized market economies, primarily because they hold the reins as regards prospects for the adoption and implementation of a Tobin tax. As indicated above the incompatibility between free trade and free capital mobility is even deeper for the structurally weaker LDCs.

To the designers of the Bretton Woods regime, exchange rate volatility, hot money flows and international liquidity crises helped fuel the rise of protectionism and the collapse of multilateral trade during the interwar period.⁷ They saw fulfillment of the basic goal of Bretton Woods — the restoration of a multilateral trading world moving toward free trade — as requiring an international monetary and exchange rate regime that would prevent a reoccurrence of the interwar turbulence.

Accordingly, participating nations were asked to peg the par value of their currency unit either to gold or the U.S. dollar and to make their currency freely convertible at the par rate for current transactions. The newly created IMF was to be the central coordinating institution, overseeing member compliance and the orderly adjustment of par rates that had fallen into "fundamental disequilibrium." In fact, only the U.S. pegged its currency to gold; the other members pegging to the dollar. But since the U.S. declared the dollar convertible to gold in official international transactions, the Bretton Woods exchange system was in effect a limited gold exchange system. The IMF was also to serve as the international lender of last resort, providing emergency finance to assuage liquidity crises.

The IMF's powers proved asymmetrical. It was able to pressure small economies but not the large ones, and its resources were too meager for it to function as the primary international lender of last resort. That task fell de facto to the United States. Possessed at the end of the war of about two-thirds of the world's monetary gold, over half the world's industrial capacity, and running enormous current account surpluses, the U.S. was able to perform the task easily in the first post-war decade.

However, the Cold War and decolonization in the 1950s made funding overseas military buildups and foreign aid crucial instruments of its Pax Americana foreign policy, so that the aggregate of grants and capital outflows began outpacing the current account surpluses at an increasing rate. By the early 1960s Pax Americana outlays, the surge of U.S. foreign direct investment sheltered by the Pax Americana umbrella, and diminished current account surpluses due to export competition from a revived Europe, were raising the stock of foreign owned dollars to levels that dwarfed U.S. gold reserves. Persuaded that the dollar was no longer as good as gold, speculators began driving up the price of gold in the private gold market to well above the official \$35 per ounce. That tempted various central banks loaded with dollar reserves to begin exchanging them for official U.S. gold, anticipating that the U.S. might be forced to raise its official gold price.

With the gold stock shrinking and the expanding Vietnam misadventure further augmenting foreign dollar surpluses, U.S. policy makers in the late 1960s were seriously confronted for the first time in the post-war with unpleasant policy tradeoffs. Allaying balance of payments pressures and protecting the gold exchange commitment now required strengthening the current account balance, with monetary-fiscal tightening, retreating on capital and trade liberalization, or cutting back Pax Americana outlays.

After some dithering, the decision was instead to abandon the gold commitment. The dollar, and thus the Bretton Woods regime, was cut loose from its gold anchor in the early 1970s, and with that the official commitment of IMF members to defend their par exchange rates faded out. Superceding the fixed exchange rate regime was an informal regime of largely market-driven fluctuating exchange rates.

The theoretical case for such a regime had been put by Milton Friedman when Bretton Woods was still in its salad years. In a provocative 1953 paper, Friedman asserted that a flexible exchange rate regime with free capital mobility offered the following advantages over the regnant Bretton Woods fixed rate regime:⁸

1. Allowed to adjust freely, exchange rate movements will act as shock absorbers, insulating each economy from disparate external monetary trends, thus strengthening the capacity of each economy to pursue independent monetary-fiscal policies.
2. This is because the nominal exchange rate and the price level will move in opposite directions, minimizing the short-term volatility of the real exchange and interest rates.
3. Speedy incremental exchange rate adjustments would discourage massive speculating on the exchange rate.
4. Long term capital flows will cause real interest rates to converge globally, optimizing the global allocation of physical capital.

By the end of the 1960s, the Friedman position had become dominant among mainstream U.S. economists, who encouraged the shift among the industrialized countries and LDCs toward flexible exchange rates and the lifting of capital controls and regulatory barriers to free capital mobility that followed the demise of Bretton Woods. The consequences, however, have been generally unkind to that position. Virtually none of Friedman's predictions materialized, neither improved allocative efficiency, reduced macroeconomic instability, nor greater national autonomy over monetary-fiscal policies.

Empirical studies have identified only two clear-cut efficiency gains. The bid-ask spreads on deposits in different Eurocurrencies have narrowed and financial arbitraging has been eliminating with rapidity small differences in the exchange-rate adjusted price of short-term debt instruments of comparable maturity and risk. In the jargon of finance, covered interest parity has usually prevailed on short-maturity instruments of the G-7. However, the forward rates in the currency futures markets that sprang up with fluctuating exchange rates have proved to be very poor predictors of future spot rates. Rather, exchange rate volatility has been intensified by international speculation in financial assets with a penchant for self-reinforcing "herd behavior." Real exchange rates and real interest rates have therefore oscillated, at times violently, with no sustained tendency for real interest rates to converge internationally.⁹

Volatility and financial market deregulation has encouraged the design of new financial instruments and other financial innovations at an accelerating pace to transfer the enhanced risks and exploit the profit opportunities. The contrast with the Bretton Woods years is striking, as is indicated by the following Table.

Deregulatory Measures and Financial Innovations in the G-7 Countries Since 1950	
Interval	Number
1950-59	2
1960-69	5
1970-79	9
1980-83	20
1984-86	41

Source: Julian Walmsley, *op.cit.* Table 1.1.

The pace continues high since 1986. Thus most of the boom in derivatives has occurred since 1986, their notional value reaching \$1.6 trillion in 1987 and \$8 trillion by the end of 1991.¹⁰

The innovations add to as well as defend against financial volatility. Walmsley writes:

A more controversial feature of the new shape of the financial system is that the bulk of its participants now have a vested interest in instability. This is because the advent of high-technology dealing rooms has raised the level of fixed costs. High fixed costs imply a high turnover is required for profitability to be achieved. High turnover tends to occur only when markets are volatile. The analysts at Salomon Brothers...put it clearly: 'Logically, the most destabilizing environment for an institutional house is a relatively stagnant rate environment.'¹¹

The Table, however, helps explain why Tobin's tax proposal made little splash initially. The pace of financial innovating was just picking up in the 1970s, as was also the pace of foreign exchange transacting. By the mid-1980s the daily turnover on foreign exchange markets worldwide had reached about \$150 billion, and by 1992 about \$1 trillion, with only five percent related to trade and other "real economic transactions."¹² But in 1978 the daily turnover was as yet merely in double digit billions, and it was still plausible to supporters of the Friedman case to rationalize the rising financial turbulence accompanying the shift from fixed to flexible exchange rates as a passing reaction to severe exogenous supply shocks, notably the OPEC oil shock.

In addition, the view then widespread among economists, that financial markets were inherently efficient, led many to reject Tobin's contention that because "goods and labor move in response to international price signals much more sluggishly than fluid funds, and prices in goods and labor markets move much more sluggishly than the prices of financial assets, including exchange rates" it was desirable to slow the reaction time of financial markets. Financial markets, they contended, were efficient information processing institutions. When allowed to operate freely their continual revaluing of asset values provided the best available price signals on which to base long-term resource allocation. The 1970s volatility merely reflected efficient financial markets at work, bidding up Texas real estate, transferring surplus OPEC revenues to capital-short LDCs, and in general moving asset prices and resource allocation to new equilibria as required by the OPEC oil shock.

The efficient market theory has a strong and a weak version. In the strong version market agents know the "true model of the economy," i.e., its underlying structure and dynamic processes, and therefore where asset prices will ultimately settle when exogenous shocks hit the economy. These shocks, which include "policy surprises," i.e. interventionist economic policies, initiate volatility, while speculators are merely socially useful arbitrageurs who, by exploiting transitional differences between the current and the equilibrium asset prices hasten the convergence toward equilibrium values.

However, the crucial premise of the strong version, that economic agents know the "true model" and act primarily on that knowledge collapses under scrutiny. Decisions are unavoidably made on incomplete information, because neither the market nor any other social institution can provide the relevant information needed to make riskless choices, or to ensure against all possible future contingencies. Agents must form subjective judgments about the future, i.e., about equilibrium values, a.k.a. "fundamentals," to fill in the information gaps, in which the analysis of past and current behavior necessarily plays a central role. A rational agent also knows that contrary judgments and degrees of confidence in those judgments by others can in the aggregate drive actual asset prices away from his particular vision of equilibrium values.

Two crucial corollaries follow. Volatile capital markets induce agents to try to reduce the risk of loss by taking shorter-term positions for which more hedging instruments are available. Since this increases turnover and makes financial innovating more profitable, the aggregate effect is to draw more human and physical resources into finance while deterring real capital formation.¹³ Secondly, agents are induced to give more credence to their assessments of the thinking and behavior patterns of other market players than to their own views on fundamentals. Chartism, which concentrates primarily or even solely on plotting past market behavior as a guide, tends to become the preferred strategy. Thus recent surveys of London foreign exchange dealers show that over 90 percent rely on charting in taking short-term positions and that the chartists have consistently outperformed econometric models in forecasting the dollar-sterling exchange rate.¹⁴ But such individually rational strategies can produce in the aggregate irrational results, such as increased volatility from "rational bubbles" and abrupt deflation of asset prices, which then further encourage financial innovating and shortened investment horizons.

The weak version is a grin without the cat version of efficient market theory. Agents don't know the "true model" and are prone to speculative excesses, but government interference in markets to check the excesses will typically be so clumsy and ill-timed as to backfire. Government failure dominates market failure. The weak version thus retains the laissez-faire policy stance of the strong version but from a lesser of two evils perspective.

However, even central bankers and finance ministers who may exult in the Reagan dictum that "the government is the problem not the solution," make an exception for financial markets, recognizing that they are vulnerable to system-wide liquidity crises originating in breaks in the complex chain of mutual payment obligations characterizing such markets. The panicky rush for liquidity in such crises can collapse asset values and block normal credit lines, converting the liquidity squeeze into an insolvency crisis with devastating consequences for output and employment. To allay such crises, monetary authorities must be ready to intervene as lenders of last resort, supplying liquidity, guaranteeing payments, and even closing asset markets as needed.

With financial liberalization and the globalization of financial markets has come an increasing incidence of global crises. The IMF has identified nine crises of global or near-global scope between 1970 and 1989, six occurring in the 1980s, all but one of which evoked central bank intervention, usually joint, to halt the spread of financial distress.¹⁵

Critics point out that such protective intervention has a negative feedback, that may account for the increasing incidence of such crises. It may have encouraged large financial institutions that have led the move toward globalization to pursue riskier strategies, confident that to the authorities they are "too big to fail". But since systemic financial blowups are not ruled out by the weak version of efficient market theory, the moral hazard spinoff from crisis intervention does not suffice to cement the case for non-intervention. Rather it can be viewed as requiring that protective intervention be balanced by strengthened controls against financial excesses. This has become the view of the central banks affiliated with the Bank for International Settlements, who have been engaged in a competitive regulation-innovation game with their private banks. Since the Herrstat crisis of 1974, a succession of Basle Accords between the central banks has coordinated tighter prudential banking regulation in the major industrial countries, while private banks have worked to weaken the impact through evasive financial innovating. Thus a recent IMF report urges further regulatory tightening, warning that the aggressive pursuit by U.S., British and Japanese banks of loan securitizing and other off-balance sheet transactions that bypass recently augmented capital adequacy requirements are causing "a growing opaqueness of the financial system," making it increasingly difficult for supervisory authorities "to assess fully the risk exposure of the entire consolidated balance sheet of financial institutions....Indeed, it is widely recognized that without reforms in financial policy and close attention by central banks, the new financial system could resemble a new high-speed train attempting to run on old, ill-maintained tracks."¹⁶

Thus on both theoretical and empirical grounds the Tobin tax proposal may be an idea whose time has come.

B. Will it have any adverse effects on international trade as well as national and international capital markets?

The preceding discussion shows that international trade and long term international investment would benefit from less exchange rate volatility and perverse trends of the real exchange rate, and that this view is now widely held. An obvious qualification is that stabilizing mechanisms must work and the costs and other negative side-effects of operating them should not exceed the gains from stabilization.

There are broadly three approaches to such stabilization, of which the imposition of licensing and quantitative restrictions on FOREX transactions can be ruled out as destructive of multilateral trade. Of the remaining two approaches now being suggested, one is for the industrial market economies to agree on a specific structure of exchange rates and to commit to keeping them at their assigned values, or within narrow bands around those values, adjusting their domestic monetary, fiscal, labor and social policies as needed to fulfill the commitment. The other approach is to tax financial transactions unilaterally or in concert so as to raise the cost of moving funds for short-term speculation. The Tobin tax proposal is a variant of this.

Stabilizing exchange rates by agreement is the Bretton Woods grin without the cat. Under

Bretton Woods, stability depended on the U.S. performing as global economic hegemon, anchoring the exchange rate structure by its fixed price gold exchange commitment and supplying emergency liquidity to weaker economies in the throes of foreign exchange crises. As the world's leading international debtor, the U.S. appears no longer willing or able to assume that hegemonic role today. Replicating Bretton Woods would thus require hegemony by committee: the close coordination of domestic policies and international actions by at least the

Big Three — U.S., Japan, and Germany — an unlikely prospect for the foreseeable future. Even M. Camdessus, who is now urging a return to pegged rates, admits that the major industrial powers are "lukewarm" toward subordinating other national objectives shaping their economic policies to the needs of exchange rate pegging.¹⁷ Nor is it clear how he reconciles his advocacy of further capital market liberalization with his support for pegged exchange rates. To defend fixed exchange rates against the enormous global volume of funds now available for speculative attacks could require coordinated monetary-fiscal tightening on a scale that would vitiate the stimulus to foreign trade and investment from stable exchange rates.

Taxing financial asset transactions is a more modest approach, with the more modest objective of merely reducing volatility. Two different versions have been floated, each based on the assumption that a small ad valorem tax on the sale or exchange of a financial asset will reduce the rate of turnover of the asset, which will reduce price volatility. Recent proponents of a STET (security transfer excise tax) focus primarily on excessive turbulence in the U.S. markets for equities and debt instruments; they would apply the STET to the sale of equity shares, bonds, options, etc. Foreign exchange transactions are not singled out as such, but since the STET would also apply to domestic asset transactions by foreigners, it would presumably slow their turnover rate as well, thereby reducing the volume of foreign exchange transactions. Conversely, the Tobin tax, though directly applied only to foreign exchange transactions, would have indirect spillover effects on domestic assets markets.

However, the Tobin tax proposal has greater revenue and exchange stabilization potential than the STET proposals. In the STET proposals the tax is set unilaterally by each country, whereas Tobin's proposal calls for a uniform tax by at least the key currency countries. The Tobin proposal is thus largely free of the criticism levied against the STET, that it would tend to shift speculative transactions to tax-free markets elsewhere, reducing the tax yield and the decline of volatility.¹⁸

The Tobin tax has a third important advantage; it would not merely lower exchange rate volatility by making speculation more costly, but would also reinvigorate the flagging capacity of central banks to alter exchange rate trends by buying or selling foreign exchange. In 1985, when the G-5 central banks successfully reversed the prolonged rise of the dollar with concerted dollar sales, the daily volume of FOREX transactions globally was around \$150 billion. In 1992 it had risen to around \$1 trillion and the conventional belief now is that the resources of central banks are no longer adequate for effective intervention. By reducing speculation in FOREX, the tax would also cut down the overall volume of FOREX transactions, which would revive the ability of central banks to intervene effectively.

