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COMBATING POVERTY AND INEQUALITY

Structural Change, Social Policy and Politics



UNITED NATIONS RESEARCH INSTITUTE FOR SOCIAL DEVELOPMENT

COMBATING POVERTY AND INEQUALITY

Structural Change, Social Policy and Politics

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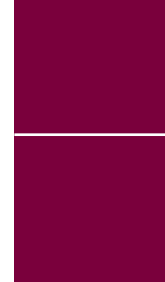
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Foreword



Human progress in recent decades has been very uneven. Alongside remarkable advances in life expectancy, literacy and overall human well-being, there remain serious concerns and deprivation – persistent poverty, heightened inequalities and greater vulnerability of many communities and social groups in much of the world.

The United Nations summits of the 1990s, in particular the 1995 World Summit for Social Development, emphasized the need to balance the economic and social objectives of development. The Social Summit called for policy and institutional changes to promote inclusive development and, in the Copenhagen Declaration, Governments committed “to creating an economic, political, social, cultural and legal environment that will enable people to achieve social development”.

The Millennium Development Goals (MDGs) also expressed, in concrete terms, this renewed commitment to social development. And indeed, the goals have been a highly effective tool to mobilize Governments and other development actors, including the scientific and research community.

Combating Poverty and Inequality is an important contribution to efforts to systematically explain how poverty reduction depends crucially on the interconnections among economic development, social policy and politics. The report reveals how poverty and inequality cannot be addressed by narrow approaches to social protection, or faith in the by-now-discredited notion that the benefits of economic growth will sufficiently trickle down to the poor. The analysis points instead to the need for new directions in macroeconomic policy and structural change to generate decent employment. It also stresses that processes of policy and institutional change should be democratically anchored and shaped by active citizenship.

UNRISD is well placed to have undertaken such a comprehensive inquiry. It has drawn on both its extensive network of researchers from around the world and its autonomous status within the United Nations system. This status allows the Institute wide latitude to engage with sensitive issues, question mainstream policies and institutional arrangements, and propose alternatives. Studies of this nature, which can generate new policy options grounded in sound empirical evidence, are essential if we are to accelerate progress towards poverty reduction. On the eve of the 2010 review of the MDGs, I commend the findings to policy makers and a wide global audience.

Ban Ki-moon
United Nations Secretary-General
New York, July 2010

Preface

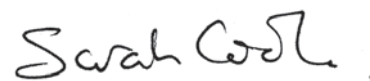
Combating Poverty and Inequality is published just as global leaders meet to review and recommit themselves to a set of goals for reducing poverty agreed, under vastly different circumstances, a decade ago. The optimism of the new millennium is now overshadowed by the effects of multiple, interrelated crises. Progress in many areas appears threatened and resources are more constrained.

This volume provides a timely reminder of the strengths and limitations of various approaches to addressing poverty in the current context. It is the culmination of an ambitious project, *Poverty Reduction and Policy Regimes*, initiated with characteristic foresight by my predecessor as Director of UNRISD, Thandika Mkandawire. Responding to a concern that dominant approaches to poverty reduction, as reflected for example in the PRSPs and MDGs, had serious shortcomings, the research aimed to reposition the analysis of poverty and poverty reduction processes within the broader political economy of development. A key premise of the report is that poverty cannot be reduced when both analysis of the problem, and the people affected, are relegated to the margins of development processes – targeted with safety nets or residual policy interventions while economic growth fails to create jobs, deliver services, or provide other means through which all individuals can realize their capabilities.

Building on lessons from prior research on social policy by UNRISD, the report demonstrates that countries which have successfully reduced poverty, from Europe to East Asia, did so through strategic state interventions. These included transformative social policies that aimed not only at protecting the vulnerable, but that also enhanced productive capacities, provided critical social investments and performed a redistributive function that contributed, in turn, to social cohesion and nation building.

Critical to this process have been links forged between state capacity, institutional arrangements and policies across the spheres of politics, the economy and society. As we face an increasingly complex global environment, where progress in some areas is threatened by new sources of vulnerability in others, solutions will equally need to reflect this complexity. The interrelationships between institutions of the state, market and household, and between social and economic policies, as well as relationships of politics and power, must inform our policy responses. We hope that this volume illuminates some of the critical linkages as we continue to seek effective interventions for combating poverty.

On behalf of UNRISD, I would like to thank the Swedish International Development Cooperation Agency (Sida) and the Finnish Ministry of Foreign Affairs for their generous and patient support for the research on which this report is based, as well as the governments of Denmark, Finland, Mexico, Norway, South Africa, Sweden, Switzerland and the United Kingdom who have provided core funding to UNRISD during the course of this work and without which such endeavours would not be possible. Many researchers around the world contributed to this report: we are grateful to them all. Yusuf Bangura, who has worked tirelessly as project coordinator and lead author to see this project through to completion, deserves particular recognition. I would also like to express my personal gratitude and congratulations to all my colleagues at UNRISD: this has been an Institute-wide effort, and a very long journey which I joined only in its final steps. We hope the results will contribute to renewed commitments and improved policies to reverse widening inequalities and end the unacceptable deprivation which continues to afflict millions of people worldwide.



Sarah Cook, Director of UNRISD, Geneva, July 2010

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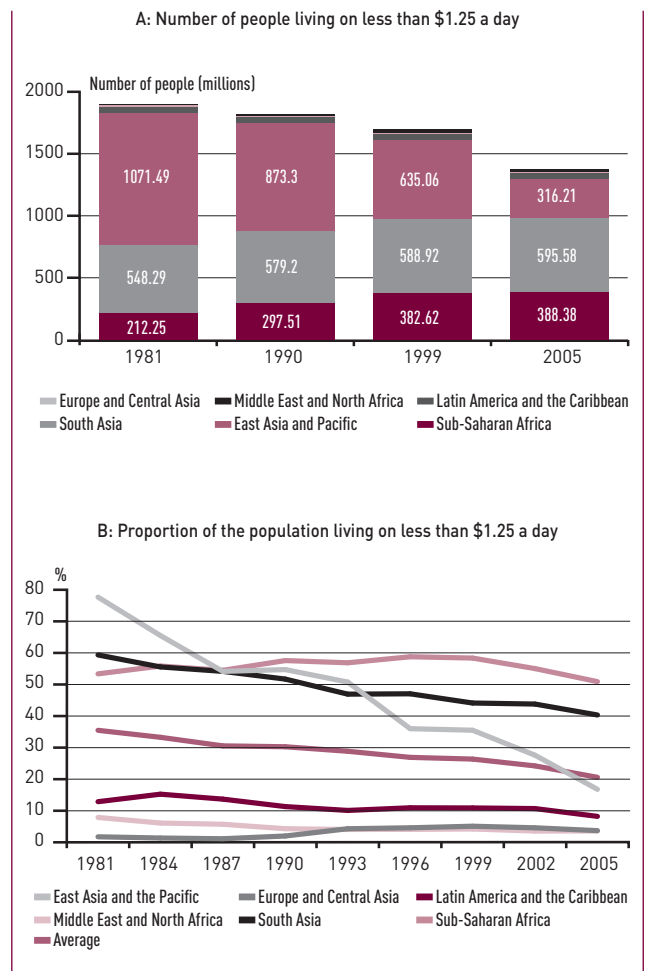
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Overview

The global economic and food crises have called into question the possibility of achieving the Millennium Development Goals of halving poverty and hunger by 2015. Before the crises, the number of poor people, defined in the MDGs as those living on less than \$1.25 a day, had fallen: from 1.8 billion in 1990 to 1.4 billion in 2005¹ (see figure O.1). Progress across regions was, however, varied with East Asia experiencing the sharpest fall – thanks to China’s rapid growth – and sub-Saharan Africa the least. Even if globally the poverty rate is reduced by half by 2015, as the latest United Nations progress report on the MDGs suggests,² about one billion people will still be mired in extreme poverty by 2015. Furthermore, according to estimates of the Food and Agriculture Organization of the United Nations (FAO), the number of malnourished individuals rose above the one billion mark in 2009 for the first time.³

Persistent poverty in some regions, and growing inequalities worldwide, are stark reminders that economic globalization and liberalization have not created an environment conducive to sustainable and equitable social development

FIGURE O.1: Global and regional trends in extreme poverty, 1981–2005



Source: World Bank Development Research Group 2009; see also UNDESA (2010).

Income and wealth inequality have also increased in most countries, as have inequalities based on gender, ethnicity and region. In developing countries, children in the poorest households and those in rural areas have a greater chance of being underweight than children in the richest households or those in cities and towns.⁴ In some of the least developed countries, children in the poorest households are three times less likely to attend primary school than those in the richest households. And globally, girls account for a much higher percentage of those who drop out of school than boys.

Persistent poverty in some regions, and growing inequalities worldwide, are stark reminders that economic globalization and liberalization have not created an environment conducive to sustainable and equitable social development. Even now, when poverty reduction is relatively high on the international policy agenda and governments are launching direct assaults on poverty through various programmes, poverty and inequality are proving intractable foes.

When a substantial proportion of a country's population is poor, it makes little sense to detach poverty from the dynamics of development

This report explores the causes, dynamics and persistence of poverty; it examines what works and what has gone wrong in international policy thinking and practice, and lays out a range of policies and institutional measures that countries can adopt to alleviate poverty. The report argues that current approaches to poverty often ignore its root causes, and consequently do not follow through the causal sequence. Rather, they focus on measuring things that people lack to the detriment of understanding why they lack them.

The report analyses poverty reduction as part of long-term processes of social, economic and political transformation, but also draws important lessons from the experiences of those countries that have successfully combined economic development and active social policy to reduce poverty

over relatively short time periods. It is critical of current approaches to poverty reduction that treat the poor as a residual category requiring discrete policies. When a substantial proportion of a country's population is poor, it makes little sense to detach poverty from the dynamics of development. For countries that have been successful in increasing the well-being of the majority of their populations, long-term processes of structural transformation, not poverty reduction per se, were central to public policy objectives.

The report also examines the complex ways that poverty alleviation outcomes are shaped by the interconnection of ideas, institutions, policies and practices in a triad of economic development, social policy and politics. It advocates a pattern of growth and structural change that can generate and sustain jobs that are adequately remunerated and accessible to all – regardless of income or class status, gender, ethnicity or location. It calls for comprehensive social policies that are grounded in universal rights and that support structural change, social cohesion and democratic politics. And it makes the case for civic rights, activism and political arrangements that ensure that states are responsive to the needs of citizens and that the poor have influence in how policies are shaped.

Such an approach contrasts with contemporary efforts to reduce poverty through discrete social policies that are often weakly related to a country's system of production or macro-economic policies. This has been the case with three of the dominant approaches to poverty reduction in the past decade, including the IMF- and World Bank-led Poverty Reduction Strategy Papers (PRSPs), the introduction in many countries of targeted poverty reduction and social protection programmes, and the UN-led Millennium Development Goals (MDGs) (see box O.1).

In the five years that remain of the MDG process, it is important that the world community continue to concentrate on meeting the agreed-upon targets, drawing lessons from recent experience about the most effective mechanisms for doing so. It is equally important to begin an inquiry into how to sustain progress towards equitable development and poverty reduction in a post-MDG world. This report aims to contribute to this endeavour.

BOX 0.1: Contemporary approaches to poverty reduction

Poverty Reduction Strategy Papers

Poverty Reduction Strategy Papers lay out the economic and social policies that governments in low-income countries should pursue to achieve growth and reduce poverty. The PRSPs share a strong lineage with the structural adjustment policies of the 1980s, which sought to correct the macroeconomic imbalances of crisis-affected countries. The deflationary and social consequences of these policies galvanized the international community, in 1996, to launch the Heavily Indebted Poor Countries (HIPC) initiative, which focuses on reducing countries' debts while helping to spur growth and reduce poverty. Through this process, the PRSPs emerged as a framework aimed at ensuring that resources freed up by debt relief would be used for poverty reduction. The IMF's Poverty Reduction and Growth Facility (PRGF), established in 1999, subsequently became the key instrument for providing loans. The PRGF was expected to support the PRSP goals of growth, poverty reduction and country ownership. In practice, however, it has remained narrowly focused on achieving fiscal stability.^a Rather than being designed to support PRSPs, therefore, it often pre-determines the macroeconomic frameworks and low inflation targets of the PRSPs. The resulting fiscal frameworks tend to be pro-poor in the sense that aid policy has been reoriented towards basic services. However, they have failed to be pro-growth, especially in terms of infrastructure investment and support for other growth-related activities that will expand capacity in agriculture and industry.^b

Programmes that target the poor

In the 1980s, fiscal constraints, as well as criticism of the capture of resources by elites, forced many governments in developing countries to shift priorities, placing less emphasis on the goal of universal social protection and more emphasis on targeting the poor. Social programmes were often cut back to residual interventions to cushion the worst effects of adjustment measures, while narrowly targeted mechanisms gained popularity on efficiency grounds. Since then social spending on health and education has often increased but targeted approaches have remained. While there are many positive examples of initiatives that have reduced poverty, sustained consumption and encouraged labour market participation, there are also shortcomings associated with this approach. Identifying and reaching those most in need requires a degree of state administrative capacity that is often not present in low-income countries, or that has been undermined in recent decades as a result of structural adjustment policies and public sector retrenchment. Where poverty is widespread, targeting is unlikely to make significant inroads. Moreover, targeted programmes that are not linked to a broader strategy aimed at ensuring that all citizens have access to basic services and income or consumption guarantees may exacerbate exclusion, resulting in lower quality services for the poor. Targeting also mitigates against the building of links among classes, groups and generations that enhance social solidarity.

Millennium Development Goals

The MDGs are a clear demonstration that world leaders can come together to address the major challenges of our time – not only war and financial crisis, but also poverty. The MDGs acknowledge the multidimensional nature of poverty, going beyond simplistic measures of income to identify other elements that define the experience of being poor. Leaving aside the improbability that people in some parts of the world could even survive on \$1.25 a day – the current definition of extreme poverty – such income metrics fail to account for the vulnerabilities and indignities that plague the lives of many people in poor countries. Such concerns are reflected in the inclusion in the MDGs of other targets, such as alleviating hunger, promoting universal primary education, reducing maternal and child mortality, advancing gender equality and easing the burden of major diseases. Despite an ambitious agenda, the MDGs nonetheless represent a cautious approach to social development. A number of critical issues and obstacles to overcoming poverty have not been addressed, including the mechanisms required to achieve the goals individually, or the synergies among them; the role of employment; growing levels of inequality; the often contradictory impact of certain macroeconomic policies; and the political and social relations that structure power and exclusion.

Notes: ^a Gottschalk 2008; McKinley 2004. ^b Gottschalk 2008; UNCTAD 2006.

Seven Arguments towards the Reduction of Poverty and Inequality

Poverty reduction requires growth and structural change that generate productive employment

A fundamental precondition for poverty reduction is a pattern of growth and structural change that generates productive employment, improves earnings and contributes to the general welfare of the population. Employment represents a crucial channel through which income derived from growth can be widely shared. If people have adequately remunerated jobs, they can lift themselves out of poverty, participate in social insurance schemes that enhance their well-being, and improve their educational and health status. In short, employment-centred growth can have a strong multiplier effect on various MDG targets. However, growth in many low-income countries has not been sustained and has failed to deliver jobs. Labour is still moving out of agriculture. But it tends to be absorbed into low-value activities in the urban informal sector where prospects for improving productivity and incomes are limited.

Employment represents a crucial channel through which income derived from growth can be widely shared

Three issues undermine efforts to adopt growth strategies that are employment centred. First, increased globalization has weakened the organic links between agriculture and industry. In many countries today, the urban population is largely fed by importing food rather than by supporting domestic agriculture; many countries also import most of their manufactured goods rather than expanding domestic production. In least developed countries with high levels of poverty, both agriculture and industry have stagnated because of this trend. Second, technological change and

sources of productivity growth are increasingly determined by foreign firms, reducing the demand for labour. The third issue relates to the continued hold of neoliberal ideas on macroeconomic policies, which emphasize fiscal restraint, privatization and liberalization. Within this framework, employment is seen as a by-product of growth that does not require direct policies. Even the macroeconomic frameworks of the PRSPs, which are supposed to help low-income countries generate growth and reduce poverty, are constrained by standard structural adjustment programmes that have been strongly criticized as deflationary.

