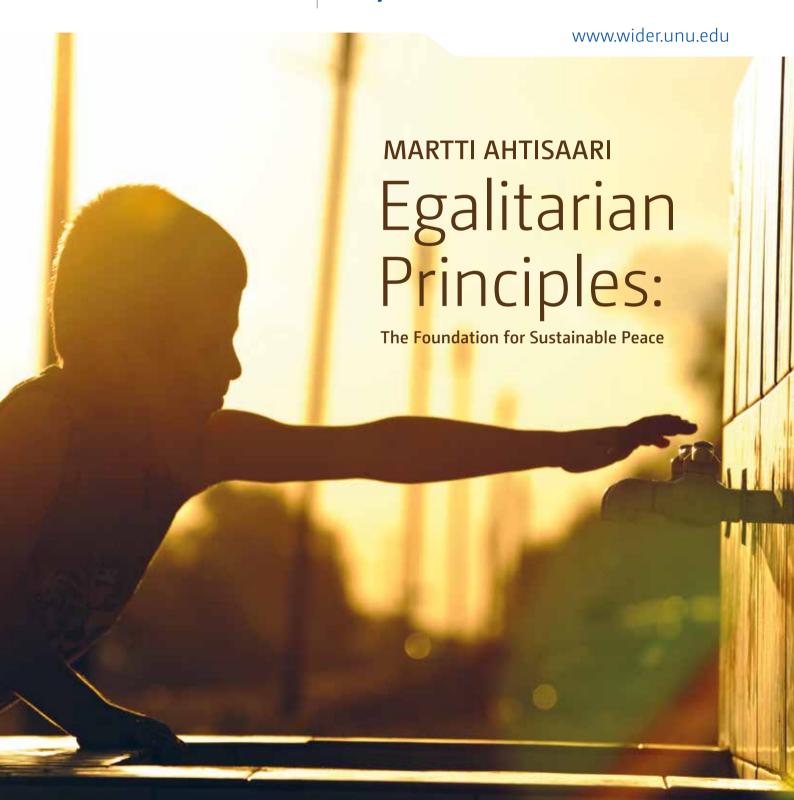


WIDER

Annual Lecture 17



UNU-WIDER is a leading global think tank providing independent and interdisciplinary research, analysis and policy advice on global issues with the aim of promoting sustainable and equitable development.

### **UNU WIDER BOARD**

**Professor Ernest Arveetey** Vice Chancellor, University of Ghana

Professor Anne Case **Princeton University** Professor Roberto Frenkel Centro de Estudios de Estado y Sociedad (CEDES) Dr Pasi Hellman Nordic Development Fund Professor Ravi Kanbur Cornell University **Professor Elisabeth Sadoulet** 

University of California at Berkeley Dr Ling Zhu

Chinese Academy of Social Sciences

#### Ex officio

Dr David M. Malone Rector of UNU Professor Finn Tarp Director of UNU-WIDER

### See more







The United Nations University World Institute for Development Economics Research (UNU-WIDER) is a leading global think tank providing independent and interdisciplinary research, analysis and policy advice on global issues with the aim of promoting sustainable and equitable development. UNU-WIDER began operations in 1985 in Helsinki, Finland, as the first Institute of the United Nations University.