Would the burden of the tax negate the stimulus to foreign trade and investment from less volatility? Proponents of STETs or a Tobin tax both urge that the tax rate be kept low enough to merely return direct unit transactions costs to around their late 1970s level. The argument is that

the subsequent decline of transactions fees due to electronification and the competitive deregulation of financial markets has encouraged more financial "churning" and diverted more resources to financial pursuits without improving on the earlier growth rates of international trade, real investment and global output. To quote Tobin:

We are throwing more and more of our resources, including the cream of our youth, into financial activities that generate high private rewards disproportionate to their social productivity. I suspect that the immense power of the computer is being harnessed to this 'paper economy', not to do the same transactions more economically but to balloon the quantity and variety of financial exchanges. For this reason perhaps, high technology has so far yielded disappointing results in economy-wide productivity.¹⁹

That is, much of the financial sector's profits from the churning comes from the increased spending by firms engaged in commodity production and trade, who had largely self-insured against the risks from unexpected price movements during the more tranquil Bretton Woods era, on costly financial hedging instruments to offset the higher risks from the heightened post-Bretton Woods volatility. Reducing that volatility would depress the activity and profits of the financial sector by reducing the hedging needs of the productive sector.

As regards the Tobin tax specifically, the prediction is that with a modest tax rate the following social benefits will ensue. Firms engaged in foreign trade and long term overseas investment will incur lower costs on net because of the reduced need to hedge against exchange volatility; they will be encouraged by more stable exchange rates to do longer term investing and lending, and the tax revenue plus the downsizing of the financial sector will make more resources available for socially productive use. Needless to say, there is as yet a meager experience base on which to test the predictions, including the inference that downsizing the financial sector will not cause much transitional disruption of the real economy. We know that the demand for risk-hedging instruments was much smaller during Bretton Woods; e.g., organized currency futures markets first appeared in 1972. And, as indicated earlier, the declining unit cost of exchanging currencies since the 1970s has not led to higher real growth rates of international trade or of global investment and output. Also, as of the end of the 1980s, seven EU and 4 major Pacific rim countries had STETS, tax receipts reaching 0.5% of GNP in Switzerland with no calamitous effects on the Swiss financial sector.²⁰ However, the rates and coverage have varied, and impelled by global deregulatory competition and pressure from the financial sector, the tendency has been to ease up on the terms or abolish STETS rather than coordinate them internationally.

C. What are the practical aspects — legal, legislative, political — of introducing such a tax?

Like other taxes, the Tobin tax would presumably require approval by the legislature of each participating country. As an international agreement, it would probably be submitted as a tax treaty. But legal matters, including how to reconcile the tax with existing tax treaties on double taxation, are for international tax lawyers not economists to assess.

The political aspects have two facets: forging an agreement between at least the major industrial economies to implement a uniform tax, and reaching an accord on the distribution of the tax yield. I will comment on each in turn.

There are, it seems to me, two main forces that could overcome resistance from the financial sectors to being taxed and downsized. One, discussed earlier, is the convergence of interest on the part of both industrialized countries and LDCs in curbing hot money flows and exchange rate volatility. A Tobin tax complements the more ambitious proposals to return to a Bretton Woods mode of fixed exchange rates; it improves their feasibility by strengthening the effectiveness of central bank intervention, a prospect that might bring M. Camdessus and the IMF on board. The other force is the quest by governments, deficit-ridden but intimidated by current anti-tax populism, for new taxes that are not politically suicidal. A tax on foreign exchange transactions may meet this specification, since in U.S. political jargon, it's a tax on "Wall Street" not "Main Street." The titles of two U.S. Senate bills introduced after the October 1987 Crash and the political pedigree of their initiators is illustrative. The *Excessive Churning and Speculation Act of 1989* (S.1654) was introduced by Republican Senators Dole and Kassebaum, while *The Long-term Investment, Competitiveness and Corporate Takeover Reform Act of 1990* (S.2190) was introduced by Republican Senator Ford and Democratic Senators Sanford and Sasser. In each case the objective was to apply penalty taxes on excessive speculation by pension funds. Although neither bill passed, initiating them was evidently safe enough.

On the distribution of the tax receipts, it seems unlikely that the current fiscal tribulations and foreign aid fatigue in the collecting countries would allow the tax receipts to be fully passed along by the collecting governments to either the IMF or World Bank, as Tobin proposed, or to the UN. Nevertheless, the huge volume of foreign exchange transactions today makes even a modest share of the tax receipts a sizeable addition to the financial resources of the international institutions. The following "back of the envelope" calculations, are illustrative of the astonishingly high revenue potential of a globalized Tobin tax. The calculations annualize the \$1 trillion daily volume of global exchange transactions cited earlier, assume that 20 percent would be by governments, central banks and official international organizations and hence tax exempt, that another 20 percent would be private transactions that elude the tax, and that the tax reduces the remaining exchange transactions by half.

Taxable Foreign Exchange	Annual Tax Receipts	
	1.0% tax	0.5% tax
	(\$billions)	
\$1 trillion x 240 trading days less		
20% tax exempts = \$192 trillion		
less 20% evasion = 144 "		
less 50% reduction of trading volume		
= \$72 trillion effective tax base	720	360
50% kept by collecting governments	360	180
Distributed to UN, IMF, & World Bank	360	180

Research is, of course, needed to refine these very crude "ball park" estimates. The \$1 trillion trading volume figure needs more verification. The actual average ratio of official to total exchange transactions needs to be ascertained, as well as the increase in the ratio that would ensue, were the EU countries to move to a single EU currency as called for by the Maastricht Treaty. The reduction of exchange volume from the Tobin tax in the above calculations is a pure guess. It seems unlikely that a 0.5% tax would depress the volume as much as a 1.0% tax. A research group with an appropriate data base and econometric skills should be able to simulate a reasonably plausible range of alternative estimates of the responsiveness of the exchange volume to different Tobin tax rates.

D. What institutional arrangements can one have to mobilize the resources through the Tobin tax and manage it? Can the UN be that institution?

Their crudeness notwithstanding, my "back of the envelope" estimates suffice to illustrate two main points about the Tobin tax. It could be such a large revenue producer that getting even a modest slice of the revenue earmarked for United Nations operations is a goal well worth pursuing. And this could be true even were the World Bank and IMF also assigned slices, provided that the collecting governments were willing to allocate a fourth or more of the tax revenue to international organizations. That likelihood would increase were the three international institutions jointly to mobilize their respective constituencies and lobbying efforts to that end. In initiating a Tobin tax proposal, the UN might consider including in it a tentative distribution of shares between the three institutions so as to help bring the IMF and World Bank on board.

Collecting the tax would be the responsibility of the individual governments, notably the industrialized countries, since most of the taxable FOREX transactions are by their citizens and enterprises. An international board, however, ought to be empowered to oversee the sharing of the tax receipts, report periodically on results, and recommend changes as needed in the tax rate, coverage, enforcement, sharing and other relevant matters.

The board should have representation from the UN, IMF, and World Bank, as well as from the G-5. Whether or not the board is put nominally under the UN's jurisdiction, realistically the fundamental power will devolve, as has been the case with boards of the IMF and the World Bank, to the countries who most pay the piper: the US, the EU and Japan. Moreover, since the 1950s the IMF and the World Bank have been the preferred international instruments of Washington, whereas the more ideologically heterodox UN has until recently been under a cloud and kept on short rations by Washington. With the end of the Cold War, the cloud appears to be lifting, and in the New International Disorder that's followed, the UN has again become an international instrument of choice for Washington and the other industrial powers. Its bargaining power for a share of the Tobin tax receipts is thus considerably strengthened, although my hunch is that an equal share for each of the three institutions is perhaps the most the UN could expect in the current political climate. However, were the climate to become more favourable in the future, the board would be a ready vehicle for initiating recommendations to enlarge the UN's share.

E. What are some of the practical problems in introducing as well as managing such a tax?

Assuming agreement among the major economies on applying a uniform tax and on the distribution of the tax receipts, the main practical problems seem to be the following:

1. *Settling on a rate that offers an acceptable tradeoff between deterring speculation and raising revenue.* There is too little information now to compute reliable tradeoffs, hence the sensible approach would be to agree on an ad hoc initial rate and provide for a corrective mechanism as results come in. A major function of the supervisory board, suggested above, should be to research the experience and suggest rate changes to the participating governments on the basis of that experience. Whatever uniform rate is adopted, however, should be only a floor rate. Countries should remain free to set higher national rates individually to allay severe bouts of turbulence. LDCs are especially subject to such bouts, and we don't yet know to what extent the globalized Tobin tax would reduce their incidence. Currently, for example, Chile and Colombia have imposed transactions taxes at rates that, I believe, are higher than Tobin's suggestion of 1.0%, in order to stave off disruptive hot money inflows.

2. *Collection and evasion problems.* Since large international banks do most of the handling of foreign exchange transactions, be it trade finance, interbank deposits, swap agreements between transnational companies, hedge fund speculation, etc., tax collection should at least initially be quite manageable. The banks are few in number, and are required now to keep close records of their transactions for the bank regulators and tax authorities. Over time, evasive innovation could become more of a problem. Transnational companies could devise intra-firm accounting gimmicks to transfer funds, transactions could be shifted to offshore tax havens, etc. Would the tax loom large enough for these institutions to incur the cost and risk of such evasive activity on a substantial scale? Quien sabe? Another function of the supervisory board ought to be, therefore, to assess whether evasion is becoming too prevalent, and if so, to suggest remedial action by the collecting authorities.

F. What recommendations can be made to the World Summit for Social Development for implementing the Tobin tax, generating the fund, managing it and using it for human development and human security?

Given foreign aid fatigue, there may be few alternative ways of funding the social objectives of the World Summit that are as promising as a global Tobin tax. A proposal for such a tax should therefore be put before the Summit for adoption. That would give the Tobin tax proposal a clearer moral dimension to reinforce its materialistic economic rationale, which should increase its prospects of adoption at least somewhat.

The proposal presented to the Summit should, however, provide more precise revenue estimates than I've been able to offer. This could easily be done in time for the Summit by a research group that has access to and has worked with international financial data. I suggest contracting with the UNCTAD economists for this research. They have been doing excellent analyses and reporting on international trade and finance, and, in contrast to IMF or World Bank economists, are sure to be appreciative of the proposal and its purpose. In addition, it would be advisable to get a legal expert to assess and perhaps help shape the international tax treaty aspects of the Tobin tax proposal.

Footnotes

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⁵William Murray, "U.S. and 17 Countries Meet to Tackle Finance Issues of Asia's Infrastructure," *The Wall Street Journal*, March 21, 1994.

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¹³Tobin stresses this in his essay, "On the Efficiency of the Financial System," *Lloyds Bank Review*, July, 1994. See also Stiglitz, *op.cit.*, for a more extended theoretical treatment.

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¹⁷Kenneth Bacon, "IMF Chief Urges Changes to Promote Stability in Currency-Exchange Rates," *The Wall Street Journal*, June 8, 1994.

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**Change: Social Conflict or Harmony?
Results of a Stockholm Roundtable**

The roundtable was held in Stockholm, Sweden, on 15-16 October 1991. It was organized by the Swedish Institute for International Peace and Conflict Resolution (SIPACR) and the Swedish Institute for International Law (SIL). The participants included representatives from various countries and organizations, including the United Nations, the World Bank, and the International Labour Organization (ILO). The roundtable focused on the theme of social conflict and harmony, and the results of the discussions are presented in this paper.

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The views expressed in this paper are those of the participants at the Roundtable and should not be attributed to UNDP.

Preface

The United Nations Development Programme's Development Study Programme sponsors annual "roundtable" meetings at which experts in a variety of fields have an opportunity to exchange views on a particular development topic.

This year, the Study Programme and the Government of Sweden co-sponsored one of these roundtables in Saltsjöbaden, just outside of the Swedish capital of Stockholm. The issue presented to the experts at this roundtable was "Change: Social Conflict or Harmony?"

The point of the roundtable was to look at several of the major problems that are afflicting virtually every country today and to propose solutions. These problems include poverty, unemployment and social disintegration. These three problems will also be the focus of the World Summit for Social Development, which the United Nations will sponsor in Copenhagen in March 1995. Through this report, many of the recommendations made by the participants at the Stockholm Roundtable are being submitted to planners of the Copenhagen summit for discussion. This report includes a summary of the participants' recommendations and an analysis of some of the key issues (See Annex I for the roundtable's agenda).

Participants included top officials of United Nations agencies, senior government officials, development experts, journalists, social scientists, students and members of the business community (see Annex III for a list of participants).

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Summary

Despite many advances in human development over the past 50 years, a large unfinished agenda of human deprivation challenges humanity in the 21st century. Global poverty is worsening, unemployment is on the rise, and people are increasingly turning against their neighbors in brutal ethnic conflicts.

And with these problems come other social problems: crime, violence, disease, pollution, environmental destruction and the total breakdown of governments and institutions like the family.

Never before have people had so much knowledge and information at their disposal. But unfortunately, the international community has failed to fully use this knowledge to improve the human condition. Meanwhile, each day, another piece of the planet sinks into chaos, despair and desperation. And behind every failed state, there is a failed development process.

The international community must reverse this trend before any more societies collapse. We must make better use of our knowledge and other resources to tackle social problems before they occur and to fix the problems that have already erupted. Time is of the essence.

The United Nations is sponsoring a World Summit for Social Development, which will take place in Copenhagen in March 1995. There, delegates from all countries and major international institutions will join forces to formulate an urgently needed strategy for curing some of the world's major social ills.

To help the global community prepare for the summit, UNDP, in association with the Swedish International Development Agency, invited experts from all over the world to discuss in a Stockholm Roundtable from 22 July to 24 July, 1994, the magnitude and causes of rising unemployment, worsening poverty and social decay. They were also asked to propose possible solutions to these problems.

A major cause of many of today's problems is underdevelopment. Observers in the 1970s agreed that to eradicate underdevelopment, the international community needed to promote economic growth *and* social reform.

But in the 1980s, development thinking changed. Many experts believed that economic growth should be a prerequisite for economic growth. *After* growth was under way, social progress would follow naturally. The results of this approach were devastating: many countries are worse off today than they were decades earlier, and social problems are intensifying.

There has been a renaissance in development thinking: there is an increased recognition that development requires a *balance* between economic goals and social goals. Without this balance, long-term development cannot occur and progress in meeting social goals will never be sustained.

Poverty

More than 1 billion people live in absolute poverty, and most of the poor live in the developing world. Until recently, poverty was narrowly defined as low income. Today, it is more broadly defined to include factors such as social status, physical strength and power. Any strategy for eliminating poverty must therefore be based on this broader definition.

Governments and international organizations must both be involved in the fight against poverty. The list of necessary actions is long. For governments, the list includes a need to establish or strengthen social safety nets, basic education, especially for women, easier access to health care, and justice systems that benefit the poor as well as the rich. In particular, gender empowerment should be used as the vanguard in the fight against poverty. For the international community, the list includes innovative ways of raising resources, such as taxing international currency transactions to finance programs that will aid the poor, relieving countries' debt burdens, which have contributed to poverty, and establishing and enforcing global social standards for transnational corporations, which have become important players in the international development arena.

Unemployment

The ranks of the unemployed are growing in most parts of the world. And the nature of the workforce is changing rapidly, with more and more women entering the job market and with people moving to cities to look for work.