Governments can achieve employment-centred structural change by pursuing deliberate policies in a number areas. These include:

- instituting selective and well-managed industrial and agricultural policies that connect the agricultural sector more productively to industry and other sectors of the economy;
- stimulating and maintaining an adequate level of labour demand by expanding domestic production and raising the demand for domestic goods and services;
- investing in infrastructure as well as education, training and research to improve skills, productivity and the mobility of the population; and
- adopting a macroeconomic framework that avoids procyclical policies or restrictive monetary and fiscal policies during periods of slow growth.

In addition, the international community can

- provide support to the least developed countries by reducing vulnerability to commodity price and interest rate shocks, phasing out agricultural subsidies in rich countries and granting more access to rich country markets.

Comprehensive social policies are essential for successful poverty reduction

Even when employment levels are high, social policies play an essential role in enabling people to extricate themselves from poverty. A number of welfare policies are

feasible and affordable for countries at fairly low levels of income. In fact, evidence from across the world, including high-income countries, suggests that poverty levels are drastically reduced after social transfers have been implemented, with the most significant reductions occurring in countries with comprehensive social policies that aim at universal coverage.

Although the MDGs are fundamentally about the promotion of social development, they do not provide a social policy framework for achieving the targets and exploiting the synergies among them. In efforts to meet the MDG targets, many countries, sometimes with the support of donors, have introduced targeted social assistance programmes. In countries where such programmes are well funded and stable, and reach large numbers of people, the results have been positive. However, where poverty and deprivation are widespread, targeting is unlikely to make significant and sustained inroads into poverty, may fail to build support among middle-income groups that are needed for funding and providing good quality services, and may condemn the poor to inadequate services.

An effective social policy framework for rapid and sustained poverty reduction must be grounded in universal rights. It should aim to:

- reinforce the redistributive effects of economic policy;
- protect people from income loss and costs associated with unemployment, pregnancy, sickness, chronic illness or disability, and old age;
- enhance the productive capacities of individuals, groups and communities; and
- reduce the burden of the growth and reproduction of society, including care-related work, which is unfairly borne by women.

This suggests that social policy, at its best, is transformative, and cannot be separated from efforts to create employment-centred growth and structural change since they allow for the incorporation of more people into social insurance schemes that are redistributive across classes, groups and generations. Employment-centred growth and structural change also facilitate the provision of universal social

services and the funding of complementary social assistance programmes out of public revenues. Social policies must also acknowledge and reward the unpaid care work that goes into sustaining families, households and societies by investing in social infrastructure and basic services, and reducing the workload of women.

Social policy, at its best, is transformative, and cannot be separated from efforts to create employment-centred growth and structural change

High levels of inequality are an obstacle to poverty reduction

The PRSPs and MDGs are concerned primarily with absolute levels of poverty; neither directly addresses the issue of inequality.⁵ In contexts of high inequality, growth is often concentrated among sectors that benefit the elite; the poor, on the other hand, are likely to be excluded from market opportunities or to lack the resources to benefit from growth. High levels of inequality make it harder to reduce poverty even when economies are growing, while the evidence also reveals that poor countries are generally more unequal than rich ones. Poverty and inequality must thus be considered as interconnected parts of the same problem. Poverty is closely related to various dimensions of inequality, including income status, gender, ethnicity and location. And inequalities are manifest across several dimensions, such as employment, earnings and access to social services. These inequalities are often interlocking and dysfunctional for development for a number of reasons.

Poverty and inequality must be considered as interconnected parts of the same problem

First, they make it harder to incorporate the poor and disadvantaged in the growth process; inequalities constrain their productive capacity and their potential contribution to development. Second, in highly unequal societies, the poor are more likely to be locked into a subsistence economy. This may limit the size of the domestic market and thus retard the potential for sustained growth. Third, high levels of interlocking inequalities may undermine the realization of civil, political and social rights; they may raise the level of crime and plunge societies into conflict. Fourth, high levels of inequality may create institutions that maintain the political, economic and social privileges of the elite and lock the poor into poverty traps from which it is difficult to escape.

Countries can adopt a number of redistributive policies to tackle the multiple dimensions of inequality. These include:

- providing the poor (differentiated by gender, ethnicity and other relevant characteristics) with greater access to productive assets, such as land;
- investing in social infrastructure to reduce the drudgery of domestic work;
- pursuing affirmative action policies for disadvantaged groups within a framework that incorporates all citizens in national development and welfare provision;
- stimulating investment in rural infrastructure, creating public works programmes and increasing access to credit;
- pursuing fiscal reforms that improve tax administration, prevent tax evasion, and limit opposition to progressive taxation and redistribution; and
- creating a stable global economic environment that responds to the needs of low-income countries.

Poverty reduction requires effective state action

Sustained progress in combating poverty requires effective states that are both developmental and redistributive. Countries that have successfully reduced poverty in relatively short periods of time had purposeful, growth-oriented and welfare-enhancing political systems; they also built and

maintained competent bureaucracies. Such effective states must be able to overcome critical market failures, assist in the acquisition of new technologies, mobilize and channel resources to productive sectors, enforce standards and regulations, establish social pacts, and fund and manage services and social programmes.

Countries that have successfully reduced poverty had purposeful, growth-oriented and welfare-enhancing political systems; they also built and maintained competent bureaucracies

Building state capacity requires a focus on three crucial dimensions:

- the crafting of political coalitions needed to set and carry out policy;
- mobilizing resources with which to implement development objectives; and
- allocating resources to productive and welfare-enhancing sectors and enforcing rules governing their use.

Building political coalitions and strengthening resource mobilization capacities can improve policy space and are likely to be effective when governments embrace agendas that provide wide-ranging and good quality services to broad sections of the population. And enforcement capacity can be enhanced when citizens participate in monitoring resource use. States with a broad power base, well-organized ruling parties, competent bureaucracies and an activist citizenry have effectively implemented redistributive policies and tackled poverty.

Current approaches to state-building have focused largely on market-enhancing reforms of good governance, managerialism and decentralization. Aspects of these reforms are desirable goals for all countries, but they do not necessarily generate and sustain growth or produce socially equitable outcomes.

Politics matters for poverty reduction

The protection of civic rights, active and organized citizens, and political parties that effectively engage the poor and other disadvantaged groups are all important for sustained progress towards poverty reduction. Most low-income countries have relied on the participatory frameworks of PRSPs to involve citizens in designing and implementing anti-poverty strategies. However, the consultative process adopted has generally failed to give citizen groups the power to effect real change or to get policy makers to deliver on agreed-upon goals. Many such groups typically feel that real decisions on important policies lie elsewhere. Similarly, current international efforts to involve big business in poverty reduction through corporate social responsibility, private regulation and stakeholder dialogue have largely failed to take account of how, historically, business collaborated with states and social groups in societies that have alleviated poverty.

The protection of civic rights, active and organized citizens, and political parties that effectively engage the poor are all important for poverty reduction

Lessons from successful democracies suggest that effective strategies to combat poverty require that:

- rights be institutionalized to allow citizens to organize and contest public policies as autonomous actors;
- political parties are embedded within broad social coalitions that include the active participation of the poor, women and other disadvantaged groups;
- bargaining regimes or social pacts are constructed that give groups voice and influence in holding corporations and states to account and in shaping development policies and outcomes; and
- the democratic regime is sufficiently competitive to create uncertainties in electoral outcomes, allow for periodic changes in power and prevent ruling parties from becoming complacent.

There are many paths to poverty reduction

Different countries have pursued divergent paths to achieve development. Most countries that have been successful in exploiting the benefits of globalization have adopted heterodox policies that reflected their national conditions, rather than fully embracing market-conforming prescriptions. Evidence from such countries suggests that industrialization provides a powerful pathway to improved incomes and well-being. However, industrialization is not the only viable route out of poverty. If governments in low-income agrarian societies commit to supporting agriculture by improving productive capacities, incomes and services in rural areas, agriculture can provide a solid foundation for development and for enabling low-income households to move out of poverty.

The global economic crisis has given added impetus to the calls from developing countries for greater policy space. This is a potentially important development, but it should not be reduced to issues such as less donor conditionality or the possibility of developing country governments adopting countercyclical policies. Policy space also means that countries and peoples should have the option to adopt different models of development in which issues of employment-centred growth and structural change, transformative social policy, and democratic politics that elevate the interests of the poor in policy making, figure prominently.

Most countries that have been successful in exploiting the benefits of globalization have adopted heterodox policies that reflected their national conditions, rather than fully embracing market-conforming prescriptions

Poverty is reduced when economic and social policies, institutions and political arrangements are mutually supportive

Rapid and sustained progress towards poverty reduction requires recognition of, and action on, the interconnectedness of different policies and institutions. Reducing poverty entails not only having employment-centred growth strategies, or pursuing comprehensive social policies, or even getting the politics right. It is also about consciously coordinating policies and institutions in those three domains to deliver maximum impact. Governments should focus on the way institutions and policies are linked across spheres and the synergies they create in tackling specific problems. Effectiveness of one institution or policy in a particular sphere may lead to, or require, complementary institutions or policies in others.

The exploitation of synergies requires conscious design of both economic and social policies, backed by sufficiently powerful coalitions to see them through

Pursuit of one set of policies in one domain and the neglect of others may undermine the full realization of the benefits of the chosen set of policies. For instance, if countries pursue only employment-centred growth, segments of the population that are disadvantaged or excluded from the labour market may be negatively affected. Similarly, if social policy is detached from the dynamics of production, the resources required to support social policy may not be generated, and economies may experience crisis or inflation if social programmes are expanded, ultimately worsening the position of the poor. Also, strategies that succeed in mobilizing citizens but fail to expand productive capacities and opportunities may produce politically unstable outcomes.

Achieving institutional complementarity requires – but should not be reduced to – policy coherence. Institutional complementarities or policy regimes are a product of competing values on rights, differences in the weights accorded

to markets and non-market institutions in coordinating activities, and differences in power structures that have evolved historically. The exploitation of synergies among different sectors and subsectors is important in overcoming poverty and inequality. However, such synergistic relationships are not automatic. They require conscious design of both economic and social policies, backed by sufficiently powerful coalitions to see them through.

Summary of the Report

This report is grounded in extensive research on contemporary and historical approaches to poverty reduction and draws out important insights and implications for policy. It is based on research by the United Nations Research Institute for Social Development (UNRISD) that includes more than 40 background papers, as well as in-depth case studies and overview papers of countries or territories with different development experiences (see box O.2). It explains why some countries have been more successful than others in combating poverty, and how economic and social policies, and politics, can be organized to produce good anti-poverty outcomes.

Section one of the report analyses the dynamics of structural change in diverse country, economic and social contexts. It advocates a pattern of growth and structural change that can create and sustain decent jobs that are accessible to all regardless of income status, gender, ethnicity or location.

Section two examines the central role of social policy in combating poverty and inequality. It advocates a universal approach to social protection, along with selective interventions to reach the most excluded groups; universal provision of social services, including care; and financing mechanisms that are redistributive and sustainable in economic and political terms.

Section three discusses the importance of effective state action and types of business practices and democratic politics that are conducive to poverty reduction.

BOX 0.2: Preparing this report: A note on case studies and approaches to poverty

As inputs to this report, UNRISD commissioned in-depth studies on Botswana, Brazil, Costa Rica, India, Kenya, Malaysia, South Africa and Taiwan Province of China. These were classified according to regime characteristics of democracy and authoritarianism and five patterns of structural change:

- economies that have made successful transitions to manufacturing;
- cases of high levels of industrialization with dualist labour markets;
- cases of service-led growth;
- economies in which agriculture dominates; and
- mineral-rich economies.

The research focused on six broad themes:

- development strategies, structural change and poverty reduction;
- wealth and income inequality;
- social protection;
- social services;
- organized interests, development strategies and social policy; and
- developmental state capacity.

In addition, overview papers addressing similar issues were commissioned on China, Finland, Ireland, the Republic of Korea, Singapore, the former Soviet Union, Sri Lanka and Viet Nam, representing:

- late industrializers with high levels of structural change;
- countries with a good record in poverty reduction that have pursued heterodox economic policies in opening up to the world market;
- countries that historically have done well in human development with low per capita incomes; and
- countries with a previously good record in poverty reduction and that have transitioned from communism to capitalism.

Many of these cases appear repeatedly in various chapters of the report and are used to shed light on the links between structural change, social policy and politics. UNRISD also commissioned more than 40 background papers to complement the findings of the case studies. Apart from their rich insights on certain themes that are relevant to the report, some of these papers also yielded detailed information on an additional set of countries: Argentina, Cambodia, Côte d'Ivoire, Ghana, Indonesia, Mexico and Senegal. The report also draws substantially on previous work by UNRISD. The case studies used national poverty lines rather than \$1.25 a day measures.^a Although this makes comparisons of the incidence of poverty across cases difficult, it throws light on the dynamics of poverty in different contexts. No income metric can account for the complex of deprivations that exists in poor countries, which underscores the importance of studying poverty from a multidimensional perspective. However, in order to highlight the centrality of employment in poverty reduction and the nature of poverty risks for different types of sectors and social groups, some of the chapters of the report focus on income poverty. The limitations of income measures of poverty have been highlighted by many scholars.^b For instance, fast-growing India has done well in income-poverty reduction but has experienced regression or slow progress in other dimensions of poverty, such as infant mortality and child nutrition. The report, therefore, addresses multiple aspects of well-being, such as educational achievements, life expectancy and nutrition, which are identified in the capability approach, which focuses on the type of life individuals can live rather than their income. Such an approach draws attention to the importance of social rights and freedoms, a theme that runs throughout the report. That said, the capability approach also shares a common feature with the income approach in that it fails to pay adequate attention to group dynamics and the causes of poverty.^c The approach to poverty used in this report is rooted in power relations, global dynamics and group analysis. It seeks to explain why people are poor and why inequalities exist, as well as what can be done to rectify these injustices.

Notes: ^a For a critical review of the dollar a day poverty measure, see Pogge and Reddy (2006); UNDESA (2010). ^b Sen 1999; Stewart et al. 2007; Deaton and Drèze 2002. ^c Stewart et al. 2007.

Section One: Socially Inclusive Structural Change

Structural change involves continuous shifts in the shares of manufacturing, services and agriculture in output and employment in favour of more dynamic sectors. How these sectors are organized, and how individuals, groups and communities are integrated into them, have implications for people's livelihoods. Employment represents the single most important source of income for the majority of the world's people – either directly through their participation in the labour market, or indirectly through their membership in households sustained by earnings from employment. Structural change that improves employment opportunities will therefore be more inclusive than that in which the quality of employment stagnates or deteriorates. Conversely, unequal access to decent work and persistent labour market inequalities will frustrate efforts to reduce poverty. Labour market inequalities manifest themselves in relation to class, gender and ethnicity, and may take the form of casual, irregular and unprotected employment, longer working hours and low pay. They are also linked to other dimensions of inequality, such as asset holdings and access to services, social protection schemes and political power. Strategies for socially inclusive structural change should therefore be based on employment-centred growth and redistributive policies that address multiple inequalities of class, gender and ethnicity.

Generating employment should be a central objective of structural change

Chapter 1 outlines elements of a framework for incorporating employment more centrally in development policy. It highlights the potential and limits of different growth paths in generating employment and points to the importance of national policy space in formulating employment-centred development strategies. It argues that economic growth or industrialization per se will not necessarily lead to sustained improvements in employment, income and well-being. The traditional rich-country pattern of structural change,

in which economic growth fuelled a shift from agriculture to industry and from industry to services, as well as a shift from informal sector to formal wage employment, is difficult to replicate in the context of open economies without deliberate policies. Workers are still moving out of agriculture in the vast majority of countries. But they typically find work in low-value services and informal employment with limited opportunities for sustained growth in productivity and incomes. The free-market orientation of development policy in the last few decades has made matters worse, since, in many countries, it has been associated with expanding labour market inequalities, persistent informalization and the emergence of precarious forms of employment.