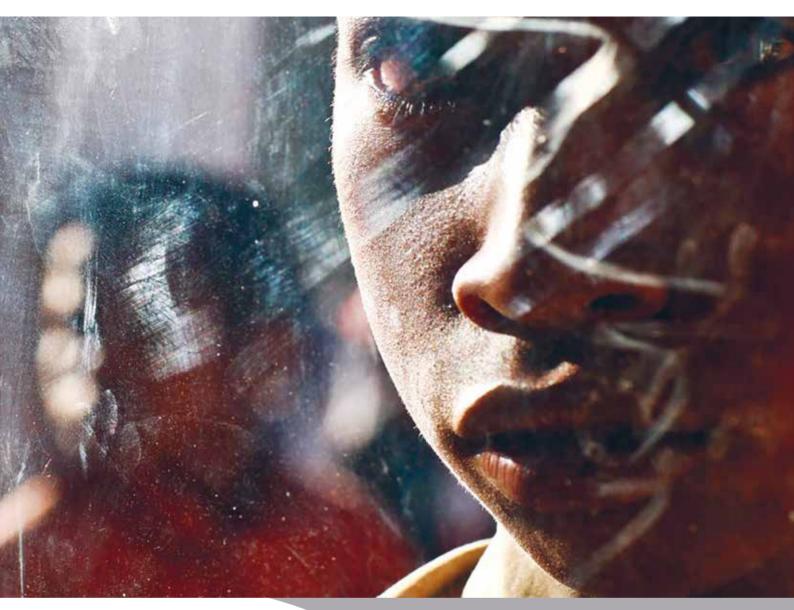
The Institute is financed from an endowment fund with additional contributions from Denmark, Finland, Sweden, Republic of Korea, South Africa, and the United Kingdom.

UNU World Institute for Development Economics Research (UNU-WIDER) Katajanokanlaituri 6 B 00160 Helsinki, Finland

Copyright ©UNU-WIDER 2014 Typescript prepared by Lisa WInkler at UNU-WIDER Printed at Forssa Print

The views expressed in this publication are those of the author(s). Publication does not imply endorsement by the Institute or UN University of any of the views expressed.

ISSN 1455-3082 ISBN 978-92-9230-563-5 (printed version) ISBN 978-92-9230-564-2 (online version)



# Contents

- 1. Introduction
- 2. Egalitarian principles—what are we talking about?
  - 2.1 Cornerstones of egalitarianism2.2 Nordic egalitarian model

  - 2.3 China and India in retrospect
    2.4 Economic growth and quality of life
    2.5 Egalitarianism and governance
- 10 3. Egalitarian principles in conflict resolution
- 12 4. Concluding remarks



## **Foreword**

The task of furthering inclusive and sustainable growth is at the core of UNU-WIDER's 2014-18 Work Programme on 'Transformation, Inclusion and Sustainability'. We are therefore most grateful to President Ahtisaari for accepting our invitation to give the WIDER Annual Lecture 17 on the topic, 'Egalitarian Principles: The Foundation for Sustainable Peace', on 19 September 2013 in Helsinki.

Each year the Institute invites an eminent scholar or policy maker to speak, someone who has made a significant contribution in the field of development. Few fit that description better than President Ahtisaari. A Nobel Laureate, member of The Elders, and former Head of Government and State of Finland, President Ahtisaari is internationally renowned for his work as a leader, diplomat, and mediator. In addition to countless honours and awards, with the Nobel Peace and Fulbright prizes being just two of them, he is currently serving as a member of the Mo Ibrahim Foundation's Prize Committee and on the board of the European Council on Foreign Relations. With a career that has covered the whole world, he has faced some of the most difficult crises in modern history, and it is that experience he is now sharing. Famous for his conflict resolution work in Namibia, Bosnia, and Kosovo, he has also been involved first-hand in the development of his own country, and the building of a modern state that strives for equality.

It is fitting that it was in Helsinki that President Ahtisaari gave his lecture, reminding us that social capital is a vital and too often neglected precondition for sustainable prosperity. Highlighting the good that economic growth has done in India and China, he joins Professor Amartya Sen in arguing that the significant question is not only how we achieve economic growth, but rather what the government does with the public revenue that economic growth generates. What do we do with development when we have it? Progress in economic growth, the President stresses, does not always correspond to progress in democratic and social reform. If resources are not transparently managed, then there is only a small chance that a good education, healthcare, and equal opportunities will benefit the population at large. This is not only a challenge for developing countries. Eurostat estimates that in 2011, 24 per cent of the EU population risked poverty or social exclusion. The cost of all this comes in lost opportunities, and fragile states. The loss is social capital and trust and, President Ahtisaari argues clearly, without trust a society cannot thrive.