Causes of unemployment include misguided government policies that have discouraged the generation of jobs, heavy national debt burdens that have fueled inflation and resulted in recession, and limited growth in the industrial countries.

Preventing or reducing poverty and social disintegration requires determined national efforts and concerted international efforts to achieve full employment.

Governments must create an "enabling environment" for job growth and the growth of other income-earning opportunities. They must also take steps to fully use their human resources in a way that ensures macroeconomic stability.

The international community must dismantle protectionist trade policies that impede economic growth in developing countries, reduce the debt burdens of the poorest countries, and commit the industrial countries to guarantee a minimum overall growth rate of between 3 percent and 3.5 percent.

Social Integration

The social fabric of rich and poor countries is weakening. As a result, some nation-states are disintegrating. Ethnic, religious and cultural rivalries are tearing countries apart. The causes — and the effects — of global social disintegration include discrimination against minorities, the low status of women, poorly educated populations, drug addiction, crime, juvenile delinquency and diseases such as AIDS.

Widespread slow economic growth, declines in incomes and living standards, and mounting unemployment have contributed to social disintegration. Progress toward social harmony can only be achieved through extensive socio-economic and political reforms.

The necessary reforms are numerous, complex and may be difficult to implement. These reforms might include government policies that promote tolerance and solidarity, educational reforms to stimulate values of acceptance and togetherness, and international support for change.

Human Security

When the United Nations was established in 1945, its charter stated that international peace could be achieved only if human security could be guaranteed for everyone. "Human security" refers not only to protection from international enemies, but even more to protection from unemployment, poverty, crime and disease.

One way to develop human security is through sustainable human development. This type of development is people-centered. It generates economic growth but distributes its benefits equitably. It regenerates the environment instead of destroying it. It empowers people rather than marginalizing them. And it gives priority to the poor, enlarging their choices and opportunities.

Governments and international organizations must work together to forge global human security. To reach this goal, governments should establish goals for reducing poverty and reduce mindless investments in weapons and increase judicious investments in people. The international community must renew its commitment to the original human-security-building goals of the United Nations, rethink structural adjustment programs so they do not hurt the poor, and set up an early-warning system to identify areas where human security is at risk.

Governance

Governments have an important role to play in promoting employment, eliminating poverty and making societies more cohesive.

Part of that role involves encouraging people's participation in the decisions that affect their lives. When people feel that governments are responding to their needs, better, more stable, systems of governance can evolve. And these systems will be better equipped to face the challenge of generating economic growth and enabling a fairer distribution of wealth. Research has shown that countries that are performing the best are the ones that have assigned a priority to a liberal; investment in the education and health of their people.

The international community can help improve governance by reformulating aid policies so that they help meet long-term development objectives. Meeting these objectives means more attention to meeting "human development" objectives through better education, health, nutrition, basic water and sanitation and family planning.

Introduction

The pendulum of development thinking swings back and forth.

In the 1970s — and even earlier — many development experts agreed that economic growth alone could not help countries move forward. They believed a balance between economic growth and social progress was needed for development.

But then in the 1980s, development thinking shifted. Many believed that economic growth was a prerequisite for development. Economic growth would then enable countries to meet social objectives.

But now most development experts are returning to the beliefs of the 1970s. Development requires a *balanced and integrated* set of economic, financial and social policies.

The following section provides a more detailed look at this shift in development thinking.

Before the Shift in Thinking

Before the 1980s, the development community generally accepted the view that high rates of economic growth are necessary for achieving social goals like poverty reduction and the generation of jobs. But growth by itself is not enough.

Research has shown that high rates of economic growth were not solely responsible for East Asia's attainment of full employment in the early 1970s. Instead, government emphasis on the full use of the factors of production — especially labor — was the cornerstone of the region's high growth rate. Without development policies geared toward employment, the region would not have experienced 8 percent to 10 percent growth rates. The lesson drawn from East Asia is that the pattern of growth is just as important as the rate of growth.

The pattern of growth depends on governments' choices — choices about which economic sectors should receive support and which population groups should receive special attention. The pattern of growth also depends on the quality of human resources in a country, the degree of balance between regions, and the extent to which people have an opportunity to participate in the decisions that affect their future.

Experience taught the development community in the 1970s that economic growth is effective for achieving social objectives and tackling poverty, but this might take three to five generations. Such a long period would be humanly unacceptable and politically irresponsible.

The 1980s

The lessons learned in the 1970s were all but forgotten in the 1980s. The global recession in the first part of the decade and the debt crisis that began in 1982 resulted in the return to an older development paradigm: first economic growth, then everything else will follow. The idea of a balanced and integrated set of economic, financial, and social policies evaporated. Gone was the idea that economic and social goals were one. Gone was the belief that attaining one goal

without the other would lead to disaster. Development experts seemed to have forgotten that too much emphasis on social goals without sufficient attention to economic goals leads to bankruptcy. They also seemed to have forgotten that too much attention to economic goals without enough attention to social goals leads to unrest and an end to economic growth.

The results of the policies pursued during the 1980s can be seen everywhere. Employment has become a universal problem, unmanaged urban development has reduced standards of living, and education quality has deteriorated. Health services everywhere need restructuring, social security and pension funds (where they exist) are faltering, and economic migrants are coming in increasing numbers to many industrialized countries.

It is more appropriate than ever to say that "poverty anywhere is a threat to prosperity everywhere."

The Challenge

The economic and social problems that emerged in the late 1980s and early 1990s present the development community with a new challenge and require a new development vision. This vision can be captured by the words, "put people first," or perhaps, "poor people first." The participants of the Stockholm Roundtable challenge the delegations who will come to the World Summit for Social Development in Copenhagen next year to have the foresight and courage to adopt these three words as an underlying theme for the summit.

Hundreds of millions of poor people are on a downward slide. And in many of our societies, the poor have been losing their voice. The grim daily realities of the countless poor are rarely seen by the rich and the powerful few. Among the rich, materialism and greed have supplanted the ethics of altruism, service and sacrifice.

"Put people first" would provide new direction for the development community and would help rekindle commitment to a fairer world. These three words should pave the way for the new social agenda at the Copenhagen summit.

The future of political freedom is closely linked to economic prosperity and social progress. Today, the poverty of opportunity, as well as poverty itself, causes widespread suffering and discontent. Individual political freedom in the long run depends on the well-being of people. True economic development must therefore become a peace-building process to alleviate the present poverty of opportunity. Economic development should expand human capabilities, use people's energies and encourage individual initiative and innovation.

Poverty

Participants at the roundtable held lengthy debates about five topics: poverty, unemployment, social disintegration, human security and governance.

About 40 participants joined each debate and made recommendations for addressing these issues (see Annex II for a list of the roundtable's "working groups").

In the debate on poverty, participants asked, "What are the patterns and nature of poverty and what are the political, economic, social and environmental impacts of poverty?" They also asked, "What could be learned from experience and what are the best means for alleviating poverty?"

The Nature of Poverty

More than 1 billion people live in absolute poverty. More than half of these people live in Asia, and about one-quarter of them live in sub-Saharan Africa.

Many live in fragile environments. Most live in rural areas, but the ranks of the urban poor are growing. Most of the poor are female.

Poverty is usually defined in terms of income. But this is only one dimension of poverty. The criterion for poverty should be broadened to include more than income. It should include social status, physical strength, and power. The poor are often socially inferior, isolated, weak, vulnerable to abuse, powerless and humiliated.

A key approach to reducing poverty and deprivation, then, is enabling the poor to freely express their needs. Part of that approach includes encouraging the rest of society to respect and support the poor's efforts to change their living conditions.

Enabling the poor to be better off in their own terms will require actions on many levels, from the micro to the macro. The reduction of poverty and deprivation must be sought through changes in national policies, through the tapping of new resources and through institutional, professional and other changes that will help reach the poor and improve their lives.

National Policies

The poor are everywhere, but mostly in the developing world. Global economic shocks, sudden environmental changes and other factors make the poor vulnerable to even worse poverty. Worsening poverty is reflected in sickness, disability, or loss of assets and livelihoods.

Governments must take a close look at how national policies affect the poor and devise ways to decrease the poor's vulnerability to worsening poverty.

Some forms of structural adjustment are necessary. But too often, structural adjustment has penalized the poor — especially women — in a variety of ways, including declining resources for education and health and the elimination of some subsidies. Governments should provide the poor with safety nets to cushion the shocks of economic transition.

National investments must empower the poor. This means investments that respond to the poor's own vision of their opportunities and their own analysis of their problems. Governments should turn the ownership of these investments over to the poor. This would help ensure that the poor's labor is more productive and would give them a greater chance to improve their own well-being in the long run.

National governance structures make it difficult for the poor to influence decisions that

affect their lives. For example, national legal systems often discriminate against the poor because the poor are unfamiliar with their rights and lack access to legal support.

Global Accountability and Equity

Governments have the main power in promoting global accountability and equity. But we live in a world where governments are increasingly abdicating their power to the market, where transnational corporations act independently and where financial institutions are able to reap enormous profits from monetary transactions on an unprecedented scale.

This trend further impoverishes the poor. This trend must be reversed. International financial transactions and actions by transnational corporations — particularly when they affect the poor — must be made more transparent and accountable. If governments are unable to ensure accountability and equity at the global level, they must empower international institutions — such as the United Nations — to monitor actions and to take steps to protect the poor.

The poorer commodity-exporting countries of the world have been hurt by falling international prices, making it harder for their economies to grow and for them to repay debts. National indebtedness is a drain on national budgets and foreign-exchange reserves and a major cause of poverty. Multilateral debt poses a special problem for countries because current rules prohibit reducing it or writing it off. Finding a solution to these global problems requires urgent research.

Recommendations

The following recommendations apply to both national and global policies.

- A new form of “social conditionality” is needed. This conditionality should be based not on donor edict but on a genuine dialogue between governments and citizens’ groups in the South, the Bretton Woods institutions, aid donors, and UN agencies. The dialogue could result in taxing windfall winners from structural adjustment programs and owners of undeveloped land and in reducing military expenditures. The funds generated could be used to maintain and improve the poor’s access to health, education, clean water and other social services.
- Safety nets should be an integral part of social policy.
- The poor must gain access to fair and effective justice systems, and regulations that penalize the poor should be abolished.
- Women’s access to basic education, skills training, health care, nutrition services, family planning, and “productive resources” and markets should be expanded.
- Assets and security of tenure should be redistributed. This includes rural land reform and urban land security for the poor and fair and equal rights for women.
- Governments should decentralize many activities and introduce mechanisms to increase accountability to the poor. Governments should also strengthen structures of

civil society to aid participation by the poor in national policy decisions.

- The international community should establish and enforce global environmental and social standards for transnational corporations.
- International currency transactions should be taxed (as Nobel prizewinner James Tobin proposed in UNDP’s *Human Development Report 1994*).
- Governments and multilateral creditors should relieve countries’ debt burdens.

Other Recommendations

Institutional, professional and personal changes are essential in achieving the goal of “putting poor people first.” The following recommendations for change will help meet that goal.

- Institutional changes: Development organizations need a culture of participatory management if they are to successfully promote shared and fair development policies. Information must flow freely between all actors. To mount an effective attack on poverty, multilateral institutions need to reduce competition, increase collaboration and devote resources to areas where they have a comparative advantage.
- Professional changes: Putting poor people first requires an overhaul of professional ethics and actions. Development experts must learn from poor people and base actions on the special needs and circumstances of each community.
- Personal changes: Putting poor people first entails changes in individuals’ values, behavior and attitudes. People who have traditionally been in positions of authority must become listeners and learners.

Unemployment

Another group participating in the roundtable looked into the issue of unemployment and sought solutions to this problem which has afflicted practically every country, rich and poor alike.

As the world’s economies have grown increasingly interdependent, global unemployment has risen. Because of this interdependence, we need a global solution to the problem. Without concerted international action, unemployment and its attendant miseries are bound to persist and worsen. This prospect is intolerable.

Unemployment in the 1990s

The employment situation varies by region. In East and Southeast Asia, including China, output and employment have been growing dramatically. In South Asia, absolute poverty is on the decline, but the growth in employment has been precarious; much valuable work pays

workers barely enough to survive. These regions have been relatively successful at boosting employment, but the success is fragile.

But for much of the rest of the world, having a productive, remunerative and reasonably secure job is only a dream. Societies that fail to offer the prospect of this type of job are bound to be socially unstable and economically insecure.

In the relatively rich nations that belong to the Organization for Economic Cooperation and Development, economic growth has resumed. But jobs are growing more slowly than production. And even where unemployment has fallen (as in the United States), the new jobs pay less and are less secure than in previous periods.

Eastern Europe's rapid economic transformation has wiped out many jobs. Subsidies to cushion the impact of job losses require massive government spending, which contributes to inflation and makes the new poor even poorer.

In Latin America, the workforce is changing. The working-age population is increasing, more women are in the job market, and more and more people are moving to urban areas in search of work. Meanwhile, governments are cutting back on the public sector, resulting in fewer jobs. Most new jobs are found in the informal sector.

In the Middle East and North Africa, the population has been growing at a time when oil revenues have been shrinking. Reduced oil revenues mean that governments are no longer able to be employer of last resort, especially for university graduates. This situation is resulting in instability that prevents governments from implementing economic reforms.

The unemployment crisis is fiercest in sub-Saharan Africa, where the population is growing at an unprecedented pace. More than half of all non-farm workers have found jobs in government. But governments in the region cannot afford to hire any more people or raise wages. And structural adjustment programs have failed to result in increased employment.

Employment and economic activity are on the rise in East and Southeast Asia. Here, the state sector is small, labor markets are only lightly regulated, and government policies favor private-sector employers. Manipulated exchange rates have promoted exports. Protectionism — especially in imports like rice — have supported social stability and quality of incomes. Governments in the region have assigned human rights a low priority. But there are signs that social progress is following economic progress in some countries.

Because of its large size, China is a special case. A rush toward economic liberalization has contributed to astonishing and probably unsustainable rates of economic growth and a quick decline in poverty. This progress has been achieved under tight political control, with no concessions to human rights or to the rights of workers.

The countries of South Asia have generally survived the shocks of the oil and debt crises. Nevertheless, they still need to create huge numbers of jobs because more and more women are joining the labor force. Even though many workers in rural areas are moving to cities, employment in agriculture may grow. Meanwhile, governments are reducing restrictions on labor markets to enable many enterprises to become more competitive.

The employment crises in some regions are often the result of government incentives that have distorted the job market and of inadequate government institutions. Some countries, for example, have promoted capital investment, when labor-intensive investments would have been more appropriate.

Another source of employment crises is imprudent government borrowing. Excessive borrowing fuels inflation, and some attempts to curb inflation bring recession.

Meanwhile, monetary restraints in the industrial countries have brought growth to a halt. When growth stopped, the industrial countries cut back on imports, hurting the economies of many countries, particularly ones that export commodities. In an attempt to limit domestic borrowing, governments of the OECD countries raised their interest rates. As a result, interest rates rose everywhere, putting a particularly great burden on the heavily indebted developing countries.

Impact of Unemployment

The painful experience of the Great Depression and the economic decline that led to World War II caused the founders of the United Nations to identify full employment as one of the main pillars of international peace, stability and well-being. But today, the goal of full employment seems to be all but forgotten.

"Jobless growth" is a new phenomenon. Elimination of jobs is now considered an important measure to increase competitiveness. In some of the richest countries, structural unemployment has recently reached record levels.