Economic growth or industrialization per se will not necessarily lead to sustained improvements in employment, income and well-being

The chapter shows that structural change can have multiple trajectories, such as situations of stalled industrialization and dualistic labour markets (that is, a formal sector that offers high wages, benefits, security and prospects for upward mobility; and an informal sector characterized by low incomes and less job security, training and mobility), as found in many Latin American and other middle-income countries. Other countries have experienced service-led growth paths or have economies in which agriculture still dominates. In still other countries, the course of structural change is determined by mineral wealth. The chapter discusses the extent to which these different patterns of structural change are socially inclusive in terms of their capacity to generate jobs and improve incomes and well-being. It shows that growth paths that are driven by low-productivity activities in agriculture and services, or by mineral rents in which structural change is stuck in the primary sector, have produced highly segmented and unequal labour markets. In these types of economies, the poor are often

locked out of dynamic growth sectors. Poverty may take the form of persistent unemployment; part-time work with low remuneration and protection; longer working hours at low pay; or widespread underemployment and low incomes in informal and agricultural activities.

The structure of households – that is, the composition of earners and dependents – directly influences how employment opportunities translate into changes in poverty outcomes. The report employs a working poor poverty rate to examine the relationship among different types of employment and poverty outcomes. The working poor are defined as individuals who are employed and living in households whose income or consumption levels fall below a poverty threshold. The working poor poverty rate is the number of working poor in a particular employment category expressed as a percentage of the total number of people in the same employment category. Working poor poverty rates tend to be higher in agricultural versus non-agricultural employment and in informal versus formal employment.

The report argues that policy is crucial for generating structural change that realizes better quality employment and poverty outcomes. However, there is no one-size-fits-all approach to employment policy; and the critical institutions for inclusive outcomes often lie outside the labour market itself. Macroeconomic policy, financial institutions, the international structure of production, the nature and composition of households, gender dynamics and social policy all influence employment outcomes and the potential for better opportunities to translate into real differences in people's lives. Countries that seek to expand employment opportunities must adopt macroeconomic frameworks that avoid restrictive monetary and fiscal policies during periods of poor growth since they tend to reduce the growth of domestic demand, which affects employment generation.⁶

Countries that have been successful in reducing poverty relatively quickly used industrial and agricultural policies to facilitate employment-centred structural transformations. The precise policy configuration differs across countries, but they share a number of common features, including:

- public investment in infrastructure;
- development finance to channel credit to specific productive activities;
- well-managed industrial and agricultural policies such as subsidies, tax credits, extension services and land redistribution;
- management of the investment-export nexus;
- the pursuit of dynamic competitive advantage by nurturing the development of strategic industries and activities; and
- social policies that improved the skill levels and welfare of the population.

Similar kinds of interventions can be used in many countries today that have the governance capacity to transform the structure of employment, nurture productive linkages between industry and agriculture, and encourage the development of a solid foundation of decent work opportunities. Such strategies will have to be sensitive to the constraints of climate change, which require additional efforts to support technological capacities that will propel countries onto high-growth paths that are low carbon-intensive.⁷

Reducing income inequality is essential for poverty reduction

Inequality is considered by some to be of little social concern. So long as poverty is minimized, it is argued, there should be no principled objection to the unbridled gains of the very rich. In some hands, this argument becomes one of active advocacy: that the concentration of wealth should be cultivated to generate savings, investment and growth.⁸ Yet the fact that high levels of inequality are often found in the poorest countries exposes the weakness of this argument. Evidence suggests, in fact, a two-way causal relationship between poverty and inequality. But there are other grounds on which concern about inequality is warranted. The international human rights framework commits governments to uphold equality in civil and political rights and to take steps progressively to achieve this. Furthermore, some notion of equity is central to the construction of inclusive societies and the realization of substantive citizenship.⁹

Evidence suggests a two-way causal relationship between poverty and inequality

Apart from a commitment to eliminate gender disparities in primary and secondary education, the MDGs virtually ignore the issue of inequality. Recent reports¹⁰ have underscored the intrinsic value of equality as well as its relevance for achieving growth and reducing poverty. But the view articulated in the World Bank's *World Development Report 2006*, for example, emphasizes equality of opportunities as opposed to outcomes. This argument justifies unequal outcomes if the processes that generate them are fair,¹¹ and advocates interventions only to protect those who fall below an absolute threshold of need. The result is a weak redistributive agenda that shies away from any serious consideration of wealth and income redistribution now, emphasizing instead investments in opportunities that might produce a more equitable future.¹²

Chapter 2 examines the causes, patterns and dynamics of inequality, with a particular focus on inequalities of income and wealth, often referred to as vertical inequalities. Emphasis is placed on both the intrinsic and instrumental value of redistributive policies and processes that lead to equitable outcomes. The chapter demonstrates that increases in inequality are linked to a range of economic policies that have dominated the development agenda in recent decades. These include financial liberalization, regressive taxation, privatization in the context of weak regulation, public expenditure policies that fail to protect the poor during crisis or adjustment periods, and labour market policies that lead to precarious forms of flexibility, informalization and an erosion of minimum wages and union bargaining power.¹³

Despite the importance of structural change in determining levels of inequality, there is no single pattern that holds for all countries across time. Instead, (i) redistributive policies can moderate inequalities even at early stages of industrialization, and (ii) rapidly industrializing economies with a

previously egalitarian income distribution may experience rising inequalities in the absence of corrective measures. Furthermore, (iii) most low-income agrarian societies that have not yet experienced sustained growth and industrialization, and whose public policies lack a redistributive focus, generally have high levels of inequality, and (iv) the growing dominance of the financial and technological sectors in national economies, especially in contexts where economic policies favour market liberalization and less redistribution, increases inequality.

The chapter also shows that structural change – in terms of the changing roles of agriculture, industry, technology and finance in an economy – and the global terms of trade among these sectors are closely related. In the short run, global terms of trade have a direct effect on inequality in a liberalized economy. For instance, a fall in global commodity prices will tend to drive up inequality in agrarian economies by lowering the relative incomes of commodity producers. A technology bubble raises incomes at the top. High interest rates, in general, penalize debtors and reward creditors; they thus raise inequality since the latter are almost invariably richer than the former. This underscores the importance of global governance of financial and commodity markets and the management of global monetary policy.

Since reducing inequality has value in its own right, and also yields substantial benefits in terms of both poverty reduction and growth, the chapter suggests a number of mutually supportive redistributive policies that countries can adopt. They include:

- land reform, especially in highly unequal economies where the poor depend substantially on land for their livelihoods;
- fiscal reforms that improve tax administration, prevent tax evasion and avoidance, and limit opposition to progressive taxation and redistribution;
- income-generating employment opportunities; and
- a number of expenditure-related policies that will enhance the welfare of the poor (such as the range of social policies discussed in Section two of this report).

Redistributive policies can help mitigate ethnic and regional inequalities

Structural change affects individuals, groups and regions differently. Group membership is intrinsic to human development, and when the benefits and costs of structural change correspond to ethnic or religious affinities, or geographic location, individuals may perceive development in terms of those cleavages. Such inequalities may be a source of conflict and adversely affect well-being. However, measures of inequality that rank individuals and households by income often exclude group and spatial dimensions.

Group inequalities are closely linked to the ways in which groups are integrated into different sectors of the economy, as well as in their representation in political and social institutions. They are also reflected in how identities are valued in the cultural sphere. Such inequalities are therefore multidimensional and encompass economic, social, cultural and political aspects. Achieving equality in each of these dimensions has intrinsic value, as well as being instrumental in promoting equality along other dimensions, or in achieving other development goals.

Chapter 3 analyses the evolution of inequalities among different regions and ethnic groups as well as policies for their mitigation. It highlights a number of reasons why ethnic and spatial inequalities are critical in understanding poverty.

- First, between-group (or horizontal) inequalities make up a large component of overall inequality within any country. A focus on only vertical inequality may obscure important differences among groups or regions. Some groups may be seriously disadvantaged or have higher than average concentrations of poverty even when overall vertical inequality is low.
- Second, regional inequality in large industrializing countries as well as in most developing and transition economies appears to be on the rise. If ethnic groups are geographically clustered, industrialization or development may bypass groups that are not located in economically dynamic zones, intensifying poverty in neglected areas.
- Third, inequalities between ethnic groups can lead to conflict, which may affect development. Indeed, most conflicts today tend to have an ethnic dimension¹⁴ and are difficult to resolve.
- Fourth, horizontal or between-group inequalities are significant because, in some situations, it may not be possible to improve the position of individuals without tackling the position of the group.

Ethnic and spatial inequalities are critical in understanding poverty

In ethnically diverse societies, regional and ethnic inequalities may be closely interrelated, although the dynamics may differ when ethnic populations are highly mobile or dispersed. Typically, regional inequalities increase in early stages of development and decrease in more mature stages. However, it is hard to predict how ethnic inequalities will change over time as incomes increase. Ethnic inequalities are often created by a foundational shock that may propel a country along a particular development trajectory. Once that shock has ended, those inequalities often persist for long periods, and individuals may become mired in poverty because of the difficulties of moving across groups. Groups that start out in a privileged position may forge ahead, while those that have been underprivileged historically may be trapped in a vicious cycle of poverty. Breaking through these cycles is crucial to tackling poverty levels among disadvantaged groups.

The chapter argues that redistributive policies can help to mitigate ethnic and spatial inequalities. It is easier to correct ethnic inequalities when an economy is growing, the targeted population has strong links with policy-making institutions, and the redistributive policy is part of a larger strategy to transform the economy and eliminate poverty irrespective of ethnicity. Affirmative action policies that target disadvantaged groups may improve horizontal inequalities but worsen intra-group and (overall) vertical inequalities. Policies that target both ends of the distribution curve may lead to improvements in both inter- and

intra-group income distribution; those that focus on the upper end of the curve may lead to a worsening of intra-group inequality. Regional disparities appear to respond well to regional development strategies. Even poor countries that have pursued such strategies have reduced poverty in the worst-off areas. Correcting horizontal inequalities is inherently political. Without political inclusivity, there is little chance of implementing effective remedial policies for disadvantaged groups.

Reducing gender inequalities requires both redistributive and regulatory measures

Over the past two to three decades there have been significant changes, many of them positive, in the social and economic status of women that have helped reduce gender inequalities. Such changes in women's lives are associated with the social transformations that attend economic development. But they are not simply a by-product of economic growth. In many instances, change has been instigated or accelerated by state reforms and social movements. The last decade of the twentieth century was particularly significant, since it was marked by a series of political transformations that included the transition from authoritarian rule in many parts of the world. Women's movements, both national and transnational, took advantage of the altered political context (that they themselves had helped to shape) to advance women's rights, working both in and outside state machineries for legislative and policy reforms. However, the positive outcomes of the past decade – in terms of girls' enrolment in primary and secondary education, women's representation in politics and new legislation prohibiting violence and discrimination – must be qualified in the light of continuing gender inequalities and a less than favourable economic environment.

The ambivalent nature of women's achievements is illustrated most strikingly in what has been termed the feminization of labour. As chapter 4 shows, not only has women's access to paid work increased in most countries (with the exception of Eastern Europe and Central Asia) but, at the same time, a deterioration has occurred in the terms and

conditions of much of the work on offer. Informal employment tends to be a greater source of employment for women than for men in most developing regions, with women often concentrated in the most casual and exploitative forms of work. In some contexts, earnings are so low that even the existence of multiple earners is not sufficient to pull the household above the poverty line.

Positive changes in the social and economic status of women have helped reduce gender inequalities, but they are not simply a by-product of economic growth

Given these realities, many have argued that poverty has a female face or is increasingly feminized. The chapter shows a more complicated picture. While labour market segmentation by gender is pervasive, with women often clustered into the more casual and low-paid segments of the informal economy, this is not always reflected in poverty outcomes. Such outcomes, measured at the household level, depend not only on women's individual earnings but also on the structure of their households and the possibilities it presents for pooling household income. The chapter argues that current measurement methods can easily hide gender inequalities in access to income and economic security. A household is considered poor if the joint income of all members falls below a given poverty threshold, assuming that household income is equitably divided among all household members. Even where this highly problematic assumption holds true and adult women are able to escape material poverty by pooling income with other household members, this can leave them in a situation of financial dependence.

Reducing gender inequalities requires both redistributive and regulatory measures. Socially inclusive structural change, for instance, requires a strengthening of women's links to the formal labour market as well as stronger regulation and protection of informal workers, among whom

women are overrepresented in many countries. The chapter discusses cases in which the extension of labour law, social protections and regulations is already taking place, especially in relation to domestic work, and where it has improved wages and working conditions without adverse consequences for employment. Though women are frequently excluded from social insurance programmes as workers in their own right, they are being targeted by many new social assistance programmes, often because of their role as mothers. However, cash transfers are unlikely to resolve the problem of gendered poverty and inequality unless they are underpinned by policies that promote women's access to long-term economic security. Reducing and redistributing the amount of unpaid care work that women and girls undertake to meet their social obligations is essential to achieving these goals.

Section Two: Transformative Social Policy and Poverty Reduction

Social policy can contribute to economic growth as well as social welfare. It is an integral part of the growth strategies of countries that have experienced far-reaching structural change and reduced poverty rapidly. As late industrializers, these still developing countries adopted a number of welfare policies at fairly low levels of income that covered a substantial share of their populations. This contradicts a conventional “stages” view of social policy and development, which posits that specific policies may be structurally impossible or premature to adopt at certain levels of income. The empirical evidence used to support this view includes the fact that social expenditures are highly correlated to levels of economic development and that, in rich countries, the sequence of rights secured followed a certain pattern – civil rights, political rights and then social rights. In contrast, the report argues that, although structural constraints matter, there are no prerequisites for social and economic policies that seek to eradicate poverty. Nor are there stages of development through which countries must inevitably pass when introducing various aspects of social policy.

Latecomers can exploit the advantages of catching up by absorbing lessons from the pioneering countries. This allows for leap-frogging.

The experience of successful countries offers a crucial lesson about the transformative role of social policy.¹⁵ For social policy to be transformative, it must not be confined to a residual role of providing only a safety net for the poor. Rather, it must address broader economic, social and political goals, such as distribution, protection, production and reproduction, which are consciously coordinated to deliver maximum impact.¹⁶ If not, pursuit of one goal and neglect of the others may undermine the full realization of the benefits of the chosen goal. For instance, if countries pursue only redistribution and neglect the productive side of social policy, they may plunge their economies into crisis, generate high levels of inflation and ultimately worsen the position of the poor. Similarly, if social policy is made too production-focused, segments of the population that are disadvantaged or excluded from the labour market may be negatively affected. And if social policy neglects the reproductive side, the burden of growth and reproduction of society may be unfairly borne by women, which may ultimately strain the social fabric and reduce fertility rates to below replacement level.

This underscores the need to uphold both the intrinsic and instrumental values of social policy. For instance, savings accumulated as social insurance funds, such as pensions or provident funds, can contribute to infrastructure development and industrialization. Similarly, investment in human capital will not only improve the education and health of the population, it will also raise the productivity of labour and help firms and employees to manage adjustments in labour markets during economic downturns. Social policies may also act as powerful stabilizers, since income-replacement schemes may help smooth economic cycles and avoid deflationary crises by stabilizing demand and domestic markets. Social policy can also legitimize the political order, enhance social cohesion and contribute to political stability.

Typically, a fall in poverty has had less to do with policies aimed at poverty per se than those aimed at much wider social objectives. Indeed, in a number of countries that have

successfully dealt with poverty, its alleviation was just one of several goals prompting the introduction of social policies. In the Nordic and East Asian countries, for example, broader social objectives – including catching up, equality, full employment, solidarity and nation building – had far-reaching implications for poverty. And in more recent years, significant declines in poverty have taken place in some countries before clear shifts towards more focused poverty reduction strategies. In fact, some have argued that the narrow preoccupation with poverty may actually work against the broad and long-term efforts that are required to eradicate poverty.¹⁷ A UNDP report on China points in the same direction (see box O.3). The idea is not to dethrone poverty from the policy agenda, but to stress that the factors that may eventually reduce poverty are not those that address its proximate causes.