President Ahtisaari's lecture is a timely and crucial response from a global figure who has built a wealth of experience on the subject. I would like to offer my sincerest thanks to President Ahtisaari for taking on this challenging issue. I have no doubt that the words of such an eminent proponent of sustainable development will stir the policy makers, researchers, development practitioners, and members of the public whom we aim to reach out to.

Finn Tarp, Director UNU-WIDER. Helsinki





# Author's acknowledgments

I want to express my gratitude for being able to contribute to the annual lecture series of UNU-WIDER. I am still very pleased that Finland, some thirty years ago, decided to express clear political support for the then somewhat recently established United Nations University. As I was always very supportive of the idea of Finland hosting UNU-WIDER, contributing to the annual lecture series here in Helsinki is a very delightful task for me.

## About the author

Martti Ahtisaari was elected as President of the Republic of Finland in February 1994. He held office from the 1st of March 1994 until 29th of February 2000. Since leaving office, President Ahtisaari founded Crisis Management Initiative and is currently the Chairman of the Board of CMI. Martti Ahtisaari founded CMI to continue his legacy in helping the international community to enhance its capacity when it comes to preventive diplomacy, peace-making and peacebuilding.

After leaving the office of the President, Martti Ahtisaari has taken various tasks involved in peace mediation and conflict resolution. In 2005, he facilitated the peace process between the Government of Indonesia and the Free Aceh Movement. Between November 2005 and February 2008, President Ahtisaari acted as the Special Envoy of the Secretary-General of the United Nations for the future status process for Kosovo. Martti Ahtisaari is the laureate of the 2008 Nobel Peace Prize.





still remember well the discussions around the establishment of the UN University in the early 1970s, and UNU-WIDER in 1984. The fundamental argument at the time was that there was a need for a sustained and international effort to produce high-level research and in-depth understanding on how the global economic system works, and how that affects the demanding needs of developing countries. And, as we all know, from those days of the 1980s that system has changed and evolved a lot – even dramatically in some sense. At the same time the fundamental task and mandate of UNU-WIDER has remained the same. The demanding need to understand and sometimes even guide the global economic system - or systems, as one might nowadays argue - is as timely as ever. Even though we have managed to move towards poverty reduction goals at a global scale, we still have a lot to do in terms of understanding what poverty really means in the twenty-first century. The basic challenge for researchers and political decision makers all around the world is still the same as in the 1970s and the 1980s. As societies and their dynamics constantly change, the way we see and interpret the nature of poverty and growth also changes. This is not only an interesting theoretical discussion around economic paradigms and models. Our understanding of economics, poverty, and growth deeply affects the choices we make, and the political practices we choose, when combating the everyday challenges of inequality, whether at the level of global decision-making, national or regional policies, or even at the level of smaller local communities.

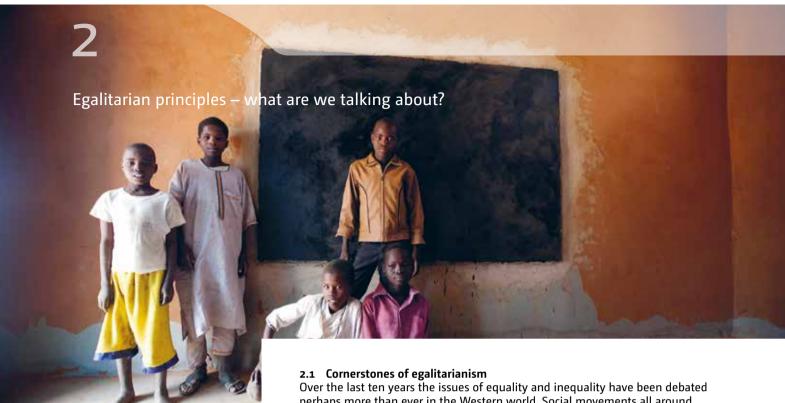
My personal experience on these challenges goes back all the way to the early 1960s when for the first time I encountered serious development policy challenges in Pakistan. The observations I made at the time have been guiding me throughout my whole career. Unless we can solve the very profound challenges of deep inequalities in any given society, we can never achieve the Kantian vision of perpetual peace.