Three and four decades ago, a normal unemployment rate was between 3 percent and 4 percent. Today, a normal rate exceeds 12 percent. Now it is common to see high unemployment and low wages.

In the past, economists considered unemployment a temporary problem that would be resolved by market forces. But today, this is no longer the case. Instead, market forces are leading to permanent job cuts. The profit-making philosophy of today is that workers should be fired if their termination has no effect on production and sales. New technologies enable companies to produce more goods with fewer workers. Therefore, businesses are posting gains by paring back the workforce. Because of this trend, corporate profits are rising while wages as a percentage of national incomes are falling.

Recommendations

- All governments should commit themselves to full utilization of human resources. Full employment should be the central goal of all economic and social policy. Social integration and the eradication of poverty depend on the expansion of productive and remunerative work, including wage employment, self-employment and employment in cooperative enterprises.
- Governments should explore all alternatives for ensuring full employment with

macroeconomic stability. This means that full employment takes precedence as an objective in policy formulation.

■ Countries need an international economic "enabling environment" to attain goals for expanding productive employment. The main elements for creating this environment include:

- a pledge by industrial countries to coordinate macroeconomic policies to ensure a minimum overall growth rate of between 3 percent and 3.5 percent.
- a dismantling of protectionist policies in OECD countries.
- exclusive allocation of official development assistance to the poorest countries that demonstrate effective use of resources and economic growth with social and gender equity.
- a reduction in the debt burden of the developing countries, especially the poorest ones. This should include forgiveness of officially held debt.
- trade reform in developing countries to promote international commerce and boost trade and investment among developing countries.
- a small tax on international capital movement to help reduce fluctuations in exchange rates stemming from speculative capital movement. The proceeds could fund environmental protection, increased development assistance and debt reduction.

■ Investment should rise to promote higher growth in developed and developing countries. But investment must be backed by a high rate of domestic savings and highly productive capital. The goal is to have employment-friendly growth. A system for reaching this goal includes:

- a foreign trade regime that adopts careful support for infant industries but avoids over-valuation of exchange rates, discrimination against imports, and dependence of import quotas.
- a pricing system that provides reasonable indicators of scarcities and is free of arbitrary controls.
- an economic environment that encourages foreign investment.
- special actions to help sub-Saharan Africa. These actions include building up human capital, improving food production and distribution, establishing a base for export earnings, and diversifying economies.

■ Governments should intervene in labor markets only to make them more efficient and responsive to the needs of the economy. Workers should have access to social protection and everyone should have access to basic education. Governments should emphasize higher education that is of high quality and provides students with technical skills to aid

countries' science-led sustainable development. And, all governments must guarantee certain human rights, such as the protection of children by making child labor unnecessary and illegal, freedom from forced labor, and unrestricted organization of workers. Minimum-wage laws that do not overprice labor should be put in place.

■ Government policies must be designed to unleash people's creativity and energy and enable them to become self-employed or entrepreneurs. This means:

- Increased access to education.
- Access to resources such as land and credit.
- Reduction in regulations that impede entrepreneurship.
- Improved infrastructure, particularly that which enables the working poor and small-scale entrepreneurs to raise their productivity and earnings.
- Improved access by the agricultural sector to productive resources. This sector will have to absorb a significant proportion of the growing labor force. Improved access by the working poor to land would also help boost employment and labor productivity.

Social Integration

Another group of the Stockholm Roundtable participants looked into the issues of social disintegration and ethnic conflicts and considered strategies for making societies more cohesive.

The social fabric of most countries — rich and poor — is weakening. As a result, some nation-states are disintegrating.

People are increasingly abandoning established social values, and a highly materialistic global culture is evolving. A value of competition is replacing values of sharing and cooperation. The pursuit of happiness is more and more defined in terms of money and consumerism.

Ethnic, tribal, religious and cultural differences are polarizing groups within nations. The list of causes and effects of growing social instability is long. It includes discrimination against minorities, inferior status of women, increasing numbers of single-parent households, poorly educated children, juvenile delinquency, drug addiction, disease and crime. These problems easily travel the globe.

Patterns of Social Integration

In a normative sense, social integration refers to improved living standards, social justice and harmonious relations between people. In an analytical sense, social integration refers to patterns of interaction between individuals and groups (these patterns may be unjust or equitable, conflictual or harmonious). But however it is defined, social integration takes place in a framework of institutions, such as families, communities, the workplace, or states. Furthermore,

social integration is deeply embedded in the social, political, and economic processes and structures of societies, nations, and global systems. Therefore, dominant trends in society, politics, economy, technology and culture influence the patterns of social integration.

Put simply, social integration is the degree of real harmony (real means freely chosen, not imposed) that exists between groups in a society. Social disintegration is the degree of negative tension between groups. These groups can be workers and employers, men and women, poor and rich, old and young, black and white or the governed and the governing.

Many forces have influenced social integration. These include the spread of liberal democracy, the dominance of markets, the acceleration of economic globalization, the change in production systems and labour markets, technological progress and the revolution in the mass media and communications.

The past decade has been characterized by widespread slow growth, economic stagnation, or debt crises and sharp declines in production, incomes, employment and living standards. These changes have deeply influenced integration through their impact on the role, responsibilities and capacities of institutions ranging from the family to the state.

Social fabrics are under stress. Families and communities are disintegrating, crime and violence are spreading, drugs and alcohol are being consumed by an increasing number of people, and homelessness, child labor, and prostitution are becoming commonplace. Fundamentalism, xenophobia and racism are on the rise. Ethnic conflicts are growing. Organized crime is taking over many markets. The extreme cases of social disintegration are in a growing number of countries that are suffering from prolonged civil strife. In these countries, infrastructure is collapsing and millions of people are losing their livelihoods. Entire populations are being uprooted. Communities and other institutions are disappearing. The ultimate tragedy is the total collapse of the state and all established institutional authority. The result is an environment of chaos and misery.

In general, the world is characterized by growing unemployment, poverty and inequality; worsening ethnic strife and tensions between groups in society; mounting religious fundamentalism and intolerance; and increasing numbers of uprooted people. A vicious circle is becoming all too familiar: falling gross domestic product, which leads to growing poverty and unemployment, which results in social disintegration, which turns into violence, crime, and religious extremism, which further cuts into gross domestic product.

Progress toward social harmony, solidarity and equality can only be achieved by far-reaching socio-economic and political reform. There are no simple or easy solutions. Reform will be slow and difficult and will require a determined effort by individuals, organizations and social groups.

Recommendations

- In most cases, the initiative for reform must come from within countries but must receive international support. In Africa, for example, some countries require a national and regional "shock" to restructure economies, diversify exports, increase savings and investment rates, or lower fertility rates.

- There are cases where an outside initiative must come first, but this shock should be accompanied whenever possible by national action. This has been the case, for instance, in Central America.

- In some cases, there should be a political shock rather than an economic one. And, external and internal changes must be realized simultaneously. One illustration is the Israeli-Palestinian issue. Another is the dissolution of the former Soviet Union.

- The management of expectations and pluralism is crucial. This is particularly applicable wherever expectations have been suppressed for a long time, as in South Africa. The only viable option in such a case is to set clear intermediate targets. These must be met at any price, so that the people experience progress toward the realization of their expectations and continue to support reforms.

- Managing expectations and pluralism is essential. This is particularly true where expectations have been suppressed for a long time, as in South Africa. The only option is to set clear intermediate targets, which *must* be met.

- The most fundamental change must come from the heart and the mind. We must become more tolerant and respectful, show more solidarity with one another, and halt violence. Respect for human rights, freedom of expression and association, and true justice are the cornerstone of stable societies.

- Countries must develop or procure the skills to manage complex economic and political problems. Care must be taken in hiring foreign experts, who must be highly sensitive and observant.

- Promoting a flourishing civil society will help guarantee democracy and citizens' social and economic rights.

- Institutional reforms at the grassroots, national and international levels are needed to respond to today's complex and overwhelming social problems.

- Discrimination against women must stop. This discrimination is morally wrong but is also a waste of resources.

- Governments should use public policies to promote solidarity and tolerance in multicultural societies. These policies include devolution of power, electoral reforms, and respect for different cultures, languages, and religions.

- Everyone needs to join forces to nurture an ethos and culture of world citizenship. Educational institutions, media and individuals all have responsibilities to expand our moral horizons to include values of solidarity, tolerance and partnership.

- Sometimes harmony may not lead to change. Conflict can therefore be an impetus for positive change.

Human Security

One of the main goals of the Stockholm Roundtable was to contribute ideas and recommendations to the World Summit for Social Development, which will focus on three topics covered in this report: poverty, unemployment and social disintegration. But the Stockholm Roundtable discussed other issues as well. One of these issues was human security.

This issue included security and its multiple dimensions, the changing concept of security, a new paradigm for development and policies to put people first.

The end of the 20th century is near. The new century will mark the end of an era of two world wars and a political conflict that divided the globe for nearly 50 years.

The ineffectiveness of the League of Nations after World War I and the eruption of another world war two decades later highlighted the necessity for an international organization that could ensure international security.

When the United Nations was established in 1945, its charter noted that international peace could be achieved only if human security could be guaranteed for all. Therefore, one of the major goals of the United Nations was to foster peace by promoting social progress and higher standards of living in an environment of freedom.

International security has many components. It involves political *and* human security, which are indivisible. The world cannot be secure unless people are secure in their homes, their jobs and their communities.

During the Cold War, security meant mainly military and political security. The threat of armed conflict between East and West shaped this concept during that period. States sought weapons to protect their security.

Now that the Cold War is over, a new definition of security is needed — a definition that sees peace growing out of development.

Therefore, the international community must return to the original aims of the United Nations charter. The preamble of the charter begins with the words, "We the people." We must put *people* at the center of all our concerns for the future. Our actions must be responsive to the social and economic needs of *people*.

In the final analysis, human security boils down to development of people, by the people, for the people.

Sustainable Human Development

Lasting peace and human security depend on sustainable human development. Sustainable human development is development that not only generates economic growth but distributes its benefits equitably. It regenerates the environment instead of destroying it. It empowers people rather than marginalizing them. It give priority to the poor, enlarging their

choices and opportunities and providing for their participation in decisions that affect them. It's development that is pro-poor, pro-nature, pro-jobs and pro-women.

The world today can be appropriately described as a disaster machine which is fueled by underdevelopment. But regardless of how large the role of underdevelopment in the world's ills, sustainable human development is surely a major ingredient of the cure.

Recommendations

- The goal of the World Summit for Social Development should be to initiate the preparation of fresh blueprints for national and global social contracts that will help achieve acceptable standards of human dignity and well-being. At the national level, this could mean a renewal of the contract between the state and the people to put people first. At the international level, this could mean a renewed commitment to key goals of the United Nations charter: higher standards of living, full employment, social progress and larger freedom.
- The summit should be used as an opportunity to reconsider the roles of the state and the market and the traditional ideas of social safety nets.
- Delegates at the summit should strive for a new declaration of human responsibilities, not just a declaration of human rights. They should also strive for a new system for monitoring progress in maintaining these responsibilities.
- Delegates at the summit should forge a compact in which nations agree to prepare their own strategies to reduce poverty. These strategies should empower people and increase opportunities for productive employment. The nationally developed strategies should become the basis for assistance from aid donors.
- Delegates should recognize the role of civil society and the media in empowering people.
- People should have access to certain types of information as a tool for social change. This information includes national statistics on military spending and the arms trade and details about World Bank-International Monetary Fund lending.
- Delegates at the summit should note the need for an "early-warning system" to identify potential cases of social disintegration. But such a system would be worthless unless the international community can agree on how to respond to the system's alarms. But no matter what, the international community must replace the present system of ad hoc interventions with a standard, universal system for intervention.
- Structural adjustment programs must be changed so they protect human security. Social spending should be the last thing to be cut. Subsidies for the rich should be cut before subsidies for the poor. Delegates at the summit should call for a new "social conditionality" and endorse the idea of "human adjustment loans" by international financial institutions to protect the poor during periods of economic transition.

■ Delegates must also recognize the need for structural adjustment in the industrial countries.

■ Delegates must appeal to the world community to stop mindless investments in arms to judicious investments in people. A global compact could be negotiated to include a 3 percent annual reduction in military spending, a three-year phase-out in military assistance and subsidies to arms exporters, conversion of most arms industries into civilian purposes over a 10-year period, and a ban on shipment of sophisticated arms to poor nations.

■ Rename the summit the "People's Summit."

Governance

Another topic discussed at the Stockholm Roundtable was the role of governance and cooperation in promoting a better society.

New Role of Governments

Up to the middle of the 20th century, most development experts believed that development required an active role for government in boosting the productive sectors, establishing enterprises, subsidizing the private sector, and protecting some industries. These policies resulted in economic growth but failed to improve living standards.

Today, most experts believe that governments should intervene less in areas where markets work efficiently and intervene more where markets cannot be relied upon. This shift does not necessarily mean less governance. It means different or better governance.

In a market-driven economy, governments have the role of creatively and sensitively facilitating, regulating and monitoring growth. Governments should therefore be a hub for a network of social partners who interact for the purpose of policy formulation and implementation.

Government plays a catalytic role in strengthening the knowledge base of a country by improving education and training and stimulating research and development. Government also has an important role in encouraging growth of small businesses, diffusing entrepreneurial skills throughout an economy, and supporting people's participation in the economy.

And in the area of international trade, governments have to improve access for their countries' exports.

Meanwhile, emerging social problems require action by governments—nationally, regionally and internationally.

Finally, governments are responsible for helping their citizens reach their full potential.

Role of the People

The public's participation is necessary for finding policies that encourage global sharing and reduce inequities between groups are essential.

When people feel that governments are responding to their needs, governments will be able to build a more effective system of global governance that will be in a position to take on the challenge of achieving a balance between growth and the fair distribution of wealth.

People are expecting and demanding a more direct role in development decisions and in the international, regional and national institutions in charge of development. In fact, non-governmental organizations are already playing a greater role in the United Nations.

The quest for social innovation presents enormous challenges to development organizations and "knowledge-based institutions." How can they build a global partnership of knowledge and increase developing countries' capacity to participate in decisions? Using knowledge requires people to assume ownership of it.

Disaggregated information flowing around the globe at unprecedented levels is aiding rapid globalization. Therefore, it is imperative for each country to harmonize its interests with others and to gain access to the most current information.

Reorientation of Policies

An important lesson learned from East Asia's success is that lower inequality is not only a corollary but an important contributor to economic growth.

Higher incomes for the poor means they can afford to save and invest, leading to greater human development and higher productivity and growth.

Lowering inequality can stimulate growth by improving social mobility, increase domestic multiplier effects, promote macroeconomic stability, and increase political stability.

A New Framework for Development Cooperation

Now that the Cold War is over, we have an opportunity to replace ideological competition with a new spirit of solidarity and cooperation. We must be careful to avoid a new global divide — between North and South.

Instead of approaching international relations in terms of conflicts between states, we should see them in terms of resolving global problems as people, not as citizens of states. A new framework should be based on the mutual interests of people.

Lessons of Experience

Countries performing the best are the ones that have given priority to the development of human resources: education and health care for both men and women and the disadvantaged.

Development requires investments which require savings and which can be supplemented by aid. Welfare can be extended and maintained only where there is economic growth. And if economic growth is to result in increased welfare for all groups, the economic growth must be redistributed. Aid is no substitute for economic growth in eliminating poverty or improving welfare.