BOX O.3: Poverty reduction in China: Getting the policies right

“The poverty incidence [in China] fell most rapidly before there were specific poverty alleviation programs in existence. When these programs were flourishing, on the other hand, poverty reduction at times stagnated and even suffered reversal. This is not because China’s poverty reduction policies and programs have been useless or counter-productive; on the contrary, there is reason to believe they have made a difference in the localities where they were carried out. Rather, it is because much larger forces have determined the shape and speed of poverty reduction, namely, macroeconomic and other general economic policies and trends. These include, inter alia, policies concerning farm prices, factor prices, state investments, fiscal structure, financial reform and the social safety net and social insurance regimes. When the constellation of such policies was strongly pro-poor, poverty reduction occurred at a breathtaking speed, despite the absence of explicit poverty reduction institutions. Yet when the general policy constellation was not pro-poor, then the course of poverty reduction was much less rapid. A key conclusion from a review of this history is that there are many ways in which China’s macroeconomic policies and economic institutional set-up could be made more pro-poor than they have generally been.”

Source: Bouché et al. 2004:15.

The report makes a strong case for the progressive realization of universal social rights that are grounded in a social contract when poor countries address issues related to poverty. When poverty is widespread, targeting the underserved is unnecessary and administratively costly. Targeting is also fraught with problems such as asymmetries in information, distortion of incentives and moral hazard. In addition, the process of identifying the poor and underserved may lead to discretion and arbitrariness, and subject targeted individuals to stigmatization and invasive processes. Thus the universalism that guided social policy in many countries in the past was in fact dictated by underdevelopment – targeting was simply too demanding in terms of available skills, information and administrative capacity.¹⁸ Targeted policies may be necessary when background conditions make it difficult for segments of poor populations or other disadvantaged groups to access universal programmes. However, targeting can be most effective when pursued within a larger framework that leans towards universalism.

Towards universal social protection

Protecting individuals and households during periods when they cannot engage in gainful employment or obtain enough income to secure their livelihoods – due to unemployment, sickness, chronic ill health or disability, old age or care responsibilities, for example – is a key development goal. However, the majority of the world’s people still lack adequate access to basic social protection. Instead, they provide for themselves or rely on the support of families, communities or non-governmental organizations (NGOs).

Chapter 5 argues that there are good reasons, from both normative and instrumental perspectives, to invest in public social protection policies in developing countries. Social protection programmes not only provide access to income and social services throughout the lifecycle and in times of economic transition or crisis; they also reduce income and human poverty in its various dimensions by contributing to development and achieving more equal and socially inclusive societies. Social protection is particularly beneficial in the context of late development, since it affects

productivity as well as economic and political stability in a positive way by cushioning the adverse social effects of rapid structural change. The chapter advocates a universal and rights-based approach to social protection, which fosters solidarity, social cohesion and coalition building among classes, groups and generations.

A universal and rights-based approach to social protection fosters solidarity, social cohesion and coalition building among classes, groups and generations

An analysis of experiences and developments in social protection across a number of countries suggests that no single approach predominates. Rather, the extension of social insurance and social assistance follows a range of pathways in different countries and regions, depending on policy choices as well as the nature of existing institutions, level of economic development, and features of their social and economic transformation. However, market-oriented structural reforms that have been implemented during recent decades and have aimed at privatization, decentralization and the targeting of social protection programmes have not yielded the expected results. In fact, they have produced a number of adverse effects, such as declining coverage, lack of horizontal and vertical redistribution, higher exposure to market risks and high costs. Countries that have successfully reduced income poverty and improved social conditions on a broad scale have developed comprehensive social protection policies that are grounded in claimable entitlements (derived from rights or contribution payments) covering a majority of the population.

More recent trends in social protection reform have concentrated mainly on social assistance. Non-contributory tax-financed protection schemes, including public works programmes and different types of cash transfer programmes for the poor and vulnerable, are especially important in contexts where the informal economy is widespread, the majority of the population works in the agricultural sector,

and chronic poverty and persistent deprivation affect large segments of the population. In these settings, social protection has to include policies that enhance people's living conditions and enable them to lift themselves out of poverty. The provision of an income source to poor and vulnerable households through the social assistance programmes reviewed in the chapter is a step in the right direction.

Such programmes frequently target based on income and impose conditionalities. These principles are questionable and do not necessarily produce the expected results, especially when investments in the programmes are minimal and not supported by efforts to tackle the structural causes of economic insecurity. Rather, targeted social assistance should be used as a complement to universal schemes and services, and not as a substitute for them. When cash transfers are provided on a universal, unconditional, stable and long-term basis, they have a stronger potential to boost people's capabilities to pursue a decent and sustainable livelihood. Non-conditional cash transfer programmes, such as child benefits and old-age pensions, which are based on categorical targeting rather than means-testing, seem to be more promising paths for the extension of social protection in developing countries.

Ultimately, the extension of social protection schemes cannot be separated from efforts to create sustainable and employment-intensive growth paths and advance democratic participation. Both of these pursuits facilitate inclusion of more citizens into contributory social insurance programmes and the financing of social assistance out of general revenues.

Universal social services are a key component of transformative social policy

Social services – in areas such as health, education, care, and water and sanitation – can enhance individual well-being and raise productivity, contributing to a rise in the overall quality of life. Such services enable families to care for and sustain their members and reduce both the costs and time burden of work and other daily activities. They increase the

chances that individuals and their families can break out of poverty and live dignified and productive lives. The kinds, quantity and quality of services individuals enjoy provide a good measure of their well-being: indeed, poverty can be perceived as a failure to achieve certain basic capabilities arising in part from the absence of social services.¹⁹

The kinds, quantity and quality of services individuals enjoy provide a good measure of their well-being

The instrumental value of services, particularly education and health care, in promoting growth and alleviating poverty and inequality is now widely acknowledged in academic and policy circles. Evidence clearly demonstrates the complementarities among different services (health, education, water, sanitation and nutrition, for example), as well as between social service provision and other economic policy goals, such as increased productivity. Moreover, access to certain social services, specifically education and health care, is considered a right enshrined in numerous United Nations declarations, a key goal of rights-based approaches to development, and essential to the achievement of several MDGs.

Chapter 6 argues that a universal approach to the provision of social services is essential to realizing their full potential as a component of transformative social policy. Achieving broad-based and inclusive coverage can contribute not only to improved well-being, but also to enhanced productivity and earnings and to reduced inequalities across income, class, gender, ethnicity and location. The challenge of extending effective provision to populations often marginalized or excluded by these inequalities lies at the heart of efforts to reduce poverty and reach the targets of the MDGs. Narrowly targeted interventions may make inroads into particular aspects of poverty for specific population groups. However, without broad-based coverage that aims to redress such inequalities and generate solidarity around development goals, these gains may not be sustainable.

Drawing on evidence principally from the health and education sectors, the chapter argues that integrated systems of social service provision grounded in universal principles can be redistributive, act as powerful drivers of solidarity and social inclusion, and improve the capabilities of the poor. By contrast, systems that are fragmented – with multiple providers, programmes and financing mechanisms aimed at different population groups – have limited potential for redistribution, and generally result in high costs, poor quality and limited access for the poor. Dominant policy trends since the 1980s, in a context of crisis, liberalization and public sector retrenchment, have been towards the commercialization of social services, undermining previous progress towards universal access in many countries, raising out-of-pocket costs particularly for the poor, and intensifying inequality and exclusion.

The chapter draws on the experience of countries that have pursued different paths in the provision of social services at varying income levels. The evidence shows that it is possible to institute social service regimes that lean towards universalism at relatively low income levels. It demonstrates the importance of substantial public involvement – whether in direct provision or in the financing or effective regulation of services. Public interventions are essential to ensure that services reach rural and remote areas, urban slums, and marginalized groups, and thus that their productivity-enhancing and distributional benefits are obtained.

Unpaid care work is an essential but often invisible contribution to well-being

A neglected but important and often invisible input to well-being is the unpaid work that goes into sustaining families, households and societies. This includes direct care of persons (whether young, old, frail or able-bodied) as well as the other activities that are preconditions for personal caregiving, such as preparing meals, shopping and cleaning. In countries where access to piped water, electricity, sanitation and technology is limited, these tasks are particularly time-consuming and arduous, and women and girls are often the main providers of these services. There are, however,

serious limits to how far burdens can be shifted from the visible parts of the economy (the public sector, markets) to the invisible and unpaid economy of households, families and communities. These limits are often stretched in crisis situations, where public services are overburdened and underfunded and market provision is out of reach. When such a crisis occurs, households and families are forced to cope on their own, which can damage human capabilities, entrench class and gender inequalities, create care deficits and erode the social fabric. Chapter 7 addresses these issues.

To monitor policy effectiveness in meeting care needs and in reducing and equalizing care burdens, timely and regular indicators are needed to capture both inputs into caregiving and outcomes in terms of enhanced well-being and reduced poverty. Despite its enormous impact on poverty, well-being and development outcomes, unpaid care work is excluded from calculations of GDP. Similarly, no mention is made of such work in the MDGs, despite its importance in meeting many of the goals (including reducing child mortality, achieving universal primary education and combating major diseases). In other words, there is a need for better measures of the inputs into care (including time and money), rather than capturing only some of the outputs, in terms of improved health and education.

The chapter shows that while highly specialized social care services (such as early childhood care, elderly care and care for those with disabilities) tend to be underdeveloped in many lower income developing countries, policies that are good for care are not a luxury that only high-income countries can afford. Care policies more broadly conceived are often harnessed to a variety of policy goals, from social protection and assistance, to employment, infrastructure development, and education and health services, which are not limited to established welfare states.

However, policy configurations and priorities are context specific. In many low-income countries, investment in social infrastructure can significantly reduce the drudgery of unpaid domestic work and free up time for other pursuits. Likewise, the availability of decent work and universal health and education services can help reduce the

burden of care assumed by families and households. For many middle-income countries that are putting in place preschool education and care programmes, often through a mix of public and private providers, the challenge is not only to expand coverage, but to do so in a way that reduces class and regional inequalities so that the policy rhetoric of equal opportunity does not remain a mantra. The policy challenge is to shift from strategies that rely on fragmented market and voluntary-sector provision of the most informal and exploitative kind to strategies that nurture professional and compassionate forms of care. This can be accomplished through effective regulations that involve states and organizations of care workers and of care recipients. The goal is to build public confidence in such services and sustain their financing, through general taxation where possible.

The policy challenge is to shift from strategies that rely on fragmented market and voluntary-sector provision to those that nurture professional and compassionate forms of care

Social policy is affordable even at low levels of development

A number of studies of low-income countries with good social indicators have shown that social policy is affordable even at low levels of development. Chapter 8 describes how funds can be generated for social programmes through various sources – internally through taxation and social insurance schemes, externally in the form of aid or remittances or, for mineral-rich countries, by channelling resource rents. In the final analysis, decisions about revenue policies and how to allocate public funds are political. The financing of social expenditure has distributional effects, and not all groups may benefit equally from public transfer schemes and social investments. Influential groups may oppose progressive direct taxes on wealth and income, especially if such groups do not benefit directly from the funded programmes.

There is a strong case to be made, therefore, that the more universal social programmes are, the easier it is to support them through progressive funding policies in which high-income groups pay relatively more.

The chapter highlights a number of issues that are relevant in mobilizing different revenue sources to finance social policy. Tax and social insurance schemes tend to be highly varied in both developed and developing countries, with labour market characteristics and policy models playing a major role. High-tax (including social contributions) regimes are more common in countries following a manufacturing-led growth path, such as the East Asian developmental states, the former socialist countries in Eastern Europe and Central Asia and some of the dualist states, such as Brazil and South Africa. Tax shares are usually lower in countries following a growth path led by services, minerals or agriculture. Improving tax systems and extending coverage of contributory social insurance or pension schemes remain a challenge for most developing countries, especially where informality is widespread and state capacity is weak. Pension funds combine the protective and productive functions of social policy since they provide old-age security and can be used to finance investment in social infrastructure. Macroeconomic stability and regulatory capacity are preconditions for making funded pension schemes work and, even then, important financial risks remain – as the global financial and economic crisis has demonstrated. Privatization of public pension schemes, a reform option that was highly recommended in the Washington consensus period of the late 1980s, has shown a poor record in terms of coverage and redistribution and produces high fiscal costs for several decades.

Revenues from booming commodity sectors open up the possibility of channelling more of these rents into social programmes. However, prudent management particularly of mineral rents is crucial in coping with the effects of price volatility and “Dutch disease” (a situation in which the real exchange rate appreciates in periods of resource booms, thereby negatively affecting competitiveness in non-mineral tradable sectors, particularly agriculture and industry). Aid flows, although still lagging behind donor promises, are of special importance to low-income

countries and have a positive impact on public social spending. To be more effective, aid flows should be predictable and increase national capacity and policy space.

Remittances are of growing importance to many countries and contribute to poverty reduction, higher income security and increased social expenditures in households that receive them. However, remittances lose their counter-cyclical role during global shocks, such as the 2008–2009 economic crisis, and, more importantly, should not be considered a substitute for domestic income creation and policies for providing universal social services.

The chapter concludes that domestic financing instruments such as taxation and social insurance are best suited to creating synergies between economic and social development, to strengthening links that foster democracy and solidarity, and to supporting a social contract between citizens and their political leaders. They should form the bedrock of instruments that finance social policies. External financing, although second best from an economic and political point of view, has the potential to complement public domestic financing, especially in low-income countries that are characterized by a high degree of informality, low tax takes and low coverage of social insurance schemes. The global economic crisis puts further pressure on both types of financing resources.

Section Three: The Politics of Poverty Reduction

Power relations lie at the centre of development. What interests prevail in the political arena and how such interests are translated into effective policies underpin all successful attempts at significant poverty reduction. Strategies that seek to bring about changes in poverty and inequality must therefore take into account the need to shift relationships and the exercise of power. Active citizenship, mediated through group politics, is central in this regard and in ensuring that governments and corporations respond to social needs. Such strategies need effective states that are

able to mobilize and direct resources to productive sectors; regulate business and other actors whose decisions affect public welfare; establish social pacts for managing the process of development; and fund, provide and regulate services and social programmes.

The corporate social responsibility agenda remains limited in its scope and effectiveness

The dominance of a pro-market development ideology in recent decades has generated fundamental changes in relations between state, society and business actors. Economic and governance trends have not only expanded commercial opportunities for transnational corporations and other enterprises; they have also drawn them more directly into the arenas of social policy and poverty reduction. This is particularly apparent in four areas: the role of business in the privatization of social services; the adoption of corporate social responsibility (CSR) principles and practices; new roles for business organizations in standard setting and other aspects of business regulation; and participation (particularly of large corporations and business associations) in processes of global governance and public policy. These changes in state-business-society relations contrast with the traditional role of business in social development. In countries where poverty was reduced relatively quickly, this role varied considerably. But it centred to a large extent on some combination of employment generation, tax payments, philanthropy, corporate social welfare obligations and implicit support for welfare states.

Today's world is quite different. The number of transnational corporations has vastly increased, as has their economic power. Moreover, corporate tax rates have declined sharply over more than two decades, the percentage of workers covered by company health plans has decreased in many countries, and social pacts that aligned business interests with welfare state models have weakened. At the same time, international development policy has made an important shift towards engaging the private sector far more directly and proactively in national and international strategies to raise social and environmental standards and reduce poverty.

More and more companies are associating themselves with the MDGs, participating in public-private partnerships concerned with the provision of basic services, adopting voluntary initiatives associated with an expanding CSR agenda, and targeting the world's poor in their investment, production and marketing strategies. However, whether or not such approaches enhance corporate accountability and promote inclusive development remains an open question.