## **ABBREVIATIONS**

GDP Gross domestic product
UN United Nations
UNU-WIDER United Nations University

DER United Nations University

— World Institute for
Development Economic
Research



Over the last ten years the issues of equality and inequality have been debated perhaps more than ever in the Western world. Social movements all around the world have been challenging the ruling classes with demands that address the current weaknesses of the West. Occupy Wall Street, anti-globalization and environmental movements, the global justice movement, and others have been decisively emphasizing problems of inequality at different levels of any given society. As the polarization between rich and poor has been growing, calls for economic justice have been getting more and more vocal. The message of the '99 per cent' is clear; we are losing grip of egalitarian principles that have been guiding the growth of so many of our societies. Greed has been feeding greed and the price has been high. One of the worst ramifications of the economic injustice process is that we are losing the greatest asset any society can have, and that is trust.

A growing body of scholarly literature demonstrates that social capital is good for society as a whole and makes it function well and prosper. As a rule, the level of social capital is measured as trust in national institutions and trust in fellow citizens. In the form of social capital, trust enables societies to better and more effectively accomplish various tasks. Some authors even argue that trust is the most essential precondition for a society to survive—if social trust is destroyed, the whole society will collapse. This is because when people trust each other, they can work together and co-operate for common purposes. In the Nordic countries we have, so far, managed to create and sustain an adequate level of trust. Nordic people not only trust each other, they also hold their national institutions in high esteem. People have faith in the police, the legal system, the state, and the tax system. Consequently, the legitimacy of public institutions, including the welfare state and the redistribution it performs, is high.

As Professors Heikki Hiilamo and Olli Kangas (Hiilamo and Kangas 2013) argue in the study I commissioned from them in 2013, the importance of trust for economic development and democracy has become widely acknowledged by social scientists of all kinds. Economists, sociologists, and political scientists have all taken an interest in this concept. Hiilamo and Kangas refer to Robert Putnam: there are two dimensions of social capital—bridging or inclusive, and bonding or exclusive social capital. These two dimensions, in turn, create different kinds of solidarity. The bridging form of social capital generates broader identities and brings larger sections of society together by unifying them, whereas bonding social capital pertains to specific, group-based solidarity. The bonding form of social capital generates tighter ties. However, because of its intra-group solidarity, it may create strong out-group antagonism. Therefore, there is a danger that excluding social

capital turns out to be antisocial and detrimental for society as a whole. This notion has important ramifications for social policy-making.

When discussing egalitarianism it is important to note that we are not only talking about the distribution of resources, but also about the institutional set-up of policy programmes that can unify people and different social groups. The Nordic countries provide a good example of how it is possible to unify equality with an efficient welfare state and a relatively high level of taxation, encompassing social policy with economic growth. As Hiilamo and Kangas (2013) argue, the 'Nordic enigma' is a successful marriage between hard-core competitive capitalism and the pursuit of egalitarian policies. The goal of equality, most notably between rich and poor and between men and women, constitutes the pinnacle of egalitarian thinking in the Nordic countries.

The Nordic welfare state model has certainly helped women to enter the labour market and also appears to have lowered income differentials between men and women. However, gender relations are perhaps not as equal as they seem at first glance. The other side of the coin is that Nordic women are predominantly working in the welfare sector, which leads to a high degree of occupational segregation by gender in these countries. This occupational segregation has a double effect upon gender equality. First, women may be stacked in low-paid public sector occupations. And second, their representation in the high-pay occupations may be lower than in countries with smaller public sectors.