Aid can be extremely important for some countries. But aid — except in emergency situations — should focus on long-term development goals and be supplemented by countries' public and private resources which could be raised through domestic savings. Sufficient capital flows can be created only if resource mobilization is mutual and if private investment is stimulated.

20:20

Resource flows to developing countries are increasingly inadequate. Donors need to make an unambiguous commitment to human development and economic transformation. Part of this commitment might involve earmarking 20 percent of official development assistance for human development programs.

UNDP and UNICEF have proposed a "20:20" proposal, which calls for 20 percent of official development assistance and 20 percent of developing countries' budgets to be allocated to "human priority needs." These needs include primary education, primary health care, basic water and sanitation, nutrition and family planning. This proposal is still being developed.

Some proponents of the proposal believe that it should be seen as only as one important part of a renewed commitment to social development. Others say the 20 percent target should be only a baseline for assistance, not as a minimum expenditure.

Redirection of Aid Policies

A fundamental reassessment of aid policies to support human development is overdue. "Tying" aid to structural adjustment has been counterproductive.

External resources would have a greater impact on development if supported improvements in human conditions and national efforts aimed at democratization, popular participation and transparency and accountability in governance. Donors should make a dramatic shift in international development cooperation to begin channeling resources directly to the people and their organizations, educational institutions, "watchdog" groups, and other institutions.

Reinforcing International Cooperation

The present system of international cooperation is a patchwork of disparate actions dominated by humanitarian and emergency relief. Monetary cooperation has been handed over to an unregulated market that has no responsibility for a stable world economy.

The North-South axis of wealth and poverty is changing. Indeed, the entire concept of North and South obscures the true meaning of development. A more accurate description of the

world today would be a geographically heterogeneous axis of the "included" and the "excluded." The entire language of development needs to be modified.

International development organizations will become irrelevant unless they move quickly beyond their current and narrow preoccupation with demonstrating their own effectiveness.

United Nations: Back to Basics

The United Nations has a critical role to play in promoting social development. Reforming and renewing major international development organizations — the United Nations and the Bretton Woods institutions — must be a priority for the World Summit for Social Development.

The international community must sharpen, clarify and establish priorities for the United Nations' socio-economic agenda (other regional and specialized agencies may be better-situated to handle some issues). Coordination of multilateral field activities is essential, and the growth and involvement of non-governmental organizations development is also important. These organizations are a vehicle for the United Nations to build constituencies in many parts of the world.

An equally important goal for change is to have the major economic powers assume the burden of helping the world's less fortunate people. The United States demonstrated its ability to mobilize international cooperation at the time of the Gulf War. The United States must now show equal resolve to mobilize the North to resolve the problems that plague both the North and the South. The United Nations has fallen into disarray and needs leadership from the United States. One aspect of this leadership is the payment of delinquent financial support for the United Nations.

Recommendations

■ The World Summit for Social Development should give the Secretary-General of the United Nations a mandate to set up a blue-ribbon commission to establish a framework for development in the 21st century. The commission should review the potential for redirecting aid toward specific global objectives, changing the motivations and levels of future assistance, broadening the scope of development cooperation to include trade, investment, technology, and labor. Meanwhile, the international community should consider new methods for raising funds (e.g., the "Tobin tax, environmental permits and taxes on the arms trade) and for restructuring the United Nations in social and economic areas.

■ The United Nations needs a high-level decision-making body to handle issues of social and economic security. Some possibilities include restructuring ECOSOC or creating an Economic Security Council. The Bretton Woods institutions should work under the direction of one of these new social and economic security bodies.

■ The World Summit for Social Development should set up a small (maximum 20 members) advisory group to permanently monitor global progress on social development. The group's annual report should cover progress by governments, transnationals, non-

governmental organizations and other institutions.

- The summit should endorse a 20:20 global compact (described earlier) as a first step in a comprehensive attack on global poverty.

The Media's Perspective

The participants of the Stockholm Roundtable also considered the role of the mass media in aiding development and promoting social cohesion.

A panel of journalists criticized the media for succumbing to commercial and entertainment values and for their growing addiction to sensationalism and violence.

Still, journalists play an important role in alerting the world to crises such as starvation and genocide. The central mission of the media should be to discover and publish the news, no matter who may find it unpleasant or threatening to their own interests. Journalists must remain independent and critical to serve the public interest.

Hopes and Fears of Youth

A group of young people — mostly university students — participated in a panel discussion at the roundtable to discuss their views on development and the goals for the World Summit for Social Development.

The youth of today are the most promising foundation for our common future. Therefore, including youth in decision-making is critical in reaching our goal of human security.

Youth are vulnerable to instability and conflict. They are the first to suffer the effects of poverty, unemployment and social cohesion. They lack opportunities, representation, jobs and rights. At the same time, youth are an increasingly destructive force in societies around the world.

International organizations, governments and communities have a responsibility to face the challenges posed by today's youth. Yet, youth themselves must be agents of positive change and promote concrete grassroots solutions to the world's problems.

Managing social change requires the international community to tap into the energy, idealism, entrepreneurial spirit and intellectual contributions of youth.

Annex I – Agenda: Stockholm Roundtable

Speakers and Panelists
22-24 July 1994

Friday, July 22

INTRODUCTION

Opening Address: **Alf Svensson**, Minister for International Development Cooperation and Human Rights Issues of Sweden

Message to Plenary: **By Boutros Boutros-Ghali**, Secretary-General of the United Nations. Message delivered by **Ismat T. Kittani**, Under-Secretary-General, Senior Political Adviser, United Nations

Welcome Address: **James Gustave Speth**, Administrator of the United Nations Development Programme

Statements: **Samuel R. Insanally**, President of the General Assembly, United Nations
Juan Somavia, Chairman of the Preparatory Committee of the World Summit for Social Development
Helle Degn, Minister for Development Cooperation, Denmark

PLENARY SESSION I Topic: Global Social Development Issues

Panel Discussion: **Princess Basma Bint Talal**, President, the Queen Alia Jordan Social Welfare Fund (Panel Chairperson)
Lourdes Arizpe, Assistant Director-General, Sector of Culture, UNESCO
Louis Emmerij, Special Adviser to the President of the Inter-American Development Bank
Mahbub ul Haq, Special Adviser to the Administrator, United Nations Development Programme
Carl Tham, Director-General, Swedish International Development Agency
David Turnham, Development Centre, OECD

KEYNOTE ADDRESS **Robert S. McNamara**, Former President of the World Bank.

PLENARY SESSION II Topic: Action Agenda for a Better Global Society

Panel Discussion: **Abdul Rahman Al-Awadi**, Executive Secretary, Regional Organization for the Protection of the Marine Environment (Panel Chairperson)

Y. Seyyid Abdulai, Director-General OPEC Fund for International Development
 Kwang Soo Choi, Former Minister of Foreign Affairs of the Republic of Korea
 Ella Cisneros, President, Together Foundation for Global Unity, Venezuela
 Hazel Henderson, Self-Employed Global Futures Researcher, author
 Mats Karlsson, Foreign Policy Adviser, Social Democratic Parliamentary Group, Sweden
 Caroline Moster, Senior Urban Policy Analyst, The World Bank
 Frances Stewart, Institute of Commonwealth Studies, Oxford University
 Ben Turok, Director, Institute for African Alternatives, South Africa

Saturday, July 23

PLENARY SESSION III

Topic: Building Blocks of Human Security—From Rio to Istanbul

Panel Discussion:

Ismat T. Kittani, Under-Secretary-General, Senior Political Adviser to the Secretary-General of the United Nations (Panel Chairperson)
 Nitin Desai, Under-Secretary-General, Department of Policy Coordination and Sustainable Development, United Nations
 Gertrude Mongella, Secretary-General, World Conference on Women, United Nations
 Wally N'Dow, Secretary-General of HABITAT-II, United Nations
 Nafis Sadik, Executive Director, UNFPA

KEYNOTE ADDRESS

Margaret Catley-Carlson, President, the Population Council

PLENARY SESSION IV

Topic: Prospects for Global Human Security

Panel Discussion:

Ide Oumarou, Former Minister of Foreign Affairs, Niger; Former Secretary-General of the Organization for African Unity (Panel Chairperson)
 Alicia Barcena, Executive Director, the Earth Council, Costa Rica
 Hernando de Soto, Chairman, Instituto Libertad y Democracia, Lima, Peru
 Qian Jiadong, Ambassador, China Center for International Affairs
 Lawrence Klein, Nobel Laureate, Professor of Economics and Finance, University of Pennsylvania
 Geertje Lycklamaa Nijeholt, Director, Institute for Social Studies, Netherlands
 Wangari Maathai, Coordinator, the Green Belt Movement, Nairobi

Federico Mayor, Director-General, UNESCO
 Olara Otunnu, President, International Peace Academy, New York; Former Minister of the Republic of Uganda
 John W. Sewell, President, Overseas Development Council, Washington

Sunday, July 24

PLENARY SESSION V

Topic: The Future—Hopes and Fears of the Youth

Panel Discussion:

Miguel de Paladella, Vice President, AIESEC International (Panel Chairperson)
 Karen Ahlborn, Education for Public Inquiry and International Citizenship, Tufts University
 Ingunn Brandvoll, Sales Manager, Peterson Moss A/S
 Karen Hultgren, Fletcher School of Law and Diplomacy
 Katherine Konschnik, Education for Public Inquiry and International Citizenship, Tufts University
 Daniel Mokhosi, Director, Development Strategy Unit, University of Orange Free State
 Joel Rehnstrom, the Fletcher School of Law and Diplomacy
 Marek Skreta, CEMS Programme, Economic University of Vienna
 Sumita Vasudeva, Vice President, AIESEC International
 Robert Zangrillo, Stanford University

Video Presentation:

"Human Face of Security," by Maria Figueroa (et al.), Research Assistant, Development Study Programme, UNDP; Education for Public Inquiry and International Citizenship, Tufts University

KEYNOTE ADDRESS

Maria de Lourdes Pintasilgo, President, Population and Quality of Life Independent Commission; Former Prime Minister of Portugal

PLENARY SESSION VI

Topic: Social Cohesion—The Media's Perspective

Panel Discussion:

Leonard Silk, Former Economics Columnist of the New York Times (Panel Chairperson)
 Hans Bergstrom, Political Editor, Dagens Nyheter
 Brij Khindaria, Committee Member, Society for International Development
 Geoffrey Lean, Environmental Correspondent, Independent on Sunday
 Flora Lewis, Senior Columnist, New York Times
 Charles William Maynes, Editor, Foreign Policy
 Benjamin Pogrund, The Independent, London
 Barbara Pyle, Vice President, Turner Broadcasting
 Eric Rouleau, Former Political Columnist, Le Monde; Ambassador of France

Video Presentation: **Barbara Pyle**, Vice President, Turner Broadcasting

CONCLUDING SESSION

Statement: **James Gustave Speth**, Administrator, UNDP

Reports from
Working Groups:

Group I: **Mahbub ul-Haq**
Group II: **Lourdes Arizpe**
Group III: **Solita Monsod**
Group IV: **Louis Emmerij**
Group V: **Carl Tham**
(Note: See Annex II for topics of each working group.)

Epilogue on
Social Change:

Stephen Lewis, Former Ambassador of Canada to the United Nations
Talat Sait Halman, Former Minister of Culture, Turkey

Annex II

Working Group Sessions

The following working groups met each day between plenary sessions:

- Group I: Topic: Human Security
Chair: **Mahbub ul Haq**, Special Adviser to the Administrator, UNDP
- Group II: Topic: Poverty Alleviation
Chair: **Lourdes Arizpe**, Assistant Director-General, Sector of Culture, UNESCO
- Group III: Topic: Employment
Chair: **Solita Monsod**, Professor of Economics, University of the Philippines
- Group IV: Topic: Social Integration
Chair: **Louis Emmerij**, Special Adviser to the President, Inter-American Development Bank
- Group V: Topic: Cooperation and Governance
Chair: **Carl Tham**, Director-General, Swedish International Development Agency

Annex III – List of Participants

Stockholm Roundtable "Change: Social Conflict or Harmony?"
22-24 July 1994

Y. Seyyid Abdulai
Director-General, OPEC Fund for International
Development, Vienna

Karen Ahlborn
Education for Public Inquiry and International
Citizenship, Tufts University, Massachusetts

Türkan Akyol
Minister of State for Women's Affairs of Turkey, Ankara

Abdul Rahman Al-Awadi
Executive Secretary, Regional Organization for the
Protection of the Marine Environment; Former Minister
of Health and Development Planning, Kuwait

Ishak Alaton
President, Alarko Holding Company, Istanbul

Cynthia Hewitt de Alcántara
United Nations Research Institute for Social
Development (UNRISD), Geneva

Philip Allott
Professor, Trinity College, University of Cambridge,
United Kingdom

Lourdes Arizpe
Assistant Director-General, Sector of Culture, UNESCO,
Paris; former President, Union Internacional de Ciencias
Antropológicas y Etnológicas, Mexico

Jane Armitage
Manager for Labour Market and Social Security,
Education and Social Policy Department, World Bank

Ali Attiga
Former Secretary-General, Organization of Arab
Petroleum Exporting Countries, Amman; former
Assistant Administrator UNDP, New York

Pirkko Aulin-Ahmavaara
Economist, International Labour Organization, Geneva

Lennart Båge
Assistant Under-Secretary, Ministry of Foreign Affairs,
Stockholm

Alicia Bárcena
Executive Director, The Earth Council, Costa Rica

Benjamin Bassin
Ambassador, Ministry of Foreign Affairs, Helsinki

Jacques Baudot
Coordinator, World Summit for Social Development,
United Nations, New York

Robert J. Berg
President, International Development Conference,
Washington DC

Hans Bergström
Political Editor, Dagens Nyheter, Stockholm

Elwil P. Beukes
Professor, Department of Economics, The University of
the Orange Free State, South Africa

Keith A. Bezanson
President, International Development Research Centre,
Ottawa

Rachel Bird
World Times, The World Paper, Boston

Inga Björk-Klevby
Assistant Under-Secretary, Ministry of Foreign Affairs,
Sweden

John Brademas
Chairman, National Endowment for Democracy;
President Emeritus, New York University, New York

Ingunn Brandvoll
Sales Manager, Peterson Moss A/S, Norway

Dieter Brauer
Head of English Service, Deutsche Welle, Köln

Deborah Brautigam
Professor of Economics, International Development
Program, School of International Service, American
University, Washington DC

Ingar Brüggermann
German Foundation for International Development,
Berlin

Sharon Capeling-Alakija
Director, Evaluation and Strategic Planning, UNDP,
New York

Nicholaa Malet de Carteret
Journalist, Representative Brahma Kumaris, World
Spiritual University, London

Margaret Catley-Carlson
President, The Population Council, New York; former
Deputy Minister of Health and Welfare of Canada

Robert Chambers
Professor, The Institute of Development Studies,
University of Sussex, UK

Kwang Soo Choi
Former Minister of Foreign Affairs of the Republic of
Korea, Seoul

Ella Cisneros

President, Together Foundation for Global Unity,
Venezuela

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An agenda for the Social Summit

The world can never be at peace unless people have security in their daily lives. Future conflicts may often be within nations rather than between them—with their origins buried deep in growing socio-economic deprivation and disparities. The search for security in such a milieu lies in development, not in arms.

More generally, it will not be possible for the community of nations to achieve any of its major goals—not peace, not environmental protection, not human rights or democratization, not fertility reduction, not social integration—except in the context of sustainable development that leads to human security.