The discussion in chapter 9 reveals that the mainstream CSR agenda, which supports the notion that businesses can significantly improve their social and environmental performance through voluntary initiatives, has raised awareness of the societal impact and responsibility of business and the need to regulate business activities. However, the agenda remains limited in scope and effectiveness. It covers only a small fraction of transnational corporations and the private sector more generally and tends to promote particular regulatory instruments that are quite weak in practice. Furthermore, it pays scant attention to both key aspects of business behaviour and assessing developmental outcomes, and often ignores the structural context and power relations that shape business conduct. In view of the limitations of this approach, the analysis suggests that far greater attention must be paid to the notion of corporate accountability and the way business interests influence public policy.

Far greater attention must be paid to the notion of corporate accountability and the way business interests influence public policy

The analysis suggests that, from the perspective of inclusive development, a key challenge is reasserting social control over markets and large corporations via various forms of regulation and the reconfiguration of power relations. A crucial element is the need to strengthen countervailing forces and institutional arrangements, including state regulatory and inspection capacity. Rather than seeing voluntary initiatives as a preferred option to mandatory

regulation, an important area of regulatory design lies at the interface of voluntary and legalistic approaches. Clearly in the context of globalization, international norms and law must play a crucial role in regulating transnational corporations and mobile capital. But the tendency for international “hard” law to be reserved for strengthening corporate rights associated with foreign direct investment, trade liberalization and intellectual property, and international “soft” law and voluntary norms for promoting corporate responsibility, needs to be corrected.

The chapter concludes by advocating support for

- civil society action and broad-based coalitions to moderate perverse business influences and practices;
- the forging of social pacts between business and government;
- the promotion of international norms and law that regulate transnational corporations; and
- the building of effective state capacity to regulate business.

State capacity for poverty reduction can be built from the ground up

Chapter 10 discusses the institutions, policies and dynamics that have enabled some states to build up developmental and welfare-enhancing capacities. Countries that have succeeded in alleviating poverty in a relatively short time span had purposeful, growth-oriented and welfare-enhancing political systems; they also created and maintained competent bureaucracies. Successful states often lacked the appropriate bureaucracies when they embarked on their development projects, but they subsequently built them. Building state capacity requires a focus on three crucial dimensions: crafting effective political capacity; mobilizing resources for development objectives; and allocating resources to productive and welfare-enhancing sectors and enforcing rules governing their use.

Strategies for constructing these three dimensions of state capacity differ in authoritarian and democratic regimes. Authoritarian strategies tend to be top-down, whereas

democracies are usually compelled to engage citizens more actively in the building of capacities. Authoritarian strategies were lauded in much of the development literature of the 1960s as necessary to accelerate the growth process, achieve modernization and build nation-states out of complex ethnic cleavages that tended to undermine stability. However, in most countries such strategies turned out to be unstable and non-developmental and provoked pressures for democratization. A few countries, largely those in East Asia, did succeed in transforming their economies and breaking out of poverty in a sustained way. And they shared with democratic developmental states an ability to provide wide-ranging and good quality services to broad sections of the populace. But even for these authoritarian developmental states, coercion alone was insufficient to construct effective state capacity. And authoritarian approaches to state-building proved unsustainable in the long run. All of these varied experiences suggest that developmental outcomes can be achieved without recourse to authoritarian practices.

Countries that have succeeded in alleviating poverty had purposeful, growth-oriented and welfare-enhancing political systems; they also created and maintained competent bureaucracies

Chapter 10 argues that high levels of domestic resource mobilization or fiscal capacity can improve policy space, enable governments to avoid capture by powerful groups, anchor the state in society, provide state leadership in the development process and strengthen capacity to influence the behaviour of investors and service providers. What distinguishes successful from unsuccessful states in directing development is the latter’s failure to generate governance capacities to enforce rules on how the resources allocated are used. Allocative and enforcement capacities can be improved through citizen participation in monitoring development agents and service providers. For this to happen, governments must provide the necessary information and support that can help citizen groups to hold business agents and providers to account.

Current approaches to state building have focused largely on market-enhancing strategies of good governance, managerialism (or New Public Management) and decentralization. Many of these are desirable goals for all countries. However, they should not be confused with the institutions required for generating and sustaining growth and producing socially equitable outcomes. The large degree of overlap in the good governance scores of developing countries with high growth and those with poor growth suggests that growth is not likely to be sustained in poor countries by simply implementing market-enhancing reforms. However, the high disparity in growth rates between converging and diverging countries also suggests major differences in the efficiency of resource use, which may be due to significant differences in other types of governance capabilities ignored by the good governance agenda. Managerial reforms that improve service delivery to the poor require high levels of regulatory capacity, which can be achieved when countries have been able to create the basic foundations of a Weberian or modern bureaucracy. The impact of decentralization on poverty is ambiguous. Success requires both governing elites committed to changing local power structures in favour of the poor and a network of citizen groups that can engage in policy-making processes.

In democratic societies, poverty reduction is ultimately a question of political power

The types of development policies states pursue and the possibilities for achieving redistributive outcomes depend substantially on politics, the way power is distributed, and the institutions that structure state-society relations. Social movements and interest groups do not often organize around issues of poverty *per se*.²⁰ Rather, they frame their discourse around rights, asset distribution, services, or work-related earnings and benefits, which opens up the possibility of addressing the structural roots of poverty. Although democracies offer opportunities for participation and contestation in policy making, redistributive outcomes cannot be taken for granted. Indeed, many new democracies have fallen short in promoting general well-being and redistribution.

Chapter 11 examines the politics of reducing poverty and inequality within a democratic context. It presents evidence that shows that current democracies face two types of constraints. The first is the capture of economic policy by investors, financial institutions and donors through various types of conditionality. Governments face considerable pressure to limit policy making to technocrats and to limit policy options to a set of objectives that emphasize fiscal restraint, privatization and liberalization. In the process, governments become more answerable to multilateral agencies and investors than to representative institutions and the wider public. Such styles of policy making affect the way governments respond to issues of employment and social policies, which may be sidelined or forced to conform to predetermined policy objectives that emphasize fiscal stability. The second constraint relates to the limited nature of industrial transformation in most new democracies, the varying quality of democratic institutions and processes, and ethnic cleavages that shape choices and capacity for collective action.

Even though the PRSPs support the participation of social groups in designing anti-poverty programmes, the process has mostly been reduced to consultation rather than genuine engagement that effects real change. The type of participation associated with the social pacts that produced rapid poverty reduction historically differs substantially from the NGO-centred bargaining approach of the PRSPs, in which the balance of power is strongly weighted against these groups. In the past, successful participation took the form of social pacts. Key features of such pacts included the recognition granted to representatives of labour and employers in negotiations over wages, employment, working conditions and welfare; the ability of group representatives to ensure members' compliance when decisions were reached; and the mutual recognition of each actor's importance in achieving goals, including the relative capacities of parties to obstruct outcomes that were not based on consensus. Such pacts were not confined to the industrial sector. Agrarian pacts were also forged in many countries and improved farm incomes as well as narrowed rural-urban inequalities in countries where farmers' votes were important.

Using five broad types of cases involving interest group and social movement activism, the chapter reveals that democracies have been able to deliver outcomes that are beneficial to the poor under the following circumstances:

- when rights are institutionalized, allowing the poor to exercise political choice, build alliances with others and hold leaders to account;
- when groups with strong ties to the poor demonstrate capacity for organization and mobilization;
- when they are able to transcend or reconcile horizontal divisions; and
- when they create structural links to actors involved in policy making, leading, at times, to social pacts.

In some contexts, success can be achieved without formal group ties to state actors, but this requires high levels of contestation and continuous mobilization to sustain gains. Electoral competitiveness in which there is a high probability that governments may lose office can also act as an incentive for redistribution and progressive reforms. However, electoral competitiveness without effective group organization and contestation may produce weak redistributive outcomes or confine redistribution to the electoral cycle. The poor suffer when interest groups and social movements are weak and the electoral system is not sufficiently competitive.

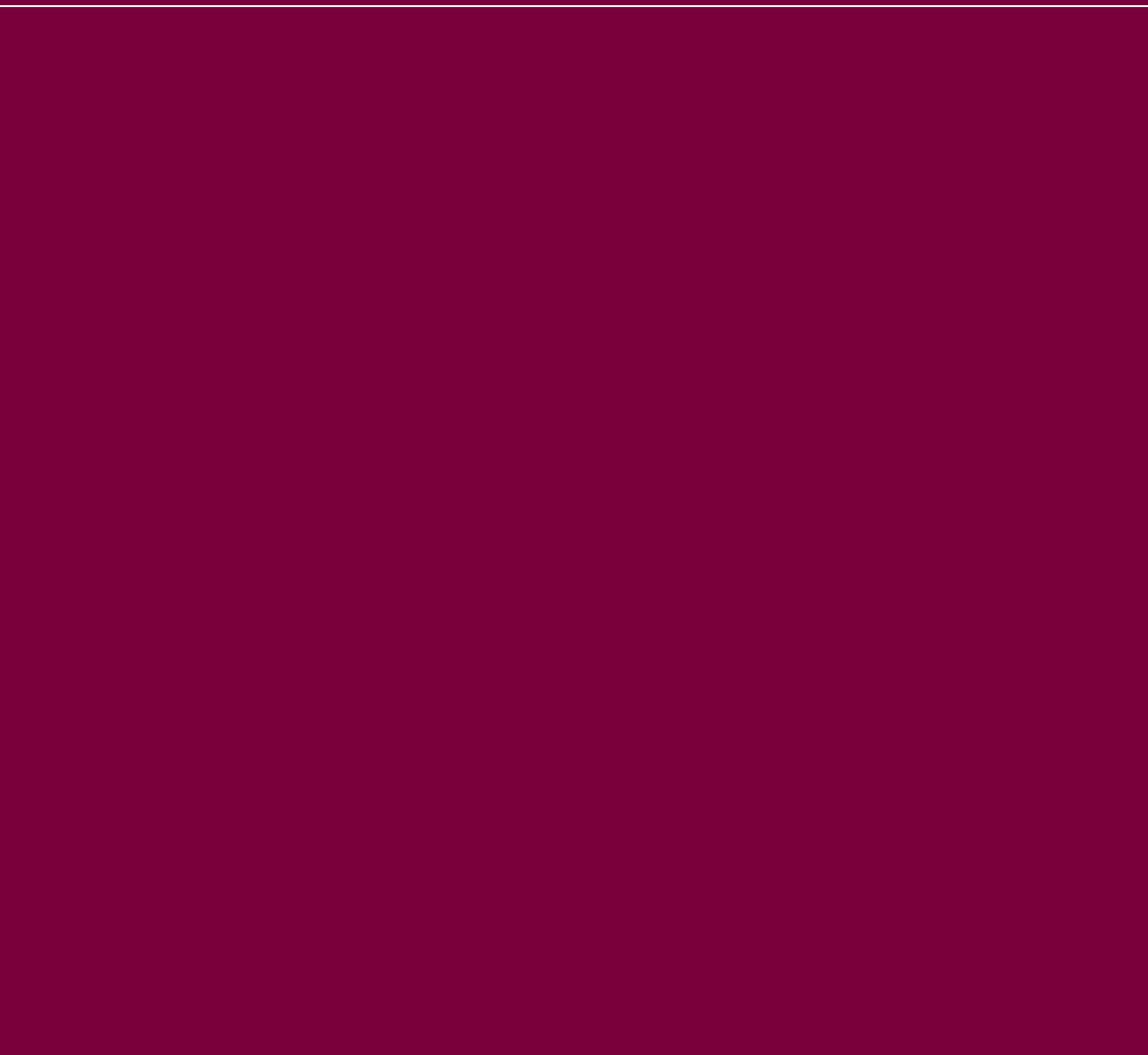
Concluding Remarks

Coordinating economic, social and political forces to deliver for the poor

The concluding section highlights the importance of understanding the ways in which institutions and policies are interconnected. Combating poverty and inequality requires processes of structural change, macroeconomic policies and social policies that are complementary and synergistic. Such interconnections need to be consciously designed. Achieving policy coherence, however, is much more than a technocratic exercise. It also needs to be backed by active citizenship and sufficiently powerful coalitions.

Notes

- 1 United Nations 2009; UNDESA 2010. All references to \$ are to US dollars.
- 2 United Nations 2010.
- 3 FAO 2009.
- 4 United Nations 2010.
- 5 Saith 2006.
- 6 Heintz 2009; Cornia 2006.
- 7 UNDESA 2009a.
- 8 Forbes's (2000) econometric study concludes that inequality is good for growth.
- 9 Maxwell 2001; Thompson 2003; Anderson and O'Neil 2006.
- 10 World Bank 2006; UNDP 2005; UNDESA 2005; UNRISD 2005.
- 11 Anderson and O'Neil 2006.
- 12 Razavi 2006.
- 13 Cornia 2004.
- 14 Stewart and Brown 2007.
- 15 This term was coined by UNRISD in its flagship research programme, *Social Policy in a Development Context*. See UNRISD (2006); Mkandawire (2005).
- 16 UNRISD 2006.
- 17 Ohno 2002.
- 18 Mkandawire 2005.
- 19 Sen 1999; Stewart et al. 2007.
- 20 Bebbington 2009.





SOCIALLY INCLUSIVE STRUCTURAL CHANGE

Section One

Poverty is reduced when economic growth and structural change both generate employment and ensure a distribution of benefits that improves well-being for all. Over the past half-century, most developing countries have not achieved sustained growth; nor has growth generated sufficient productive employment to reduce poverty. The classic employment-generating growth path – which saw labour move from agriculture to the manufacturing sector – is not being replicated in today’s developing economies. In poor countries, most labour leaving agriculture goes into low-productivity activities in the informal economy rather than into industry. Only a few late industrializers have succeeded in emulating the pattern of structural transformation of the advanced economies, doing so through strategic state support for both industry and agriculture. By contrast, the majority of low-income countries are on alternative paths of structural change which, in many cases, are associated with highly segmented and unequal labour markets.

This section examines the potential for different patterns of structural change to generate productive employment and their implications for inequality. Income and wealth inequality have risen in most countries, particularly during the last two decades, for a number of reasons. These include financial and trade liberalization, stabilization policies that fail to protect the poor, regressive tax regimes, and labour market policies that increase casual, informal and unprotected employment. The structure of the labour market is a particularly important factor in generating or sustaining exclusion or inequalities along multiple dimensions – not only income or class status, but also by region, ethnicity and gender.

Structural change affects regions and ethnic groups differently. Some regions and groups may experience high levels of poverty and remain disadvantaged even when economies are growing and overall levels of inequality and poverty are low or falling. Ethnic inequalities may be reinforced by discriminatory public policies and differential access to governance institutions as well as the way in which labour markets are structured.

Like ethnic inequalities, gender inequalities, as well as the relationship between poverty and gender, are complex. They are found across a wide spectrum of institutions, both private and public. While positive changes in gender relations are associated with the social transformations that accompany economic development, these changes are not simply a by-product of economic growth. On the contrary, some patterns of growth and structural change are premised on, and reinforce, gender inequalities. Thus, while women’s access to paid work has increased in most countries in recent decades, the terms and conditions of much of that work have deteriorated.

A range of complementary policies can foster patterns of structural change that are inclusive and generate employment, enhance well-being and reduce inequality. These include growth-enhancing macroeconomic policies, strategic industrial policies, support for agriculture and food security, and ensuring broad access to productive assets (including land); labour market policies that expand employment opportunities and remuneration, and decent conditions of work through appropriate forms of regulation; and redistributive and transformative social policies – investment in social infrastructure, services and transfers, and affirmative action policies – supported by progressive forms of taxation.