## 2.2 Nordic egalitarian model

To put the issue in a nutshell, the basic idea of the Nordic model is to pursue universal policies that guarantee that public programmes, services and transfers are designed to serve everyone living in the country. Democratic principles and the rule of law are cornerstones of our everyday political decision- making. We believe in the basic tenets of a fair society, which treats everyone on an equal footing. This society has relatively long roots now, which cannot be said about many other Western societies. As a somewhat recent article in the Economist (2013) conveyed: If you want to experience the American dream, go to Sweden.

The study by Hiilamo and Kangas (2013) shows clearly that economic growth alone is no longer a remedy against poverty, deprivation, and other social ills. Naturally we need environmentally and socially sustainable economic growth, but what matters is not only the aggregate level of national wealth, but also how the wealth is used within a society.

Indeed, in countries with more equal revenue sharing there is more trust between people, a higher perceived level of wellbeing, lower infant mortality, better health, longer life expectancy, greater social mobility, and better learning results for children in school—there are fewer homicides, and even fewer prisoners in jail. Let me again quote Professor Amartya Sen (1992), who talks about 'functional capabilities' in a society. The lack of functional capabilities opens up the whole poverty discourse to deal with much wider issues than just the scarcity of money. Education, health, cultural, and social capital must be included in the bundle of capabilities needed for full and free participation in society's activities. In the case of capabilities deprivation societal tensions always increase.

The longer I have been involved in working with multidimensional political problems, the more convinced I have become that in today's world we do not need raw capitalism, any sort of socialism, but a responsible, egalitarian market economy, which the Nordic countries represent at their best. So the severe challenge for our societies in the twenty-first century is not only how we manage to create wealth, but also how we use it.

But let us not be naïve, even the Nordic model cannot be taken for granted. At the same time, with the crisis of the whole European economy we are facing big structural problems in the continent. Our egalitarian values and our social model are at stake and we have to take this very seriously. Our Nordic tradition of balancing markets and growth with benefits to society is entering a challenging phase. Are our struggling economies still able to bear the costs of our social model? When considering the answer, one should also ask whether societies can bear the social costs of increasing poverty and inequality in the future.



## 2.3 China and India in retrospect

One of the most thought-provoking articles I have read during the last few years, was by one of the initiators of UNU-WIDER, Amartya Sen. In The New York Review of Books (2011) he wrote an article, in which he compared critically the quality of life in India and China, the two giant economies with impressive numbers of growth in terms of GDP. In Sen's thinking, which I fully endorse, the significant question is not only how we achieve economic growth, but what the government does with the public revenue that is generated by economic growth. So when assessing the celebrated growth figures of India and China, it is not just the question of financial surpluses or the amount of investments that we should be discussing, but also their effect on people's quality of life.



In Sen's comparison the conclusion is clear. China wins hands down over India, basically on all dimensions of social development. Let me give a few examples. If you look at life expectancy, in China it is 73.5 years, in India only 64.4 years. The maternal mortality rate is 230 per 100,000 live births in India, and only 38 in China. China's adult literacy rate is 94 per cent, compared with India's 74 per cent. The literacy rate for women between the ages of 15 and 24 in India is not much above

80 per cent, whereas in China it is 99 per cent. And if you look at children, the situation is even worse; a very substantial proportion of Indian children are undernourished, compared with a very small proportion in China. Also only 66 per cent of Indian children are immunized with triple vaccine, as opposed to 97 per cent in China.

Do not misunderstand me. By stating these facts I am certainly not proposing that the overall societal and political system in China would somehow be better than that in India. In terms of democratic participation India has been showing the way for a long time. Freedom of expression, political participation and a vital civil society are all crucial parts of modern India. It is also obvious that China has to open up political space for wider political decision-making and participation in the future. But let us be frank, something in this comparison does not fit in to the way we are used to thinking. Strengthened democracy does not automatically ensure that economic growth will benefit all the people.