It is time for humanity to restore its perspective and redesign its agenda. The World Summit for Social Development in March 1995 comes at a time when the world will be celebrating the 50th anniversary of the United Nations—an occasion to review the achievements of the first 50 years and to define the goals for the coming decades.

A world of change

It is easy to lose perspective in today's global uncertainty. As one crisis succeeds another, policy agendas often centre on immediate issues—not the important ones.

It is essential, therefore, to step back a little and to assess the state of affairs in the 50 years since the United Nations was created. What emerges is an arresting picture of unprecedented human progress and unspeakable human misery, of humanity's advance on several fronts mixed with humanity's retreat on several others, of a breathtaking globalization of prosperity side by side with a depressing globalization of poverty. As is so common in human af-

fairs, nothing is simple and nothing is settled for ever. The progress should reassure humankind about its capacity to engineer change, and the present scale of human deprivation should continue to challenge humankind to design a much better world order.

Humanity has advanced on several critical fronts in the past 50 years.

- Most nations have already won their freedom. And the prospects for self-determination have never looked brighter in the few remaining areas, particularly in South Africa and in the Middle East. In the past 50 years, the United Nations family has grown from 51 countries to 184.

- The world is safer today from the threat of nuclear holocaust. With the end of the cold war and the conclusion of several disarmament agreements, it is difficult to recall that so many generations since the Second World War grew up with the constant fear of a sudden, unpredictable nuclear suicide.

- The record of human development during this period is unprecedented, with the developing countries setting a pace three times faster than the industrial countries did a century ago. Rising life expectancy, falling infant mortality, increasing educational attainment and much improved nutrition are a few of the heartening indicators of this human advance.

- While nearly 70% of humanity survived in abysmal human conditions in 1960 (below a human development index of 0.4), only 32% suffered such conditions in 1992. The share of the world population enjoying fairly satisfactory human development levels (above an HDI of 0.6) increased from 25% in 1960 to 60% in 1992.

- The wealth of nations has multiplied in these 50 years. Global GDP has increased

The search for human security lies in development, not in arms

The views expressed in this paper are those of the author and they should not be attributed to UNDP.

*How intelligently
the emerging peace
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sevenfold—from about \$3 trillion to \$22 trillion. Since the world population has more than doubled—from 2.5 billion to 5.5 billion—per capita income has more than tripled.

- There have also been dramatic developments in technology. In 1927, the first transatlantic flight by Charles Lindbergh took 33 hours. Today, the Concorde can fly the Atlantic in about a tenth of that time. And most parts of the world are now immediately accessible by telephone, television or fax. Computers move more than a trillion dollars around the world's financial markets every 24 hours.

- Human ingenuity has led to several technological innovations and breathtaking breakthroughs—from an informatics revolution to exciting space explorations, from ever-new medical frontiers to ever-greater additions to knowledge. Sometimes, human institutions have even failed to keep up with technological progress, so fast has been the pace of advance.

- Global military spending has declined significantly in the past six years, after awesome increases in the previous four decades. How intelligently this emerging peace dividend will be used is now up to policy-makers.

- Between one-half and three-quarters of the world's people live under relatively pluralistic and democratic regimes. In 1993 alone, elections were held in 45 countries—in some for the first time.

This recapitulation of human progress is admittedly selective. But it shows that it is possible—indeed mandatory—to engineer change. Today's anxieties should not be allowed to paralyse tomorrow's initiatives. Nor can there be complacency, since a lengthening agenda of human deprivation still awaits us.

- Despite all our technological breakthroughs, we still live in a world where a fifth of the developing world's population goes hungry every night, a quarter lacks access to even a basic necessity like safe drinking water, and a third lives in a state of abject poverty—at such a margin of human existence that words simply fail to describe it.

- We also live in a world of disturbing contrasts—where so many go hungry, there is

so much food to waste; where so many children do not live to enjoy their childhood, there are so many inessential weapons. Global military spending, despite a welcome decline, still equals the combined income of one-half of humanity each year. And the richest billion people command 60 times the income of the poorest billion.

- Poor nations and rich are afflicted by growing human distress—weakening social fabrics, rising crime rates, increasing threats to personal security, spreading narcotic drugs and a growing sense of individual isolation.

- The threats to human security are no longer just personal or local or national. They are becoming global: with drugs, AIDS, terrorism, pollution, nuclear proliferation. Global poverty and environmental problems respect no national border. Their grim consequences travel the world.

- The same speed that has helped unify the world has also brought many problems to our doorsteps with devastating suddenness. Drug dealers can launder money rapidly through many countries—in a fraction of the time it takes their victims to detoxify. And terrorists operating from a remote safe haven can destroy life on a distant continent.

- The basic question of human survival on an environmentally fragile planet has gained in urgency as well. By the middle of the next century—still in the lifetimes of today's children—the world population may double and the world economy may quadruple. Food production must triple if people are to be adequately fed, but the resource base for sustainable agriculture is eroding. Energy must be provided, too, but even at today's level of use, fossil fuels threaten climatic stability. The destruction of the world's forests and the loss of biological wealth and diversity continue relentlessly.

- Several nation-states are beginning to disintegrate. While the threats to national survival may emerge from several sources—ethnic, religious, political—the underlying causes are often the lack of socio-economic progress and the limited participation of people in any such progress.

Against this background of human

achievement and human distress, we must seek a new concept of human security in the decades ahead. We must seek a new paradigm of sustainable human development that can satisfy the expanding frontiers of this human security. We must seek a new framework of development cooperation that brings humanity together through a more equitable sharing of global economic opportunities and responsibilities. And we must seek a new role for the United Nations so that it can begin to meet humanity's agenda not only for peace but also for development.

A new concept of human security

For too long, the concept of security has been shaped by the potential for conflict between states. For too long, security has been equated with the threats to a country's borders. For too long, nations have sought arms to protect their security.

For most people today, a feeling of insecurity arises more from worries about daily life than from the dread of a cataclysmic world event. Job security, income security, health security, environmental security, security from crime—these are the emerging concerns of human security all over the world.

This should not surprise us. The founders of the United Nations had always given equal importance to people's security and to territorial security. As far back as June 1945, the US secretary of state reported this to his government on the results of the San Francisco Conference:

The battle of peace has to be fought on two fronts. The first is the security front where victory spells freedom from fear. The second is the economic and social front where victory means freedom from want. Only victory on both fronts can assure the world of an enduring peace....No provisions that can be written into the Charter will enable the Security Council to make the world secure from war if men and women have no security in their homes and their jobs.

Several insights can help in redefining the basic concept of security:

- Human security is relevant to people everywhere, in rich nations and in poor. The threats to their security may differ—hunger and disease in poor nations and drugs and crime in rich nations—but these threats are real and growing. Some threats are indeed common to all nations—job insecurity and environmental threats, in particular.

- When the security of people is attacked in any corner of the world, all nations are likely to get involved. Famines, ethnic conflicts, social disintegration, terrorism, pollution and drug trafficking are no longer isolated events, confined within national borders. Their consequences travel the globe.

- It is less costly and more humane to meet these threats upstream rather than downstream, early rather than late. Short-term humanitarian assistance can never replace long-term development support.

Most people instinctively understand what security means. It means safety from the constant threats of hunger, disease, crime and repression. It also means protection from sudden and hurtful disruptions in the pattern of our daily lives—whether in our homes, in our jobs, in our communities or in our environment.

It is important to develop some operational indicators of human security. This Report offers various concrete proposals for an early warning system and identifies some countries already in a state of crisis—such as Afghanistan, Angola, Haiti, Iraq, Mozambique, Myanmar, Sudan and Zaire. Determined national and international actions—including both preventive and curative development—are needed to support processes of social integration.

Identifying potential crisis countries is not an indictment of these countries. It is an essential part of preventive diplomacy and preventive development. The Report mentions some of these countries only as an illustration of the potential threats to human security that can eventually lead to social disintegration. What is important for the international community is to recognize that a clear set of human security indicators, and an early warning system based on them, could help these countries avoid reaching a crisis point.

*We must seek a
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Sustainable human development is pro-people, pro-jobs and pro-nature

There are several countries where current national and international efforts need to be reinforced to promote human security. The list of such countries extends to all world regions, and it ranges from countries in the midst of ongoing crises—such as Burundi, Georgia, Liberia, Rwanda and Tajikistan—to other countries experiencing either severe internal tensions—such as Algeria—or large regional disparities—such as Egypt, Mexico and Nigeria.

A new paradigm of development

To address the growing challenge of human security, a new development paradigm is needed that puts people at the centre of development, regards economic growth as a means and not an end, protects the life opportunities of future generations as well as the present generations and respects the natural systems on which all life depends.

Such a paradigm of development enables all individuals to enlarge their human capabilities to the full and to put those capabilities to their best use in all fields—economic, social, cultural and political. It also protects the options of unborn generations. It does not run down the natural resource base needed for sustaining development in the future. Nor does it destroy the richness of nature that adds so much to the richness of human life.

Sustainable human development addresses both intragenerational and intergenerational equity—enabling all generations, present and future, to make the best use of their potential capabilities. But it is not indifferent to how present opportunities are actually distributed. It would be odd if we were deeply concerned for the well-being of future—as yet unborn—generations while ignoring the plight of the poor today. Yet, in truth, neither objective today gets the priority it deserves. A major restructuring of the world's income distribution, production and consumption patterns may therefore be a necessary precondition for any viable strategy for sustainable human development.

In the final analysis, sustainable human development is pro-people, pro-jobs and pro-nature. It gives the highest priority to

poverty reduction, productive employment, social integration and environmental regeneration. It brings human numbers into balance with the coping capacities of societies and the carrying capacities of nature. It accelerates economic growth and translates it into improvements in human lives, without destroying the natural capital needed to protect the opportunities of future generations. It also recognizes that not much can be achieved without a dramatic improvement in the status of women and the opening of all economic opportunities to women. And sustainable human development empowers people—enabling them to design and participate in the processes and events that shape their lives.

A new design of development cooperation

The new demands of global human security require a more positive relationship among all nations of the world—leading to a new era of development cooperation. In such a design, economic partnership would be based on mutual interests, not charity; cooperation, not confrontation; equitable sharing of market opportunities, not protectionism; far-sighted internationalism, not stubborn nationalism.

Several fundamental changes will be required in the present framework of development cooperation.

First, foreign assistance must be linked to commonly agreed policy objectives—particularly to poverty reduction strategies, productive employment opportunities and the goals of sustainable human development. During the cold war period, foreign assistance was often given to strategic allies rather than in support of agreed policy objectives. Now is the time for a major restructuring of existing foreign aid allocations.

Second, a certain proportion of existing foreign assistance (equal to, say, 0.1% of the donor countries' GNP) should be channelled to the poorest nations as a global social safety net. This should be clearly earmarked for basic human development priorities (especially basic education and primary health care), and the aim should be

to bring all poor nations up to at least a minimum threshold of human development.

Third, the concept of development cooperation should be broadened to include all flows, not just aid—especially trade, investment, technology and labour flows. Greater attention should be paid to the freer movement of non-aid flows, as these are more decisive for the future growth of the developing countries than aid flows. Aid reporting systems should also be recast to include all flows and to monitor them in a comprehensive fashion.

Fourth, new initiatives for development cooperation should be discussed, including the possibility of introducing a payment for services rendered and compensation for damages suffered. For instance, the rich nations should be prepared to pay the poor nations for certain services that are in the global interest and for which the poor countries may not have sufficient resources themselves—instituting environmental controls, regulating narcotics production and trafficking, controlling communicable diseases, destroying nuclear weapons. Industrial nations should also compensate the developing countries for economic damage they suffer from certain market barriers imposed by the industrial countries, particularly trade barriers and restrictions on migration of unskilled labour.

Fifth, a serious search should begin for new sources of international funding that do not rely entirely on the fluctuating political will of the rich nations. Global taxation may become necessary in any case to achieve the goals of global human security. Some of the promising new sources include tradable permits for global pollution, a global tax on non-renewable energy, demilitarization funds and a small transaction tax on speculative international movements of foreign exchange funds.

Sixth, a new design of development cooperation also demands a new framework of global governance. Most international institutions have weakened precisely at a time of growing global interdependence. All existing institutions need considerable strengthening and restructuring if they are to cope with the new challenges to human security—particularly the United Nations

system and the Bretton Woods institutions. At the same time, a creative debate must start on the shape of global institutions required for the 21st century.

Chapter 4 offers many concrete proposals on all these aspects of a new development cooperation.

Agenda for the Social Summit

These are the issues the World Summit for Social Development must discuss. It must provide a new vision, a new direction—and lay a solid foundation for a new society.

There are times in the lives of nations when an entirely new vision shapes their destiny. The 1940s were such a watershed—marked by the birth of the United Nations, the launching of the Marshall Plan, the setting up of the Bretton Woods institutions, the initiation of the European Community, the negotiation of new social contracts in the industrial nations and an irresistible movement for the liberation of former colonies. A new world order emerged in the 1940s from the darkness of the Second World War.

Fifty years later, is the world getting ready for yet another profound transition? The initial signs are encouraging: the democratic transition in formerly communist societies as well as in many developing countries, the end of the cold war, a steady fall in global military expenditures, the opening up of economies, the strengthened prospects for peace in South Africa and the Middle East. The unexpected is becoming almost the commonplace.

At this propitious time, can humanity take yet another decisive step? The forthcoming Summit offers such an opportunity. Of course, it cannot resolve all the issues facing humanity. Nor can it provide the political will that national leaders alone can provide. But it can, and must, provide a new sense of direction.

The only practical way of achieving this is to focus on a small, manageable number of issues. It is in this spirit that the following six-point agenda is offered.

- *A new world social charter*—to establish the framework of equality of opportunity among nations and people.

The concept of development cooperation should be broadened to include all flows, not just aid

- A 20:20 human development compact—to implement targets for essential human development over a ten-year period (1995–2005).
- Mobilization of the peace dividend—to set concrete targets for reducing global military expenditure and for capturing the ensuing peace dividend to enhance human security.

- A global human security fund—to address the common threats to global human security.
- A strengthened UN umbrella for human development—to establish a more integrated, effective and efficient UN development system.
- A UN Economic Security Council—to provide a decision-making forum at the highest level for global issues of human security.

The discussion here summarizes each of these proposals, which are discussed at length in the Report.

A world social charter

To give clear and precise expression to the emerging concept of human security, now is the time to draw up a world social charter. Just as social contracts emerged in the 1930s and 1940s at the national level—the New Deal in the United States and the Beveridge Plan for the welfare state in the United Kingdom—so the growing consensus on the new compulsions of global human security requires social contracts at the global level.

Much of the groundwork for such a charter already exists. The International Covenant on Economic, Social and Cultural Rights—which came into force in 1976—encompassed most of the social goals, including the rights to food, health, shelter, education and work, as well as other non-material aspects of life. World leaders have come together on other occasions at international conferences and summit meetings to give concrete shape to these rights and adopt specific targets for implementation. The most comprehensive international commitments were presented in Agenda 21, adopted at the Earth Summit in 1992.

The challenge now is to translate such general statements and targets into practical action. The Social Summit should request the United Nations to draw up a concrete world social charter, to cost various goals, to set priorities and timetables for their implementation and to monitor the implementation of these goals through the new Economic Security Council proposed

BOX 1

A world social charter

WE THE PEOPLE OF THE WORLD SOLEMNLY PLEDGE to build a new global civil society, based on the principles of equality of opportunity, rule of law, global democratic governance and a new partnership among all nations and all people.