Towards Employment-Centred Structural Change

A fundamental precondition for poverty reduction is a pattern of growth and structural change that generates productive employment, improves earnings and contributes to the welfare of the population. Employment policies must figure centrally in development strategies if such a pattern of growth is to occur. The 1995 World Summit for Social Development refocused the world's attention on the centrality of employment in social development, committing governments "to promote full employment as a basic priority of economic and social policies, and to enable all men and women to attain secure and sustainable livelihoods through freely chosen productive employment and work".¹ Nevertheless, the dominant development policy approaches of the following decade, as reflected, for example, in the Poverty Reduction Strategy Papers (PRSPs), largely ignored employment. Even the Millennium Development Goals (MDGs) subsume employment under the goal of halving extreme poverty and hunger. While inclusion in the MDGs of the target of "full and productive employment and decent work for all" is a timely acknowledgement of its importance, the strategies for achieving this target remain unclear.

This chapter outlines elements of a framework for incorporating employment more centrally in development policy. It highlights the potential and limits of different growth paths in generating employment, and argues that economic growth or industrialization per se will not necessarily lead to sustained improvements in employment, income and well-being. The classic pattern of structural change found in today's high-income countries, in which economic growth fuelled a shift from agriculture to industry and from industry to services, as well as a shift from self-employment to formal wage employment, is difficult to replicate in the context of open economies without deliberate policies. Labour still moves out of agriculture in the vast majority of countries, but it is absorbed into low-value services and

the informal sector where the scope for sustained growth in productivity and incomes is limited. Poverty in most parts of the developing world is in large part accounted for by this pattern of structural change. The free-market orientation of development policy in the last few decades is associated with expanding labour market inequalities, persistent informalization and the emergence of precarious forms of employment in many countries.

The free-market orientation of development policy is associated with labour market inequalities, persistent informalization and the emergence of precarious forms of employment

Public policy is critical for generating a pattern of structural change that creates employment and reduces poverty. However, there is no one-size-fits-all approach to employment policy, and the institutions critical for achieving inclusive outcomes often lie outside the labour market itself. Macroeconomic policy, financial institutions, the international structure of production, the nature and composition of households, gender dynamics and social policy all influence employment outcomes and the potential for better opportunities to translate into real differences in people's lives. Effective policy interventions will depend on existing structures of employment and particular institutional and economic contexts. At a general level, and taking each country's structure of employment as a starting point, policies must address problems of insufficient labour demand, improve the quality of existing employment and facilitate labour mobility. In addition, the process of development involves the transformation of the structure of

employment – not simply improving opportunities in existing activities. The long-term challenge is to move human resources into higher value added activities and raise the level of labour productivity.

Countries successful in reducing poverty quite rapidly used industrial and agricultural policies and active social policies to facilitate employment-centred structural transformations

Countries that have been successful in reducing poverty in relatively short periods of time used industrial and agricultural policies as well as active social policies to facilitate employment-centred structural transformations. Similar kinds of interventions can be used in many countries today to transform the structure of employment, nurture productive linkages between industry and agriculture, and encourage the development, in the longer term, of a solid foundation for decent work opportunities. Such strategies, however, will have to be sensitive to the constraints of climate change, which require additional efforts to support technological capacities that will propel countries to high-growth paths that are low carbon-intensive.²

The evidence presented in this chapter points to four main conclusions.

- Economic growth is important, but alone it does not necessarily reduce poverty and inequality. Employment represents a critical channel through which additional income generated by growth can be widely distributed throughout a population, and therefore deserves more focused policy attention.
- Structural change can have multiple paths, involving different types of industrialization, primary sector or service-led development. Countries that are stalled in low-productivity activities in agriculture, mineral extraction or services tend to produce highly segmented and unequal labour markets, generate

limited employment opportunities and offer little in the way of social protection.

- The employment-centred policies that successfully eradicated poverty in late industrializing countries are incompatible with neoliberal development strategies more recently adopted by most countries. Successful countries invested substantially in infrastructure; channelled credit to specific productive activities; and pursued well-managed industrial and agricultural policies, as well as active social policies that improved the skill levels and welfare of the population.
- For many countries where industrialization has stalled or barely taken off, a significant challenge lies in improving the quality of service and agricultural employment, instead of pursuing a single objective of increased industrial production. Such challenges take on growing importance in light of food and environmental crises.

The chapter is organized as follows.

Section 1 explores the relationship between structural change and employment. It examines why the traditional model of industrialization is difficult to replicate in the setting of an open economy, the implications for employment outcomes and the role of policy.

Section 2 discusses significant global changes in the supply of labour: urbanization, growing participation of women in the labour force, integration of the global workforce and migration.

Section 3 uses country case studies to illustrate five different development paths, including the structure and evolution of employment and development strategies, and implications for poverty and living standards.

Section 4 discusses the relationship between employment and poverty, focusing on the working poor.

Section 5 concludes with a discussion of policy issues for promoting employment-centred structural change.

1. Structural Change in a Globalized World

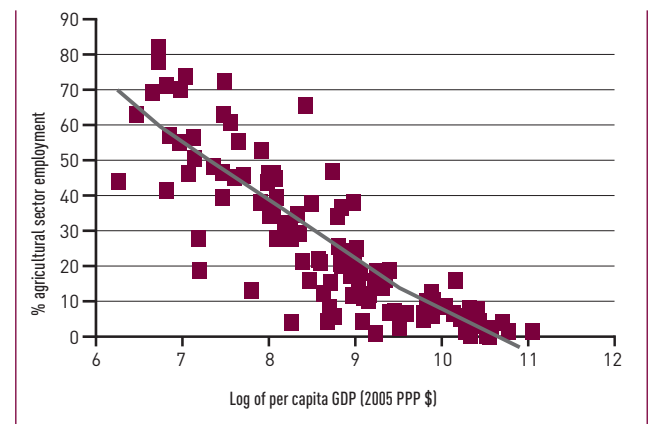
Structural change involves continuous shifts in the shares of manufacturing, services and agriculture in output and employment in favour of more dynamic sectors. How these sectors are organized, and how individuals, groups and communities are integrated into them have implications for livelihoods. Employment represents the single most important source of income for the majority of the world's people – either directly through their participation in the labour market, or indirectly through their membership in households sustained by earnings from employment. Structural change that improves employment opportunities will therefore be more inclusive than that in which the quality of employment stagnates or deteriorates. Conversely, unequal access to decent work and persistent labour market inequalities will frustrate efforts to reduce poverty.

Structural change that generates decent work will improve people's livelihoods

As economies develop they undergo changes in the structure of production that have direct implications for the quality and quantity of employment opportunities. The pattern of economic development associated with today's high-income countries is a shift away from agriculture towards manufacturing, other types of industrial production and services, and a shift from self-employment to formal wage employment.³ As labour and capital move from agriculture into more dynamic activities, average productivity in the economy climbs, further enhancing the demand for services and industrial products. Agriculture will also experience improvements in productivity, since the urban industrial population has to be fed by a declining rural labour force. Structural change is often accompanied by changes in the demographic structure, with fertility rates declining as countries industrialize and move up the income scale.⁴

Data comparing countries by per capita income (figures 1.1, 1.2 and 1.3) illustrate that the basic tendency of economic growth is a shift out of agricultural employment. Figure 1.1 shows the relationship between per capita gross domestic product (GDP) and the share of agricultural employment for 120 countries. A distinct negative relationship is evident: as per capita income increases, agricultural employment, as a share of total employment, drops significantly, approaching zero among the highest income countries.

FIGURE 1.1: The share of agricultural employment and per capita GDP, averages 1997–2006 (natural logarithm)

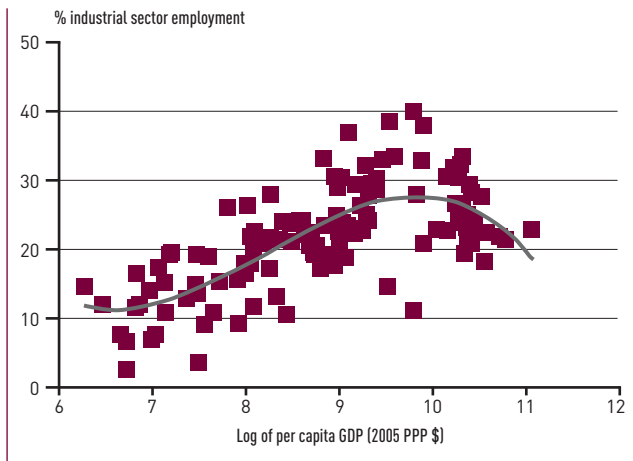


Note: Line fitted using nearest neighbour algorithm (bandwidth=0.5).
Source: Heintz 2009.

Figure 1.2 shows that industrial employment, as a share of total employment, increases with per capita income up to about 30 per cent of total employment on average and thereafter begins to decline.⁵ This relatively low peak of 30 per cent suggests that it is unrealistic to expect the industrial sector ever to employ the majority of the labour force. The level of per capita income at which de-industrialization begins to occur has fallen (in this case, de-industrialization is defined by a fall in manufacturing's share of total employment as per capita income increases).⁶ However, it should be noted that the distinction between manufacturing and services is becoming blurred, especially in high-income economies. Manufacturing firms outsource many of their service activities to service firms and use intermediate inputs from independent service providers.⁷

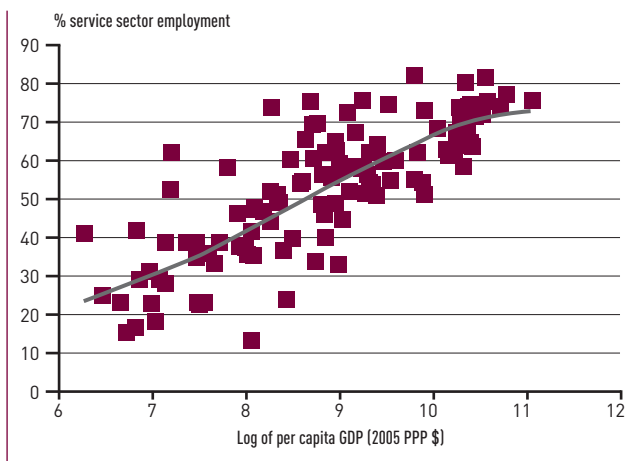
Figure 1.3 shows the strong positive relationship between the share of employment in services and per capita income. In many high-income economies, services account for 70 to 80 per cent of all employment. For low-income countries, services account for 20 to 30 per cent of total employment, but still create more jobs than industry.

FIGURE 1.2: The share of industrial employment and per capita GDP, averages 1997–2006 (natural logarithm)



Note: Line fitted using nearest neighbour algorithm (bandwidth=0.5). Source: Heintz 2009.

FIGURE 1.3: The share of service employment and per capita GDP, averages 1997–2006 (natural logarithm)



Note: Line fitted using nearest neighbour algorithm (bandwidth=0.5). Source: Heintz 2009.

The traditional pattern of structural change may not apply in a globalized world

Despite the broad tendencies suggested by these figures, the traditional pattern of structural change may not apply in a world with open economies and networks of globalized production and trade. Globalization weakens the organic links between agriculture and industry, since an urban population can be fed by importing food rather than by supporting domestic agricultural production. The demand for manufactured goods can also be met by increased imports rather than by expanding domestic production. And global competition in the production of manufactured goods may lead to productivity improvements, which can cause industrial employment to fall behind industrial output.

By 2008, productivity improvements or macroeconomic policies were no longer supporting growth in aggregate demand in the same way they did in the past

Increases in the rate of productivity growth tend to slow the rate of employment growth (see table 1.1). During the period 1961–1970, for example, a 1 percentage point increase in the growth rate of productivity resulted in a 0.07 percentage point reduction in the rate of employment growth – a very small effect. However, in the period 2001–2008, the same 1 percentage point increase in the growth rate of productivity resulted in a 0.54 per cent decline in the growth rate of employment – a much more significant impact. This suggests that by 2008, productivity improvements or macroeconomic policies were no longer supporting growth in aggregate demand in the same way they did in the past.

TABLE 1.1: Estimates of the impact of productivity growth on employment growth, 1961–2008

	Estimated impact of productivity growth on employment growth	Constant (%)	Number of observations
1961–1970	–0.07 (0.022)	2.4 (0.15)	315
1971–1980	–0.15 (0.025)	2.8 (0.19)	350
1981–1990	–0.13 (0.032)	2.4 (0.17)	350
1991–2000	–0.28 (0.032)	2.2 (0.18)	350
2001–2008	–0.54 (0.049)	3.4 (0.25)	280
1961–2008 (all years)	–0.21 (0.014)	2.1 (0.08)	1,645

Notes: Employment is measured by number of workers. Productivity is measured by GDP per worker. Data are from 35 countries in Asia, Latin America and Eastern Europe. The database only contained information on the total labour force, not employment, for countries in Africa and the Middle East. The estimated equation included a lagged endogenous variable (the growth rate of employment lagged one period) and country-fixed effects. Time series data were taken from the Groningen Growth and Development Centre, Total Economy Database. Source: Heintz 2009.

These characteristics of the relationship between productivity growth and employment growth apply across all sectors of the economy. However, the change in this relationship is more pronounced for the industrial sector than for other sectors, since the scope for productivity growth is larger. This could lead to a divergence between the industrialization of output and that of employment.

Greater openness in trade is probably the primary cause of the growing divergence between output and employment growth.⁸ In addition, macroeconomic policies that aim to restrict domestic demand in order to stabilize rates of inflation and public debt may also contribute to such divergence. In low-income countries in particular, public expenditure contraction tends to be directed not only at the employment-intensive social sectors, such as health and education, but also at spending that directly affects agriculture, which is a major source of livelihoods.

This leads to less direct job creation by government, and also less indirect impact through multiplier effects.

The trajectories of structural change experienced in most countries today differ from the development paths of high-income countries

Different trajectories of structural change, therefore, can be observed in most countries today. Movement out of agriculture is still occurring, but the resulting labour force is not automatically absorbed into the industrial sector. Instead, workers move disproportionately into the service sector and informal employment, where the scope for sustained growth in productivity and improvements in incomes is

limited. In recent decades, a few countries in East Asia have undergone an industrial transformation similar to the one experienced in the high-income countries. They used interventionist industrial and other policies, managed trade, close finance-industry links and social policies that raised the skill level of their labour force. The share of industrial employment grew and living standards rose significantly. However, maintaining a standard of work that provides adequate remuneration and protection is difficult even for these countries that have successfully industrialized.

2. Emerging Trends in Employment

So far, this chapter has discussed the various relationships observed between economic development and the structure of employment. The discussion has focused on how structural shifts in domestic demand for goods and services and in productivity affect the level and composition of labour demand. In recent years, however, developments on the supply side of labour markets around the world have been far reaching. This section highlights four labour supply issues that are of particular importance in understanding household incomes and poverty risks: urbanization, growing participation by women in the labour force, greater integration of the global workforce, and migration.

Household incomes are affected by the dynamics of global labour supply

Urbanization

An increasing share of the world's population lives in towns and urban centres.⁹ Though the urban share of the population is highest in high-income countries and lowest in low-income countries, growing urbanization is a phenomenon experienced by all country groupings.¹⁰ This raises serious questions as to whether demand for labour in urban areas will grow sufficiently to absorb the expanding workforce.

Table 1.2 illustrates recent trends in the growth of urban populations, total population and industrial employment for 11 developing countries. In all cases, the urban population is growing faster than the total population (note that these are annual average growth rates spanning 20 to 25 years).

Urbanization is growing in high- and low-income countries

The table shows a positive relationship between the growth rate of the urban population and the growth rate of industrial employment. This suggests that as labour demand in the industrial sector increases, so does rural-to-urban migration. However, in most of the countries examined here, growth in the urban population exceeds the growth in industrial employment opportunities. This indicates that, over time, industrial employment will account for a decreasing share of total urban employment. Rural-to-urban migrants who are not employed in industrial jobs will work in the service sector or in informal employment, or will become unemployed. Of course, not all industrial employment is located in urban areas, but the majority of such opportunities are concentrated in and around cities. In most countries, earnings even from informal urban employment on average remain above earnings in agriculture, providing an incentive for continued rural-to-urban migration even when there are few opportunities for industrial jobs. Continued urbanization in contexts where employment opportunities are limited may place downward pressure on urban earnings, while informal employment is typically precarious and poorly remunerated and with little, if any, social protection.