## 2.4 Economic growth and quality of life

In the same article Sen continues to challenge the view that GDP always increases the wellbeing of people. When comparing Bangladesh and India it becomes obvious that in Bangladesh – the country whose GDP per capita is about half of that of India's – many indicators tell us that the basic requirements of a good life are better than in India. Life expectancy, the proportion of underweight children, the under-five mortality rate, the literacy rates of both men and women, vaccination rates etc., all these indicators tell us the same story – Bangladesh is way ahead of India. Explanations for this are many, and the role of liberated women and a politically active and strategic civil society are certainly not the least ones. And all this has much to do with egalitarian principles and policies.

I have become more and more convinced that we have to start seriously challenging our conventional ways of thinking when it comes to the relationship between economic growth and the quality of life — or development, if you wish. And this does not only concern developing countries or emerging economies, but also the Western world, Europe, and the USA in particular. But the good thing is that we also have some good examples of egalitarian policies from which we can learn.



Recent high growth in resource-rich countries has indeed led to increased inequality in situations where the governments have been unwilling or unable to tackle growing inequalities between their citizens, as for example between the rural and urban dwellers.



According to a recent study by Oxfam (2013), the austerity programmes implemented in Europe, as a response to high public debts and budget deficits, have also contributed to the recent increase in poverty and inequality. It is estimated by Eurostat that in 2011, 24 per cent of the population in the EU risked poverty or social exclusion. That figure is estimated to rise by an additional 15 to 25 million by 2025.

We cannot afford such socioeconomic development and the creation of deeply unequal societies for our future generations. Increasing youth unemployment means that

millions of young Europeans lack the resources needed to participate in the normal life of their society. These costs override by far investments in pro-active employment policies.

## 2.5 Egalitarianism and governance

Another issue that I want to touch upon is governance. Which, again, is closely related to the whole debate on a fair society and the quality of life. I have the privilege of being a member of the board of the Prize Committee of Mo Ibrahim Foundation. The Foundation has done groundbreaking work in developing indicators for good governance. The Ibrahim Index of African Governance currently analyses annually the performance of African countries and governments, with 88 aspects of governance, in four overarching categories: (1) safety and rule of law; (2) participation and human rights; (3) sustainable economic opportunity; and (4) human development. The index indicates a close relation between good governance principles and egalitarian policies.

Progress in economic growth in a country does not always correspond to progress in democratic and social reform. No matter how rich in resources or wealthy a country might be, if the leaders are not held accountable and the resources not transparently managed, then there is only a small chance that a good education, health care, and equal opportunities will benefit the majority of the population. Recent high growth in resource-rich countries has indeed led to increased inequality in situations where the governments have been unwilling or unable to tackle growing inequalities between their citizens, as for example between the rural and urban dwellers.

It is also important to note that when national institutions and trust towards them are weak, attitudes towards laws and regulations are also often dismissive. This in turn is fertile ground for corruption and governance based on arbitrary decisions, often favouring elites.

If we accept the premise that it is important that our prosperity should be shared by all citizens, for every citizen's benefit and welfare, then decisions on the distribution of resources and how it is done are of great importance. Governments must accept visionary and bold leadership in this exercise, even if their view of their obligations might be different, and be informed in their policy decisions and their consequent implementation by reliable facts.

By referring to Ibrahim Index of African Governance (IIAG) I certainly do not want to claim that good governance is a challenge only for African or Asian countries. Quite the contrary, I would like to use the same methodology to also assess the performance of all countries of the European Council and its 47 member countries. I am sure this would make a very interesting comparison and provide their citizens with a realistic and useful tool to assess which way their governments are headed. Such data, provided by an independent and trusted organization, would provide a welcoming addition and bring a refreshing view to our current political debate.



implementing peace. Sustainable peace is not measured only by the absence of violence and violent structures, but by access to opportunities available in a society. It is the task of any peace mediator to ensure that peace advances access to these opportunities: equal access to opportunities is everything. Only in this way can we build a society in which citizens accept and respect their public institutions.