WE PROPOSE to build a society where the right to food is as sacrosanct as the right to vote, where the right to a basic education is as deeply enshrined as the right to a free press and where the right to development is considered one of the fundamental human rights.

WE COLLECTIVELY PLEDGE to build new foundations of human security, which ensure the security of people through development, not arms; through cooperation, not confrontation; through peace, not war. We believe that no provision in the Charter of the United Nations will ever ensure global security unless people have security in their homes, in their jobs, in their communities and in their environment.

WE ARE FULLY CONVINCED that diversity in our societies is our strength, not our weakness, and we intend to protect this diversity by ensuring non-discrimination between all our people, irrespective of gender, race, religion or ethnic origin.

WE COLLECTIVELY BELIEVE that our world cannot survive one-fourth rich and three-fourths poor, half democratic and half authoritarian, with oases of human development surrounded by deserts of human deprivation. We pledge to take all necessary actions, nationally and globally, to reverse the present trend of widening disparities within and between nations.

WE ARE CONVINCED that it is possible to overcome the worst aspects of poverty in our lifetime through collective effort. We jointly affirm that our first step towards this goal will be to design a global compact that ensures that no child goes without an education, no human being is denied primary health care or safe drinking water and all willing couples are able to determine the size of their own families.

WE ARE CONSCIOUS of our responsibility to present generations and to future generations, and we are determined to pass on to our children a rich natural heritage and an environment sustained and whole.

WE INTEND to design a pattern of development cooperation based on open global markets, not protectionism; on an equitable sharing of market opportunities, not charity; on an open policy dialogue between sovereign nations, not coercion.

WE PLEDGE our deep commitment to a new social and economic philosophy that puts people at the centre of our concerns and creates unbreakable bonds of human solidarity.

WE STRONGLY BELIEVE that the United Nations must become the principal custodian of our global human security. Towards this end, we are determined to strengthen the development role of the United Nations and to give it wide-ranging decision-making powers in the socio-economic field by establishing an Economic Security Council.

later. An illustrative world social charter is given in box 1.

A 20:20 compact for human development

The world social charter would encompass a broad range of human security issues in both industrial and developing countries. Its adoption should be immediately followed by a global compact for human development—whereby all nations pledge to ensure the provision of at least the very basic human development levels for all their people. Most countries can achieve these minimum levels by adjusting their existing development priorities. Some of the poorest countries, however, will require substantial international assistance, in addition to their own domestic efforts.

What should be the global targets in such a compact? The list of international commitments from which to choose is already long, but the most important targets include the following:

- Universal primary education—for girls as well as for boys.
- Adult illiteracy rates to be halved—with the female rate to be no higher than the male one.
- Primary health care for all—with special stress on the immunization of children.
- Severe malnutrition to be eliminated—and moderate malnutrition rates to be halved.
- Family planning services for all willing couples.
- Safe drinking water and sanitation for all.
- Credit for all—to ensure self-employment opportunities.

These are the very minimum targets. Much more must be done, particularly to provide sustainable livelihoods. But let the international community start with some commonly agreed and doable basic goals.

A rough estimate of the additional cost of meeting these targets over the next ten years would be \$30 to \$40 billion a year—a substantial sum, but easily managed by restructuring the priorities in budgets.

Developing countries devote on average only 13% of their national budgets (\$57 billion a year) to basic human development

concerns. They have considerable scope for changing their budget priorities: by reducing their military spending (around \$125 billion a year), by privatizing their loss-making public enterprises and by giving up some low-priority development projects. It is proposed that they earmark at least 20% of their budgets (\$88 billion a year) to human priority concerns. The scope for restructuring will differ from one country to another: the target of 20% only suggests an average pattern.

Donor countries also have considerable scope for changing the allocation priorities in their aid budgets in the post-cold war era. On average, bilateral donors allocate only 7% of their aid to the various human priority concerns (basic education, primary health care, mass-coverage water supply systems and family planning services). The problem here is not so much the proportion of aid they give to the social sector (16% on average) as the distribution within the social sector. Less than one-fifth of education aid goes to primary education, and a similar proportion of aid for water supply and sanitation is earmarked for rural areas, with very little for low-cost mass-coverage programmes. If donors also lift their aid allocation for human priority goals to 20%, this would provide \$12 billion a year rather than the current \$4 billion. Again, the 20% target is an average, with some donors having greater scope for restructuring than others.

Such a 20:20 compact for human development would be based on a sharing of responsibility. Three-fourths of the contributions would come from the developing countries, and one-fourth from the donors. No new money is required, because the compact is based on restructuring existing budget priorities (see chapter 4).

The 20:20 compact could ensure that the essential human development agenda is met in all nations by the turn of this century. The compact would not only give new hope to the majority of humankind—it would also advance many other priority goals.

- It would help slow down population growth, as practical experience shows that human development is the most powerful contraceptive.

The 20:20 compact could ensure that the essential human development agenda is met in all nations

All nations should agree on a 3% a year reduction in military spending during 1995-2000

- It would contribute to sustainability, as human capital can replace some forms of natural capital and human development models are the most non-polluting development paradigms.
- It would give the developing countries a good start in the 21st century in competing in the global market-place for their share of development opportunities on the strength of their enhanced human capital.
- It would enable donors to convince their reluctant legislators and skeptical publics that the best use is being made of their aid funds.

Such a compact needs to be managed, monitored and coordinated internationally. The Social Summit should direct the United Nations system to design such a 20:20 compact and to identify institutions and procedures for its implementation.

Capturing the peace dividend

Global military spending declined between 1987 and 1994 at an estimated average annual rate of 3.6%, yielding a cumulative peace dividend of \$935 billion—\$810 billion in industrial countries and \$125 billion in developing countries. But it is difficult to track where these funds went. And there has been no clear link between reduced military spending and enhanced expenditure on human development. Moreover, the poorest regions of the world (especially Sub-Saharan Africa) failed to contain their military spending. Meanwhile, nations continue to compete in the short-sighted business of arms exports.

What is needed now is to continue the pressure for reduced global military spending, to ensure that the poorest regions also cut down their arms spending and to develop a firm link between reduced arms spending and increased social spending.

The next challenge for disarmament is to phase the Third World out of the cold war. This will require new alliances for peace and international and regional forums for disarmament talks. It will also require a defusing of current global tensions and a new resolve on the part of the major powers to address the basic

sources of conflicts in the Third World, primarily through the United Nations.

At the same time, the major suppliers of arms must adopt a new ethic of peace, since 86% of the current arms supplies originate from the five permanent members of the Security Council. They must agree to phase out their military assistance and their military bases, regulate the shipment of sophisticated arms and eliminate subsidies to their arms exporters. Foreign assistance must also give the right signals: rather than rewarding high military spenders, as at present, donor countries should reduce allocations of official development assistance (ODA) if a recipient country insists on spending more on its armies than on the social welfare of its people.

Within this perspective, the Social Summit offers an important opportunity to turn from arms to human security. A collective effort must be made at the time of the Summit to:

- Agree on a targeted reduction in military spending for the decade 1995-2005—say, 3% a year.
- Make a clear, explicit link between reduced military spending and increased social spending.
- Persuade all nations to allocate a proportion of the potential savings to a global human security fund (discussed below)—say, 20% of the peace dividend in rich nations and 10% in poor nations.
- Mandate the United Nations to maintain a list of sophisticated weapons and technologies that should not be exported at all, except under international agreement.
- Persuade the industrial nations to close their military bases, phase out their military assistance and eliminate their subsidies to arms exporters over the next three years.
- Request the United Nations to strengthen its reporting system under the UN Register of Conventional Armaments, so that up-to-date information on arms and technology transactions is published regularly.

A global human security fund

Human security is indivisible. Famine, pollution, ethnic violence—their conse-

quences travel the globe. Yet responses are still largely national. The Social Summit should therefore consider setting up a global human security fund to finance an international response. The issues the fund could address would include drug trafficking, international terrorism, nuclear proliferation, transmittable diseases, environmental pollution, natural resource depletion, natural disasters, ethnic conflicts and refugee flows.

Separate global compacts can be negotiated in each of these areas. These compacts will deal with "global goods" and "global bads". Some good precedents are the already-concluded compacts on climate change and biodiversity and the current negotiations for a compact on desertification.

Three main sources should be tapped for such a global fund. First is the peace dividend, discussed above. A fixed proportion of the reductions in global military spending should be credited to the global human security fund—on the grounds that the basic threats to global security have not disappeared but merely taken on new forms.

The peace dividend could be substantial: an annual reduction of 3% in global military spending would yield about \$460 billion from 1995 to 2000, of which around \$385 billion would be in the industrial world and around \$75 billion in the developing world. Not all of this would be available to a global human security fund, because already there are many claims on these savings, including the costs of conversion from military to civilian production.

But if the rich nations were to allocate only 20% of their peace dividend, as suggested, and the poor nations 10%, this would generate at least \$85 billion during 1995-2000, or about \$14 billion a year. These figures are purely illustrative. The important point is that the contributions should be automatic and shared globally. One form the fund could take is suggested by Nobel Peace Prize winner Oscar Arias (special contribution, p. 59).

A second logical source of funds for a global response to global threats is a set of fees on globally important transactions or

polluting emissions. This is probably some way off, but even at this stage it is worth considering some of the more promising options, two of which are discussed in chapter 4. One is a tax on the international movements of speculative capital suggested by James Tobin, winner of the Nobel Prize for Economics (special contribution, p. 70). Tobin suggests a tax rate of 0.5% on such transactions, but even a tax of 0.05% during 1995-2000 could raise \$150 billion a year. Such a tax would be largely invisible and totally non-discriminatory. Another is a global tax on energy: a tax of \$1 on each barrel of oil (and its equivalent on coal) during 1995-2000 would yield around \$66 billion a year.

A third major source for the fund could be official development assistance. The current target for ODA allocations by industrial countries is 0.7% of each country's GNP, twice their actual contributions. The first 0.1% of GNP contributed to ODA should be earmarked for a social safety net for poor nations (chapter 4). But the balance should be linked to specific objectives—one of which should be global human security. If donors restructured existing ODA and committed some new funds, they could provide around \$20 billion a year to a global human security fund.

These three sources together could raise an annual fund of around \$250 billion a year during 1995-2000, seemingly ambitious, but still only around 1% of global GDP. Can humanity do less than this for its collective survival when it has been willing until recently to spend more than 4% of global GDP on the military arsenal?

Rather than the specific forms of global taxation, it is the basic notion of designing a global response and raising some global financing that the Social Summit should focus on. What is envisaged here is neither a separate fund nor a new institution. The idea is to establish a global account to pool contributions to meet the needs of global human security.

The Social Summit should approve the basic idea of a global human security fund and give the United Nations the mandate to prepare its concrete blueprint.

The Social Summit should approve the basic idea of a global human security fund

It would be essential to set up an Economic Security Council

A strengthened United Nations umbrella for human development

The logical forum for the administration of this new global human security fund is the United Nations. But to cope with the increased responsibility, the UN system needs to strengthen its capabilities in the area of sustainable human development.

The development funds of the UN (UNDP, UNICEF, UNFPA, IFAD and WFP) provide substantial resources to developing countries—about \$5 billion a year. The pooled resources of these UN funds are nearly as large as those of IDA (the soft-loan window of the World Bank). Moreover, these funds are providing grants, not credits, so that there is a substantial net transfer of resources to developing countries. These development funds are currently discussing how best to strengthen their overall development effort and coordinate their assistance strategies, recognizing the need for a more integrated, effective and efficient UN development system.

Three steps will be essential for the UN development funds to assume the increased responsibilities that may emerge from the Social Summit.

First, the concerned programmes of the UN need to identify common missions and complementary approaches to helping countries realize their sustainable human development goals. Major stimulus will come from the Secretary-General's *Agenda for Development* and from other efforts under way to better define a common sense of purpose and some unifying themes.

Second, much closer cooperation will be necessary in the days ahead among the leaderships of these institutions, both at the headquarters and at the country level. At the same time, a more vigorous leadership from a restructured Economic and Social Council (ECOSOC) will be vital.

Third, if additional resources are generated to support human development strategies—whether through the 20:20 compact or through a global human security fund, as discussed earlier—a strengthened UN development system will be in an excellent position to manage and monitor these additional resources and to assume the new

responsibilities for sustainable human development. The precise institutional modalities can be determined by the restructured ECOSOC. Whatever form a strengthened UN development system takes, it must draw on the relative strengths of each development fund—and their large constituencies and complementary mandates—as well as engineer some critical institutional reforms.

An Economic Security Council

To take this process of strengthening the development mandate of the UN to its logical conclusion, it would also be essential to set up an Economic Security Council. This would be a decision-making forum at the highest level to review the threats to global human security and agree on the necessary actions. In addition to the threats listed earlier, it would consider more basic issues—such as global poverty, unemployment, food security, international migration and a new framework for sustainable human development.

The proposed Economic Security Council would need to include some of the following elements:

- *A focus on sustainable human development*—rather than on political and peace-keeping matters.
- *A small and manageable membership*—say, 11 permanent members from the main industrial and more populous developing countries, and another 11 members on a rotating basis.
- *A protected voting mechanism*—such as a requirement that, beyond an overall majority, all decisions should also be ratified by majorities of both the industrial and the developing countries.
- *A professional secretariat*—small and highly qualified, led by an outstanding person, to prepare policy options for the council's consideration.
- *Expert national delegates*—the regular meetings would involve nationals with economic and financial expertise, but there would also be occasional high-level meetings of ministers of finance and planning, as well as annual sessions at the level of head of state or government.

• *Supervision of global institutions*—the council would act as a watchdog over the policy direction of all international and regional institutions.

The Economic Security Council would thus consist of about 22 members meeting year-round. It would also refer some subjects to smaller negotiating groups.

Establishing an Economic Security Council will be difficult since it would require a change in the UN Charter. So, it would perhaps be more realistic to try for something less ambitious and more manageable administratively.

One possibility is to extend the mandate of the present Security Council so that it could consider not just military threats but also threats to peace from economic and social crises. This would be in line with current attempts to involve the UN not just in peacekeeping but also—as suggested in the *Agenda for Peace*—in actively preventing conflicts.

Another possibility is to use the ECOSOC. Currently rather unwieldy, with 54 members, it could delegate decision-making power to a smaller executive board—with, say, 15 members—that could meet in permanent session. Ministers of finance and planning could be involved for the most important development issues, and decisions could subsequently be ratified by the entire Council and by the General Assembly. Article 65 of the UN Charter contains a provision for the ECOSOC to assume such a mandate at the request of the Security Council.

These are intermediate steps, however, and the fact remains that a full-fledged Economic Security Council would be preferable to less ambitious alternatives. The council's creation need not be such a daunting prospect if the world community

agrees on the urgency of the task—and on the need for a much broader international effort. The Social Summit offers an opportunity to agree on the framework for this bold initiative.

The specific proposals for the consideration of the Social Summit are summarized in box 2 for ready reference by policy-makers. These proposals may at first sight seem to demand a great deal from the international community. But they probably are more realistic than they appear.

Let us keep reminding ourselves that the imperatives of human security are bringing people together in all parts of the world. Let us also remember that many heresies of yesterday have become the conventional wisdom of today.