Rural-to-urban migrants who are not employed in industrial jobs will work in the service sector or in informal employment, or will become unemployed

TABLE 1.2: Annual growth rates of urban population, total population and industrial employment in selected countries

	Urban population annual growth rate (%)	Total population annual growth rate (%)	Industrial employment growth rate (%)	Years	Source
Bolivia	3.6	2.2	4.2	1981–2003	GGDC
Botswana	7.8	2.6	7.2	1981–2003	UNIDO
Brazil	2.6	1.7	1.6	1981–2005	GGDC
Costa Rica	3.9	2.4	3.2	1981–2006	ILO
India	2.8	1.9	0.6	1981–2002	UNIDO
Indonesia	4.6	1.5	3.7	1981–2006	ILO
Republic of Korea	2.2	0.9	1.5	1981–2006	ILO
Mexico	2.2	1.7	1.8	1981–2005	GGDC
Peru	2.3	1.8	1.2	1981–2005	GGDC
Philippines	4.3	2.3	2.1	1981–2006	ILO
Thailand	1.9	1.2	4.2	1981–2006	ILO

Notes: Industrial employment includes manufacturing, construction and utilities. For Botswana and India, industrial employment only includes manufacturing. The correlation coefficient between growth in the urban population and growth in industrial employment across the 11 countries is 0.77. GGDC = Groningen Growth and Development Centre; ILO = International Labour Organization; UNIDO = United Nations Industrial Development Organization. Source: Heintz 2009.

Growing labour force participation by women

Another important trend is the notable increase in women's participation in paid work, which increased globally by more than 18 per cent between 1997 and 2007.¹¹ Chapter 4 addresses this issue in greater detail. Women's increased labour force participation has coincided with limited growth in formal industrial employment and the more rapid increase in the share of service and informal forms of employment. More women around the world are being employed in service rather than industrial activities, which are often more poorly paid and offer less social protection.

Increasing global labour supply

Growing involvement of women in paid work is part of a wider process of expansion in the global labour supply. With market reforms in Eastern Europe, Central Asia and, perhaps most significantly, China, and India's adoption of

more outward-oriented economic policies, the number of workers engaged in production for the global market has increased enormously in recent decades. Expansion in the global pool of labour has outstripped the increase in the global pool of capital, making labour relatively more abundant and capital relatively scarcer.¹² The result has been downward pressure on wages, at least until global capital accumulation can catch up. The almost universal decline in wage shares of national income (see chapter 2) can be at least partly explained by this wider process. The relative scarcity of capital has been made more severe by neoliberal policies that discouraged fixed capital investment.¹³

The rise in the share of manufactured exports originating in developing economies represents one dimension of the integration of the global workforce. In 1960, manufactured goods accounted for only 12 per cent of developing

countries' exports; by 2000 they accounted for about 67 per cent. Not only are developing countries competing with the established manufacturing sectors of advanced industrial nations, they also are competing with each other. This shift has coincided with declining terms of trade for certain types of manufactured goods, especially labour-intensive ones, which account for the bulk of poor countries' manufactured exports.¹⁴ The competitive pressures may make industrial development more difficult as gains from trade deteriorate over time and erode the resources available to invest in upgrading industrial production.

The number of workers engaged in production for the global market has increased enormously in recent decades and average wages have decreased in low-skill sectors

International migration

International migration plays a complex role in labour supply. While the proportion of international migrants in the world population has remained broadly stable at around 3 per cent, the total number grew to nearly 200 million by 2005, including refugees and asylum seekers. Most migrants go abroad for economic reasons, however, and are unevenly distributed across the world. For countries with high levels of out-migration, such as Ghana, Mexico and the Philippines, remittances from employment constitute a sizeable inflow of financial resources. In high-income countries, migrants tend to be concentrated in low-paid, precarious and unprotected forms of employment. In the United States, for example, non-citizens account for a disproportionate share of day labourers, part-time workers and temporary hires – categories of work that tend to be significantly more precarious. In some cases, migrant workers are caught up in highly exploitative, illegal employment arrangements. Despite these labour market disadvantages, remittances financed through employment income and sent back to the migrant's country of origin often constitute a sizeable component of household income, thereby reducing the risk of poverty (see chapter 8).

3. How Different Patterns of Development Affect Employment

Employment includes not only wage employment but also the work of the self-employed, from farmers and artisans to petty traders and informal load carriers, who engage in market transactions to obtain remuneration for their labour. The experiences of different countries can highlight the potential of different patterns of development to decrease poverty through their effects on employment. What stands out clearly from the evidence is the heterogeneity of experiences and outcomes. Moreover, it suggests that economic growth alone will not necessarily generate employment. Nor will growth alone reduce poverty. Even in countries that have achieved successful industrialization, labour market conditions have deteriorated in recent years, reflected by a decline in the quality of employment and by growing inequality. The cases are discussed below under five broad types of development paths: economies that have made the transition to manufacturing; cases of industrialization with dualist labour market regimes; cases of service-led growth; economies in which agriculture dominates; and mineral-rich economies.

East Asian states have followed the classic manufacturing growth path

East Asian states have successfully replicated the classic industrialization model of the now-developed economies. They prioritized economic growth and established a strong state structure to influence investment decisions and mobilize labour. Starting far behind the technological frontier, they copied, refined and extended the state-directed strategies of the early industrializers.¹⁵ This involved complementary policies in the economic and social fields. Credit, investments, entry and exit of firms in specific sectors, and pricing were coordinated to regulate competition and facilitate technological upgrading and industrial restructuring. They invested heavily in education, training and research, leading to a deepening of skills across sectors and income

groups. They had carried out land reform, which raised productivity and income levels in the rural sector. And they combined selective import substitution and export-led growth through well-managed industrial policies. They also imported foreign licences, rather than relying extensively on foreign direct investment (FDI), and actively mobilized resources through very high savings rates, which were channelled into long-term investment. They adopted a policy of life-long employment for (mostly male) workers engaged in core industries, and created strong links between formal employment and social protection, which was provided by private firms with the state acting as a regulator. This development strategy generated high rates of growth, low levels of unemployment and helped the majority of people to lift themselves out of poverty.

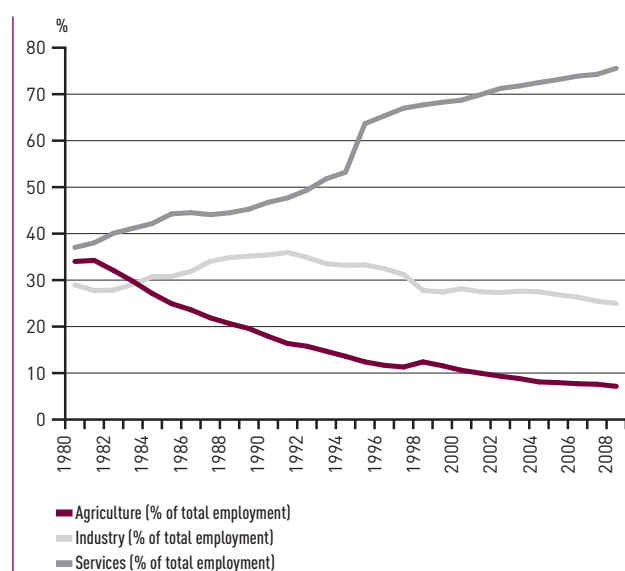
Republic of Korea: Taking a classic route

The Republic of Korea exemplifies one of the East Asian states that followed a classic growth path in which the share of industrial employment increased. Average living standards rose dramatically, and poverty fell from 41 per cent of the country's population in 1965 to less than

8 per cent in 1991.¹⁶ However, by the time of the East Asian financial crisis in 1997, the industrial share of employment had begun to fall and service employment was rising. The crisis had a dramatic impact on labour markets, fundamentally reshaping employment arrangements and effectively destroying any guarantee of life-long employment.

Figure 1.4 shows the shares of employment in agriculture, industry and services for the Republic of Korea from 1980 to 2008. At the start of this period, a process of industrialization was already under way, and industrial employment stood at 29 per cent of total employment. This share peaked at 36 per cent in 1991. Services comprised a growing share of all employment, exceeding 50 per cent by 1993. In 1980, agriculture still accounted for a third of all employment. By 2007, its share had dropped to just over 7 per cent. The share of agricultural output also fell. In the industrial sector, the share of employment increased along with the share of output during the 1980s, but in the 1990s both shares declined. However, the share of industrial employment declined much more rapidly than the share of industrial output.

FIGURE 1.4: Share of employment by sector in the Republic of Korea, 1980–2008



Average shares of employment and output in the Republic of Korea, 1980–2006

	1981–1985	1986–1990	1991–1995	1996–2000	2001–2006
Employment shares (%)					
Agriculture	29.6	20.7	14.6	11.5	8.9
Industry	29.2	34.3	34.2	29.4	27.3
Services	41.1	45.0	51.2	59.1	63.8
Output shares (%)					
Agriculture	14.9	10.5	7.1	5.3	4.0
Industry	38.1	41.3	41.8	40.8	39.7
Services	46.9	48.3	51.1	53.9	56.3

Source: Heintz 2009.

During the phase of rapid industrialization, gains in productivity were associated with growth in industrial employment. By the 1990s, this relationship between industrial employment and productivity no longer held: output was no longer growing fast enough to compensate for labour displacement associated with productivity gains. In the service sector, the share of employment increased faster than the share of output. Slower productivity growth in services, in turn, limited the capacity of the economy to achieve the same rate of improvement in employment earnings for service workers that was evident in manufacturing employment during the period of rapid industrialization.

Table 1.3 shows the distribution of employment for regular, temporary and daily employment for the Republic of Korea in 2005. Both average hours of work and average hourly earnings are lower in the temporary and daily categories, implying that the earnings potential (hours worked multi-

plied by hourly earnings) for such jobs is significantly lower than in regular employment. Female wage earners are more likely to work in non-regular jobs than men. Most non-regular employment is concentrated in the service sector – including retail trade, hotels, restaurants, administrative support and educational services. In rural areas, agricultural employment accounts for a significant share of non-regular employment. Construction work comprises an important share of daily employment, with male workers dominating. After the East Asian financial crisis, the number of temporary and daily employment contracts grew dramatically. It is estimated that non-regular employment grew from 17 per cent of total employment in 2001 to 29 per cent in 2006.¹⁷ This development ruptured the complementary link between employment and social protection. As subsequent chapters will show, this led to social policy reforms aiming to ensure greater inclusion of those not formally employed.

TABLE 1.3: Share of employment in the Republic of Korea, 2005

	Distribution of employment (%)		Weekly hours		Hourly earnings (Korean won)	
	Male	Female	Male	Female	Male	Female
Urban employment						
Regular employee	40.2	25.0	59	39	14,570	10,871
Small-scale enterprise	1.5	1.4	43	31	9,589	7,942
Other enterprises	38.7	23.6	59	47	14,771	11,059
Temporary employee	15.1	28.6	33	24	7,140	6,048
Small-scale enterprise	4.7	10.2	31	21	6,287	5,105
Other enterprises	10.4	18.4	34	25	7,529	6,580
Daily employee	8.2	10.1	25	14	6,709	4,332
Small-scale enterprise	3.2	5.4	22	14	6,403	4,173
Other enterprises	5.0	4.7	23	16	6,908	4,515
Employer	9.9	3.5	52	54	n.a.	n.a.
Small-scale enterprise	6.0	2.9	53	54	n.a.	n.a.
Other enterprises	3.9	0.6	50	52	n.a.	n.a.
Own-account worker	16.9	12.6	50	45	n.a.	n.a.
Contributing family worker	0.9	9.1	44	57	n.a.	n.a.
Rural employment						
Regular employee	0.9	0.8	40	32	9,009	7,760
Temporary employee	0.4	0.8	25	20	5,507	4,874
Daily employee	0.3	0.8	22	13	6,481	3,399
Employer	0.3	0.1	57	59	n.a.	n.a.
Own-account worker	6.4	3.1	43	39	n.a.	n.a.
Contributing family worker	0.5	5.5	42	43	n.a.	n.a.

Note: Small-scale enterprises have fewer than five employees. Other enterprises have five or more employees. n.a. = not available. Source: Heintz 2009. See also Heintz (2008) for details.

Other East Asian states: Growth combined with poverty reduction

Indonesia, Malaysia and Thailand represent a second group of East Asian countries that have also followed the path of manufacturing-led development, although their levels of skill formation, domestic savings, social protection and state capacity are much lower than the Republic of Korea, and foreign capital plays a more significant role in their industrial strategies. In Malaysia, manufacturing employment expanded rapidly – from 7 per cent in the 1960s to about 28 per cent in 2000. Whereas 55 per cent of Malaysians earned a living from agriculture in the 1960s, this share fell to 16 per cent by 2000. Poverty fell from about 50 per cent in 1970 to less than 6 per cent in 2004.¹⁸

China and Viet Nam constitute a third group: countries transitioning from centrally planned to market economies. In both countries, communist governments have facilitated faster growth, with party cadres initially spearheading reforms and in some cases acting as entrepreneurs, even as changes in the incentive structure offered more resources, property rights and decision-making powers to small producers. Rural industrialization constituted an important part of the development strategy of these countries, at least in the early stage of decollectivization.¹⁹ As transition progressed, their development strategies have come to rely on high-productivity-driven foreign firms, which affect the extent to which employment growth can match labour force growth. A large proportion of the population is still employed in agriculture. Nonetheless, poverty has fallen sharply to less than 10 per cent in China²⁰ and less than 15 per cent in Viet Nam.²¹

The dualism of many middle-income countries exacerbates inequalities

Many middle-income countries are highly industrialized. In per capita terms, Latin America is the most industrialized region in the developing world.²² On average, agriculture accounts for less than 10 per cent of national output in the region, although agribusiness is thriving, especially in Argentina, Brazil and Mexico. Capital-intensive farming

has replaced traditional *latifundia* (large estates) and is responsible for an overwhelming share of agricultural output. At the same time, over half of the urban labour force is self-employed or works as domestic labour or in small enterprises with low pay. A few other developing countries, such as the Philippines and South Africa, share Latin America's pattern of industrialization and dualism (that is, economies with a formal sector that offers high wages, benefits, security and prospects for upward mobility; and an informal sector characterized by low incomes and less job security, training and mobility).

From 1950 to the 1980s, many of these countries pursued an import-substitution industrialization strategy, with some achieving high growth rates and reduced poverty during part of that period. They were unable, however, to complete the process of industrial transformation, producing instead labour market and social policy regimes that are highly dualistic. Long-running economic crises and massive debts in the 1980s exposed most of these countries to the policy prescriptions of the international financial institutions (IFIs).

The skewed nature of income distribution in favour of high-income groups was linked with skill- and capital-intensive industrialization. In South Africa, where the apartheid state deliberately discouraged the emergence of an integrated national economy and tried to contain black labour militancy, many industrial firms and farm owners opted for capital-intensive methods by investing in sophisticated machinery, requiring few skilled technicians and a small labour force.²³ Such a strategy worsened unemployment, poverty and inequality, which the post-apartheid government has not been able to reverse while pursuing a high-productivity growth strategy.²⁴ Unemployment in South Africa is about 27 per cent, the highest rate in the world.

The growth strategies of dualist economies in Latin America relied heavily on foreign loans and massive importation of capital goods and technology. These could not be sustained when the terms of trade for key exports deteriorated and interest rates skyrocketed. Nor could the export strategy that later complemented the model of import substitution

generate enough revenues to pay for the accumulated debt or avert the balance of payments crises of the 1980s.

Brazil: Industrialization without job creation

Despite industrialization, about half of Brazil's workforce is informally employed. Table 1.4 presents the average sectoral distribution of employment and output in Brazil. Industrial employment accounted for between 20 and 24 per cent of total employment over the period 1980–2006. Both the share of industrial employment and the share of industrial output declined on average over this period, although there is some indication of an upturn from 2001–2006. Output fell faster than industrial employment, suggesting a reduction in average productivity in industrial activities.