If access to opportunities is not properly ensured, then the legitimacy base of politics

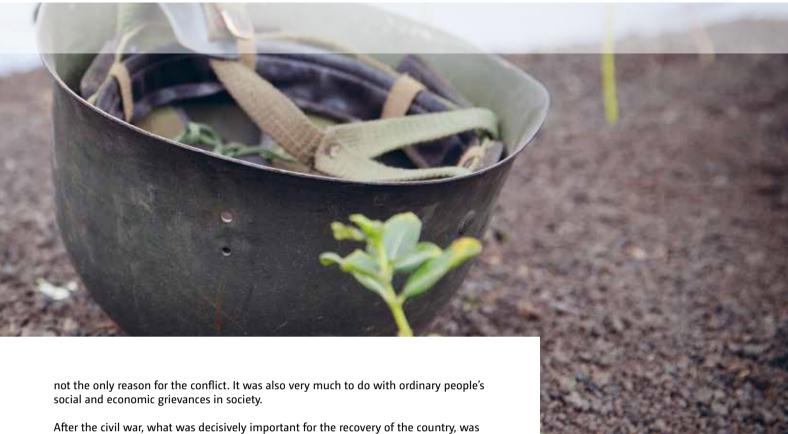
If access to opportunities is not properly ensured, then the legitimacy base of politics will always be fragile. Without proper education, health systems, and an adequate level of social security the functional capabilities of citizens will not be realized.

It is very clear to me that if I had not had access to various opportunities in my past, I would not have been able to do the things I have done in my life. I am a product of the Nordic model, which is based on egalitarian principles. These principles are the ones we need to work for, actively and strategically.



If access to opportunities is not properly ensured, then the legitimacy base of politics will always be fragile. By emphasizing egalitarian values and principles, I certainly do not mean to play down the complex political developments of any country. History matters. My great fortune is that I come from a country that has lived in peace and harmony for almost 70 years. No war has disturbed our life in decades. No civil strife has interfered with our daily business. A calm, perhaps even a little dull, society but safe and sound, nevertheless. However, this has not always been the case.

Towards the end of the First World War Finland, a Grand Duchy within the Russian Empire, broke ties with Russia. Soon thereafter, in 1918, the Russian revolution spread over the borders of our country. In many European countries there were incidents of serious civil strife, even civil wars. Our country was one of those where the controversies between the left and the right – the Whites and the Reds, as they were identified then – led to a brief but bloody civil war, which took the lives of almost 37,000 Finnish citizens. Even though the civil war took place in the context of a worldwide power struggle that was



After the civil war, what was decisively important for the recovery of the country, was the determination for reconciliation between the Whites and the Reds. Only some ten years after the end of the civil war the Reds, the losing party, were in government, properly elected and widely accepted. They too had modified their stand. They had abandoned their revolutionary ideas and accepted, without reservation, the principals of the rule of law and a democratic form of government. All this constituted the basis for a resumption of normalcy in the life of the nation.

Only some 20 years after the civil war, Finland had attained a standard of living comparable with most European countries. That was no small achievement for originally a poor agrarian country. A harmonious political life was a good foundation for basic economic reforms, based on egalitarian principles. Even the Second World War, where we were entangled, did not break the new fabric of society. We did invest heavily in the education and health care of our citizens, especially of children. This very conscious political decision has borne fruit. And steady progress has continued since in economic and political terms.

But let us be frank: the deep wounds that the civil war left in the minds and hearts of the people, took a long time to heal. Even during the last ten years we still have had a lot discussion and analysis about the war and its reasons and consequences. It is always a different thing to make institutional arrangements and agree on those, than truly reconcile and come to terms with one's past. But it is possible.