BOX 2

A proposed action agenda for the Social Summit

1. Approve a world social charter as a new social contract among all nations and all people.
2. Endorse a new development paradigm of sustainable human development—with economic growth centred on people and sustainable from one generation to the next.
3. Give the United Nations the mandate to draw up a comprehensive blueprint for ensuring global human security and protecting people from threats in their daily lives—poverty, unemployment, drugs, terrorism, environmental degradation and social disintegration.
4. Agree on a targeted reduction of 3% a year in global military spending for the decade 1995-2005, and direct that a certain proportion of these potential savings—say, 20% by industrial countries and 10% by developing countries—be credited to a global human security fund.
5. Approve a human development compact for the next ten years (1995-2005) whereby all nations pledge to ensure the basic human development levels for all their people, and endorse the 20:20 proposal requiring developing nations and aid donors to earmark a minimum of 20% of their budgets for human priority concerns.
6. Recommend to ECOSOC that it examine the feasibility of various forms of global taxation—especially taxes on global pollution and on speculative movements of capital—to raise adequate financing for setting up a new global fund for human security.
7. Urge the international community to strengthen the role of the United Nations in the socio-economic field and to vest more decision-making powers in the UN by establishing an Economic Security Council to manage the new dimensions of global human security.

The Launch of the Human Development Report 1994 in Copenhagen

The Human Development Report 1994 was launched in Copenhagen on 12 September 1994. The report was presented to a group of 150 representatives of the Danish Government, the Danish Parliament, the Danish Labour Movement, the Danish Business Community, the Danish University Sector, and the Danish Media. The report was presented by the Secretary-General of the United Nations, Mr. Boutros Boutros-Ghali, who was accompanied by the Director of the Human Development Report Office, Mr. P. Thomas, and the Deputy Director, Mr. A. Sen. The report was presented in Danish and English. The report was presented in a formal ceremony in the main hall of the Danish Parliament. The report was presented in a formal ceremony in the main hall of the Danish Parliament.

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Introduction

The Social Summit comes at a time of the 50th anniversary of the United Nations. It is a time to reflect on what was achieved in the previous five decades and look at the challenges that lie ahead in the next 50 years.

— *Mahbub ul Haq*

The **Human Development Report 1994** was the fifth volume in an annual series that has been published yearly by Oxford University Press for the United Nations Development Programme. Written by a team of independent experts under the leadership of Mahbub ul Haq, the 1994 report was largely devoted to advancing a new concept of human security. It also presented a possible agenda for the World Summit for Social Development, to be held in Copenhagen, Denmark in 1995. It was thus fitting that Denmark was the official international launch site for the report.

The release on 1 June, 1994 in Copenhagen, was followed by regional workshops, seminars and launches in 20 cities around the world — inspiring global debate on the future of development assistance and the importance of people as the means *and end* of the development process.

For two days prior to the launch in Copenhagen, a group of 70 journalists, representatives of non-governmental organizations and Danish government officials gathered at the Vilvorde Conference Centre, not far from where the World Summit for Social Development will be held. They contemplated the topics that the Summit might address and engaged in the kind of frank and constructive dialogue which the **Human Development Report** is intended to kindle.

This booklet contains Dr. Haq's speech that was delivered at the launch, the address given by Helle Degn, Minister for Development Cooperation of the Government of Denmark and a list of seminar participants.

Address of Helle Degn, Minister for Development Cooperation, Denmark,
at the launch of the Human Development Report in Copenhagen

When UNDP suggested that the international launching of the *Human Development Report 1994* be held in Denmark, I was naturally more than happy to accept this offer.

I welcome the Human Development Report 1994 as an important document in its own right and as a contribution to the preparations of the World Summit for Social Development to be held in Copenhagen in March next year. And I thank Dr. ul Haq for the official handing over of the report to me as representative of the Government of Denmark.

The UNDP Human Development Report is, as always, inspiring to read, offering an alternative to the narrow economic approach, usually applied to development issues.

This is the fifth consecutive UNDP Report. As it has been the case with previous reports, the 1994 report will most likely result in a heated exchange of views concerning methodical and conceptual approaches. The fact that the "Human Development Index" has Denmark in 15th position and Sweden and Norway in respectively fourth and fifth position will not go unnoticed in Denmark.

The report's indications of countries where political riots are likely to take place in a near future and where consequently a preventive effort of both political and diplomatic character will have to take place, will undoubtedly also cause a lot of discussion. The predictions have in some cases unfortunately already been proven right, as the tragic example of Rwanda.

The *Human Development Report 1994* introduces a new concept of human security and offers several inspiring and concrete proposals for the World Summit for Social Development.

The proposal contained in the Human Development Report for a 20/20 Human Development Compact to implement targets for essential human development, and the idea of letting the "peace dividend" finance part of the global action needed for this, are valuable ideas that consider serious political consideration.

The Human Development Report points out that human security is relevant to people everywhere, in rich nations and in poor. Famines, ethnic conflicts, social disintegration, terrorism, pollution and drug trafficking are no longer isolated events, confined within national borders.

Social development and social progress cannot be achieved by national governments alone. Social development requires participation and interplay by a variety of actors. The actions which are required to address the core issue of the Copenhagen Summit — poverty, employment and social integration — must combine social, economic and environmental concerns nationally and internationally.

Over the last few years we have witnessed the democratic transition in former Communist societies and in many developing countries, and the end of the Cold War. We now see decrease in global military expenditures, opening-up of economies and improved prospects

of a peaceful co-existence in South Africa and in the Middle East. These development justify hope that the world is again ready for new initiatives and give a solid background for the World Summit for Social Development to present a new vision for future development.

The Human Development Report concludes by observing that "the suggested proposals may at first sight seem to demand a great deal from the international community. But they are probably more realistic than they appear." Dr. ul Haq reminds us that "many heresies of yesterday have become the conventional wisdom of today."

Let us hope that a political determination to try new ways will be present, not only during the discussions prior to and during the World Summit for Social Development, but even more important after the Copenhagen Summit.

Human Security in an Uncertain World

Nothing could have pleased us more than to launch the 1994 *Human Development Report* from Copenhagen. In another ten months, leaders of many nations of the world will be assembling here for the Social Summit. Their deliberations will be critical for the course of events in the 21st century. The main messages of our next Report are addressed to those world leaders.

Our 1994 Report, fifth in an annual series, underscores the new imperatives of human security in the post-cold war era. Security is now increasingly interpreted as security of people in their daily lives — in their homes, in their jobs, in their streets, in their communities, and in their environment.

Many perceptions will have to change. Human security must be regarded as universal, global and indivisible. Just imagine for a moment that every drug that quietly kills, every disease that silently travels, every form of pollution that roams the globe, every act of senseless terrorism — just imagine for a moment that they all carried a national label of origin, much as traded goods do, we shall then realize with a sudden shock that concerns for human security are more globalized today than even global trade.

A second perception will change. We shall all realize that poverty cannot be stopped at national borders. Poor people may be stopped. But not the tragic consequences of their poverty. Drugs, and AIDS, and pollution, and terrorism respect no national frontier today. In fact, when people travel, they bring much dynamism and creativity with them. When only their poverty travels, it brings nothing but human misery.

One more perception will change. We shall all begin to recognize that it is easier, more humane, and less costly to deal with the new issues of human security upstream rather than downstream. Does it make any sense to incur a staggering cost of US\$240 billion in the last decade for HIV/AIDS when even a small fraction of that amount invested in primary health care and family planning education may have prevented such a fast spread of this deadly disease? Is it a great tribute to international diplomacy to spend \$2 billion in a single year on soldiers in Somalia to deliver humanitarian assistance when such an amount invested much earlier in increased domestic food production and social development may have averted the final human tragedy — not just for one year, but for a long time to come? Is it a reflection of human ingenuity that we are willing to spend hundreds of billions of dollars on administrative control of drug trafficking and on the rehabilitation of drug addicts but not even a small part of that amount for drug education of consumers or alternative livelihoods for producers?

It is time that we fashion a new concept of human security that is reflected in better lives for our people, not in better weapons for our countries. In fact, those countries which ignored the security of their people were unable to protect even the security of their nations. In 1980, Iraq, Somalia and Nicaragua topped the list in having the highest military to social spending ratios. By the 1990s, these countries were beginning to disintegrate. On the other hand, Costa Rica invested one-third of its national income in the education, health and nutrition of its people and nothing at all in the army which it had abolished as far back as 1948. Is it any wonder that Costa Rica survived as the only prospering democracy in the inflamed region of Central America in the last few decades?

The emerging concept of human security is a powerful idea that will lead to many fundamental changes in our thinking.

First, we must search for new models of human development which treat GNP growth as a means, not as an end; which enhance human life, not marginalize it; which replenish natural resources for future generations, not run them down; which encourage grass roots participation of people in the events and processes that shape their lives.

The real issue is not economic growth *per se* but its character and its distribution. Those who postulate a fundamental conflict between economic growth and human development do no service to the poor nations. To address poverty, economic growth is not an option, it is an imperative. But what type of growth? And who participates in it? And who derives the benefits? These are the real issues.

For a long time, it was quietly assumed that high levels of economic growth will automatically translate into high levels of human development. We know now that this may or may not happen. There is no automatic link between economic growth and human lives.

The practical experience of many nations demonstrates this reality. For example, Sri Lanka and Guinea show exactly the same GNP per capita: \$500. But just contrast the quality of life in their societies: life expectancy of 71 years in Sri Lanka, only 44 years in Guinea; adult literacy rate of 89% in Sri Lanka, only 27% in Guinea; infant mortality of 24 per 1000 in Sri Lanka, as high as 135 in Guinea. This is because it is not just the level of income that matters, it is how that income is spent by a society. It is also because human beings make many choices — particularly in social, cultural and political fields — which may be largely independent of their income level. Thus, the quality of growth is even more important than its quantity.

The emerging concept of sustainable human development is based on equal access to development opportunities, for present and for future generations. The heart of this concept is equity. And it is equity in access to opportunities, not necessarily in results. What people do with their opportunities is their own concern. But they should not be denied an equal opportunity to develop and to use their human capabilities. We must acknowledge the universalism of life claims of every individual.

The concept of sustainable human development focuses our attention both on the future generations as well as on the present. But there would be something clearly immoral about sustaining the present levels of poverty. Development patterns which perpetuate today's inequities are neither sustainable nor worth sustaining. Indeed, as our Report points out repeatedly, an unjust world is inherently unsustainable. A major restructuring of the world's income and consumption patterns — especially a fundamental change in the current life styles of the rich nations — may be a necessary precondition for any viable strategy of sustainable human development.

Second, we must design a new framework of development cooperation — based on global compacts between nations, not on charity. Foreign assistance must finally emerge from the shadows of the cold war. Even today, foreign aid is often linked to strategic allies from the past than to any specific global objectives of the future — from poverty reduction to human development, from slowing down population growth rate to improving the physical environment.

Only one-third of ODA is earmarked for the ten countries containing two-thirds of the world's absolute poor. Twice as much ODA per capita is given to the top 40% income group in the world as to the bottom 40%. Only less than 7% of bilateral ODA is directed towards human priority concerns of primary health care, basic education, safe drinking water, nutrition programmes and family planning services. This shows the enormous scope that still exists to get much more policy mileage and much better allocations out of existing aid funds.

At the same time, the concept of development cooperation must be broadened to include all development flows — including trade, investment, technology and labour flows. It is simply unacceptable that while aid transfers so few resources to the developing world, several times more is taken away through trade protection, immigration barriers and an increasing debt burden. In such a situation, it is critical for poor nations to bargain for a more equitable access to global market opportunities.

The Report outlines a new design of development cooperation for the coming decades where:

- aid is regarded as an essential investment by the rich nations in their own human security;
- developing countries are compensated for trade and immigration barriers imposed by the rich nations;
- polluting nations are made to pay for their overuse of the global commons;
- the potential peace dividend of nearly \$500 billion between 1995 and 2000 is earmarked primarily for the priority human development agenda; and
- global compacts are negotiated in specific areas between rich and poor nations — such as population, environment, drug control — based on two-way cooperation, not on one-way conditionality or coercion.

Third, the new imperatives of global human security demand an entirely new system of global governance — particularly, a greatly strengthened role of the United Nations in the development field. The nature of conflicts has changed dramatically. Out of the 82 conflicts in the last three years, each causing more than a thousand deaths, as many as 79 were within nations, not between nations. The Report identifies many developing countries which are already heading towards social disintegration. Behind every failed state, there lies a long trail of failed development or unacceptably high socio-economic disparities. These countries require preventive development, not more weapons of war. Soldiers in UN blue berets are a poor substitute in situations which cry out for socio-economic reforms and sustained development. The United Nations should be enabled to play a more significant role in social and human development of these poor nations. Only by designing an early warning system and by undertaking upstream preventive development can the United Nations help these nations avert a national collapse. The UN can no longer fight the battles of tomorrow with the weapons of yesterday.

It is in this context that the Report offers at least six concrete proposals for the consideration of the Social Summit:

- A World Social Charter, to arrive at a new social contract among all nations and all people.
- A reduction of 3 per cent a year in future global military spending, with 20 per cent of

the savings by rich nations and 10 per cent by poor nations earmarked for global human security.

- A 20:20 compact for human development — to provide basic education, primary health care, safe drinking water and essential family planning services to all people over the next decade — by earmarking 20 per cent of the existing developing country budgets and 20 per cent of the existing aid allocations to these basic human priority concerns.
- A global human security fund — financed from global taxes such as the "Tobin tax" on speculative movements of international funds, an international tax on the consumption of non-renewable energy, global environmental permits and a tax on arms trade.
- A new framework of development cooperation, to graduate from the present aid relationship to a more mature development partnership — by including trade, technology, investment and labour flows in a broader design to be negotiated among nations.
- An Economic Security Council in the United Nations, as the highest decision making forum to consider basic issues of human security such as global poverty, unemployment, food security, drug trafficking, global pollution, international migration and a new framework of sustainable human development.

These proposals demand a great deal from the international community. But they are eminently feasible. And what is more, they are urgently needed if we are to design a new architecture of peace through development in the 21st century.

Let me conclude with one final observation. The world has seen more hopeful changes in the last decade than ever before — from the collapse of communism to the fall of the Berlin Wall, from the end of apartheid in South Africa to a dim outline of peace in the occupied Palestine, from a sweep of democracy across many lands to an opening up of economies in many nations. This is a time to build a new edifice of human security throughout the world.

Fifty years ago, the United Nations was born in San Francisco, carrying the hopes and aspirations of the global community. For the last 50 years, the UN has committed itself to the first pillar of global security — to freedom from fear, to territorial security, to peace *between* nations. Can we engineer now a "second birth" of the United Nations in Copenhagen next year at the time of the Social Summit — a UN committed to the second pillar of human security — to freedom from want, to socio-economic development, to peace *within* nations. That is our supreme challenge. Our 1994 Report, that we launch today, is only a modest attempt to respond to that challenge.

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Media

Ole J. Askeland, Stavanger Aftenblad, Norway
Sanjaya Baru, Times of India, India
Jan Bohets, De Standaard, Belgium
Reinholdt Brender, Frankfurter Allgemeine Zeitung, Germany
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Merete Lindstad, Forum for Development Journalism, Norway
Jens Lohmann, Information, Denmark
Meiling Malmberg, FNB, Finland
Søren Mortensen, De 3 Stiftstidende og Vestkysten, Denmark
Finn Möbius, Søndagsavisen
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Matti Remes, Demari, Finland
Guido Santevecchi, Il Corriere della sera, Italy
Bo Simonsen, NGO-Forum 1995, Denmark
Poul Smidt, Aktuelt, Denmark
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