Nevertheless, one of the greatest lessons from any post-conflict society is that we must never be naïve. Societies that have been conflict-prone for decades, or even hundreds of years, need to pay very careful attention to the policies they promote and implement within their respective societies. During difficult times it is pivotal to assure that education, decent living and health care are available to all citizens, in an egalitarian manner. This is the best possible conflict prevention. Of course, at the same time we need preparedness and capabilities for everyday local level reconciliation.

If somebody wants to irritate me, just come and tell me that all this investing in egalitarian policies is not possible. Indeed it is. It is not only money and public services we are talking about here, but also the way we see each other and each other's roles in a society. It is a question of political will.





n order to promote egalitarian policies we have to understand that egalitarian principles are not only principles or values, but practices and strategic actions. Implementation of egalitarian policies requires longterm commitment and strong, high-quality leadership. The lessons learned are clear. If one wants to have a stable, prosperous community of citizens and businesses then a decisive investment in education – at all levels from early childhood education all the way to academic research - and health care for everyone has to be a priority. Accountable and respected public institutions, gender equality, and a fair distribution of resources have to follow. There just is no other way. All these together create a basis for societal trust, which has consequences for economic performance and the wellbeing of the people. Naturally there is no one recipe to do all this, but it is the task and responsibility of any political leader to identify the best possible and feasible models in their own political and economic contexts. The solutions can be partly national, partly regional or, in some cases, even transnational. But they have to be found. Egalitarian societies are the only societies we can afford to have.



Egalitarian societies are the only societies we can afford to have.





Hiilamo, Heikki, and Olli Kangas with Johan Fritzell, Jon Kvist and Joakim Palme (2013). 'A recipe for better life: Experiences from the Nordic countries'. Helsinki: CMI.

Oxfam (2013).

'A Cautionary Tale'. 174 Oxfam Briefing Paper. Oxford: Oxfam.

Sen, Amartya (1992).

Inequality re-examined. Oxford: Oxford University Press.

Sen, Amartya (2011).

'Quality of life: India vs. China'. The New York Review of Books, 58(8).

The Economist 02/2013.

'The Nordic countries: The next supermodel'.

## WIDER ANNUAL LECTURES

- 16 | The Folk and the Formula: Fact and Fiction in Development Lant Pritchett
- 15 | From Flying Geese to Leading Dragons: New Opportunities and Strategies for Structural Transformation in Developing Countries

  Justin Yifu Lin
- 14 | Reforming the International Monetary System José Antonio Ocampo
- 13 | The Trade-Development Nexus in Theory and History Ronald Findlay
- 12 | Developing Countries in the World Economy: The Future in the Past? Deepak Nayyar
- 11 | The Climate Change Challenge Kemal Derviş
- 10 | Global Patterns of Income and Health: Facts, Interpretations, and Policies Angus Deaton
- 9 | The World is Not Flat: Inequality and Injustice in our Global Economy Nancy Birdsall
- 8 | Rethinking Growth Strategies Dani Rodrik
- 7 | Global Labour Standards and Local Freedoms Kaushik Basu
- 6 | Winners and Losers in Two Centuries of Globalization Jeffrey G. Williamson
- 5 | Horizontal Inequality: A Neglected Dimension of Development Frances Stewart
- 4 | Globalization and Appropriate Governance Jagdish N. Bhagwati
- 3 | Is Rising Income Inequality Inevitable? A Critique of the Transatlantic Consensus Sir Anthony B. Atkinson
- 2 | More Instruments and Broader Goals: Moving Toward the Post-Washington Consensus Joseph E. Stiglitz
- 1 | The Contribution of the New Institutional Economics to an Understanding of the Transition Problem Douglass C. North

The collection of Annual Lectures 1997–2004 is available as:
Wider Perspectives on Global Development
Published in Studies in Development Economics and Policy, by Palgrave Macmillan (ISBN 9781403996312)