Table 1.5 shows that the share of non-agricultural informal employment is identical to the share of non-agricultural formal employment – 41 per cent. Employed women are more likely to work in non-agricultural informal employment than employed men. This is mostly due to the large

number of domestic workers in Brazil, the vast majority of whom are women (see chapter 4). Earnings are generally highest in formal employment and lowest in agricultural employment, and workers in non-agricultural informal employment earn more, on average, than most agricultural workers. All categories of informal employment have lower earnings; and in all categories of employment, women earn less than men. This is due to a combination of lower average hourly earnings and fewer hours of paid work each month. Nevertheless, the hierarchy of earnings, with non-agricultural informal workers earning more than most agricultural workers, suggests that there will be continued economic pressures for ongoing rural-to-urban migration, even if rural migrants have no chance of being employed in a formal job. Of course, some caution is warranted in drawing conclusions too hastily – these estimates do not take into account other factors, such as differences in the cost of living in rural and urban areas. Poverty reduction will be slower if informal employment expands and wages in these forms of precarious employment do not improve.

TABLE 1.4: Average shares of employment and output in Brazil, 1980–2006

	1981–1985	1986–1990	1991–1995	1996–2000	2001–2006
Employment shares (%)					
Agriculture	28.9	24.1	27.3	24.0	20.5
Industry	23.5	23.5	20.2	19.8	21.0
Services	47.7	52.3	52.5	56.1	58.5
Output shares (%)					
Agriculture	10.7	9.6	7.7	5.5	6.2
Industry	44.9	43.2	36.8	26.3	28.7
Services	44.4	47.2	55.5	68.2	65.1

Source: Heintz 2009.

TABLE 1.5: Structure of employment in Brazil, 2007

Employment category	Number employed			% of total		
	Male	Female	Total	Male	Female	Total
Formal, non agricultural						
Private formal employee	16,910,679	9,519,926	26,430,605	33	25	30
Public employees	3,560,926	4,601,150	8,162,076	7	12	9
Formal own-account	568,888	599,940	1,168,828	1	2	1
Formal employer	575,429	208,780	784,209	1	1	1
Formal, agricultural						
Formal employee	147,542	16,044	163,586	0.3	0.0	0.2
Formal self-employed	48,043	4,485	52,528	0.1	0.0	0.1
<i>Total formal</i>	<i>21,811,507</i>	<i>14,950,325</i>	<i>36,761,832</i>	<i>43</i>	<i>39</i>	<i>41</i>
Informal, non-agricultural						
Informal employee (excluding domestic)	7,532,732	4,790,937	12,323,669	15	13	14
Domestic worker	409,871	6,214,878	6,624,749	1	16	7
Informal own-account	8,721,828	5,089,100	13,810,928	17	13	15
Informal employer	1,558,830	660,610	2,219,440	3	2	2
Contributing family worker	432,132	829,676	1,261,808	1	2	1
<i>Total informal non-agricultural</i>	<i>18,655,393</i>	<i>17,585,201</i>	<i>36,240,594</i>	<i>36</i>	<i>46</i>	<i>41</i>
Informal, agricultural						
Informal employee, permanent	2,299,094	237,892	2,536,986	4	1	3
Informal employee, temporary	1,879,499	301,350	2,180,849	4	1	2
Informal self-employed	3,919,952	554,414	4,474,366	8	1	5
Contributing family worker	1,189,497	1,673,175	2,862,672	2	4	3
<i>Total informal agricultural</i>	<i>9,288,042</i>	<i>2,766,831</i>	<i>12,054,873</i>	<i>18</i>	<i>7</i>	<i>14</i>
Other categories						
Production for own use	1,429,282	2,384,875	3,814,157	3	6	4
Other/unknown	94,825	219,397	314,222	0	1	0
Total	51,279,049	37,906,629	89,185,678	100	100	100

Source: Heintz 2009.

The inability of industrialization to deliver high levels of formal employment in dualist economies undermines the complementarity demonstrated in the East Asian cases between labour market participation and social protection. As subsequent chapters will show, governments that are keen to improve the welfare of the poor have instead expanded social assistance schemes, such as cash transfers. While these schemes have helped to reduce poverty and inequality, the sharp divisions in labour markets and failure of the growth strategy to generate enough jobs that are adequately remunerated and protected make it difficult for the majority of the population to escape from poverty or for inequality to be substantially reduced.

Can service-led development be an alternative to industrialization?

Growth in the service sectors of many developing countries – particularly higher value added services – has raised the possibility that service-led development could provide an alternative to the manufacturing-led path.²⁵ Two points are worth noting. First, services are not necessarily a substitute for industrialization. Many services contribute to industrial production that raises average productivity.

Second, there has been strong growth in international trade in services. If services become increasingly tradable, then the demand for services need not come from domestic industries or consumers, but could result from industrial growth elsewhere in the global economy. Whether the export of services can mimic the success of the export-based industrialization strategy followed by East Asia remains to be seen.

Ireland: Bolstering economic growth through services

In some countries with reasonable levels of industrialization, the service sector can be productive. Ireland, dubbed the Celtic Tiger, used services to sustain its growth strategy of the 1990s, which reversed the country's long period of economic stagnation and high levels of unemployment. The service sector's share of exports doubled from 17 per cent

to 34 per cent between 1998 and 2004, and employment in services, which grew by about 18 per cent between 2002 and 2006, accounts for 67 per cent of total employment. The service-led strategy is driven by FDI (with financial services accounting for about 85 per cent of such investment in 2004), and is based on a regime of low taxation. A series of collective agreements, involving the state, employers, trade unions and farmers, have been decisive in holding wages down in exchange for high levels of employment and low income tax rates. However, welfare expenditures have fallen sharply, and poverty levels have shown a steady rise since 1997, except at the 60 per cent of average income poverty line where poverty has remained quite stable.²⁶ Concerns have been raised about the enclave nature of the financial services sector and the weakening of productivity growth in the economy as services have come to dominate. The global economic crisis has had an adverse impact on Ireland's growth strategy, fuelling unemployment and industrial unrest.

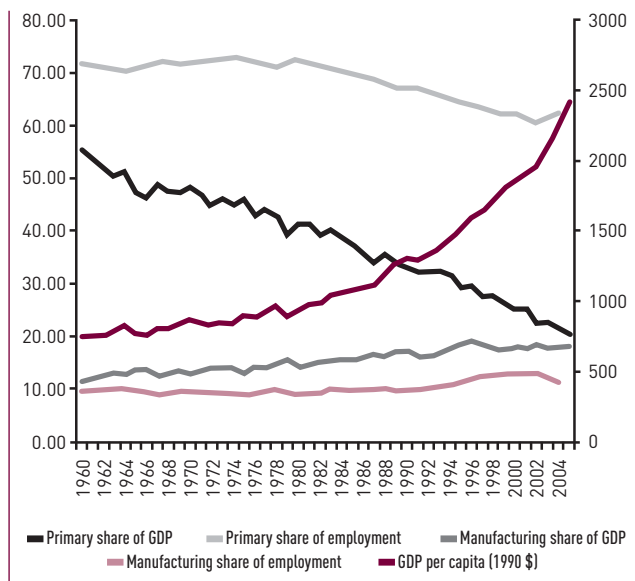
India: Bypassing industrialization through growth in services

India's early development strategy (1950–1980) was based on import-substitution industrialization and some flirtation with redistribution to respond to the demands of segments of the peasantry that the governing party had mobilized in anti-colonial struggles. However, the ruling party was disproportionately influenced by landed and business elites, which the state could not discipline sufficiently to deliver high growth and structural change.²⁷ Even when the focus of public policy shifted to poverty reduction in the 1960s and 1970s, state intervention took populist forms and contradictory pulls within the party rendered growth problematic and redistribution ineffective.²⁸ The outcome is a manufacturing sector that failed to reach the heights of the East Asian countries. Recent changes in the policy regime and the increasing significance of services have led to high growth rates. It is unclear, however, whether the service sector will ultimately transform the Indian economy by stimulating the lagging manufacturing and agricultural sectors.

The employment situation in India and the country's development path do not fit neatly into traditional categories.

In its formal industrial sector, India has experienced jobless growth in which output has expanded, but employment has stagnated or declined. A large share of India's population is still employed in agriculture. In contrast to the performance of the rural economy, a number of high value added services have taken off in recent years. Perhaps the best known are tradable services in information and communications technology (ICT). Nevertheless, the informal, or unorganized, sector continues to account for much of India's urban employment. Figure 1.5 provides an overview of the structure of employment in India. The expansion of industrial output has not led to a consistent expansion of industrial employment. Indeed, more recently employment growth has stagnated in the industrial sector.

FIGURE 1.5: Dimensions of structural change in India, 1960–2004



Source: Ghosh 2008.

The lack of complementarity between labour market participation and social protection is particularly marked in India and other service-based and agrarian economies. In the case of India, 90 per cent of the working population belongs to the informal sector, and therefore lacks adequate coverage by social protection programmes.

The combination of higher growth and the emergence of the new service sector has generated speculation that India is pursuing a new economic model, one that bypasses traditional industrialization by embracing new opportunities made possible by advances in communications and computer technology.²⁹ A number of factors make a service-led development path a possibility. First, services may have a positive impact on the productivity of other sectors of the economy, including the industrial sector. Therefore, growth in services can potentially support higher productivity and better standards of living. Second, the high value added services are mostly tradable – for example, information services. Along the classic manufacturing-led development path, growth in domestic industrial production generated the market for an expanding service sector. In a globally integrated world, sustained industrial growth need not precede the expansion of services if those services are tradable. Third, the scope for technological innovation and economies of scale may be greater for services than is often believed. This would allow services to usurp the role played by industry, at least in part, in the classic development model.

In a globally integrated world, sustained industrial growth need not precede the expansion of services if those services are tradable

Conceptualizing a service-led growth path for India raises a number of thorny issues. A recent analysis of the drivers of growth in India suggests that manufacturing and finance have been the two most important sectors;³⁰ ICTs do not yet feature prominently. From an employment perspective, this pattern of growth is worrying. Despite remarkable increases, employment in the ICT sector remains relatively small if compared to overall service employment in India. Also, individuals must have sufficient skills to take advantage of employment opportunities in the ICT sector. Displaced workers from the industrial sector may be able to move into these jobs. However, it is unlikely, at least in

the short and medium term, that rural-to-urban migrants or workers in the informal economy will enjoy sufficient upward labour market mobility to take up ICT jobs – limiting the extent to which service-led development can reduce poverty.

Finally, service-led development that relies on the promotion of tradable services will almost certainly lead to growing inequalities among workers in service activities. Tradable services will enjoy higher returns to labour and improved opportunities, while non-tradable services (those tied closely to the domestic market, including a large share of urban informal employment) may not realize equivalent advantages. Poor workers are more likely to be concentrated in non-tradable services, suggesting that these individuals and their families may be left behind under a service-led growth paradigm.

India's development model suffers another constraint. Annual agricultural growth in the post-liberalization period has averaged nearly 1 per cent below that achieved in the 1980s, largely due to a decline in public investment during that period.³¹ Sustained levels of growth have reduced poverty in aggregate terms. According to official statistics,³² income poverty began to decline from about 50 per cent of the population in 1977–1978 to about 27 per cent in 2004–2005. But the rate of decline is estimated to have been faster in the 1980s, compared to the 1990s and beyond, suggesting that poverty reduction suffered a setback after the initiation of neoliberal reforms. And although rural-urban per capita incomes narrowed in the 1980s, they widened again in the 1990s, and there is limited progress in many physical indicators of well-being and deprivation. Nutrition poverty remains high at about 75 per cent.³³ Other indicators, such as child mortality or height-to-weight ratios of children, are poor in absolute terms, despite the increase in output growth.³⁴

Low-income countries remain heavily agrarian

Many low-income countries are experiencing a different type of transformation. Their state-led strategies of industrialization produced high growth, savings and

investment rates in the 1960s and 1970s, even though they tended to have high capital-output ratios, suggesting less efficient use of capital.³⁵ By the early 1980s, the majority of these countries were in crisis and were forced by the IFIs to adopt deflationary and liberalization policies. In many cases, this led to a distinct process of de-industrialization and a hollowing out of the state. Their economies have remained heavily agrarian, with a large informal sector and less diversified and more limited industrial and export sectors.³⁶

Kenya and Cambodia: Predominantly agricultural

Kenya and Cambodia represent two countries in which agricultural output is still a very high share of GDP and agricultural employment dominates. In addition, both countries have a fledgling industrial base and have enjoyed some success in recent years in penetrating new export markets – Kenya in horticultural products and Cambodia in garments. The success of these export sectors remains precarious, and it is unclear whether they will provide an adequate foundation, by themselves, for future industrialization and employment generation.

The vast majority of employment in Kenya is characterized by agricultural activities, on the one hand, and a service economy with a high rate of informalization, on the other. Agricultural employment accounts for 62 per cent of total employment (see table 1.6). Smallholders and family members working on small farms and family plots constitute the vast majority of agricultural jobs. Informal self-employment (including own-account or self-employed workers, employers and contributing family workers) constitutes an important source of employment outside of agriculture – both as a primary occupation and a supplementary source of income. Overall, services dominate non-agricultural employment, with 79.5 per cent of all employment outside of agriculture in the service sector, and 80 per cent of all informal household enterprises providing service activities.³⁷ Kenya's formal, non-agricultural sector is quite small, accounting for about 11 per cent of total employment, including public sector jobs. Only 9.2 per cent of non-agricultural employment is in manufacturing; 6.4 per cent is in construction.

TABLE 1.6: Structure of employment in Kenya, 2005

Employment category	Number employed			% of total		
	Male	Female	Total	Male	Female	Total
Formal, non-agricultural						
Private employee	534,959	160,319	695,278	8.1	2.6	5.4
Government employee	319,581	171,296	490,877	4.8	2.8	3.8
Public enterprise employee	43,578	16,240	59,818	0.7	0.3	0.5
Employer	31,159	8,419	39,579	0.5	0.1	0.3
Own-account worker	56,885	53,682	110,567	0.9	0.9	0.9
Other self-employed	736.5	1071.3	1807.8	0.0	0.0	0.0
Formal, agricultural						
Agricultural employee	166,950	83,545	250,495	2.5	1.3	1.9
<i>Total formal</i>	<i>1,153,112</i>	<i>493,501</i>	<i>1,646,613</i>	<i>17.0</i>	<i>8.0</i>	<i>13.0</i>
Informal, non-agricultural						
Informal employee	961,080	474,061	1,435,141	14.5	7.6	11.2
Informal employer	84,382	39,280	123,662	1.3	0.6	1.0
Informal own-account	683,929	640,658	1,324,587	10.3	10.3	10.3
Contributing family worker	87,875	113,653	201,528	1.3	1.8	1.6
Other self-employed	13,848	8,818	22,666	0.2	0.1	0.2
<i>Total informal, non-agricultural</i>	<i>1,831,113</i>	<i>1,276,470</i>	<i>3,107,584</i>	<i>28.0</i>	<i>21.0</i>	<i>24.0</i>
Informal, agricultural						
Employee	549,334	233,104	782,438	8.3	3.7	6.1
Own-account	1,338,396	1,597,429	2,935,826	20.2	25.7	22.9
Other self-employed	277,041	710,174	987,214	4.2	11.4	7.7
Contributing family worker	1,384,734	1,664,953	3,049,687	20.9	26.7	23.7
<i>Total informal, agricultural</i>	<i>3,549,504</i>	<i>4,205,660</i>	<i>7,755,164</i>	<i>54.0</i>	<i>68.0</i>	<i>60.0</i>
<i>Total agricultural</i>	<i>3,716,455</i>	<i>4,289,205</i>	<i>8,005,659</i>	<i>56.0</i>	<i>69.0</i>	<i>62.0</i>
Other/unclassified	88,543	247,510	336,054	1.3	4.0	2.6
Total	6,623,009	6,224,213	12,847,222	100.0	100.0	100.0

Source: Heintz 2009.

The structure of employment in Cambodia is similar to that in Kenya, with agriculture and services dominating. Agriculture accounts for 59 per cent of total employment and, like Kenya, is comprised mostly of own-account and contributing family workers (see table 1.7). Private sector wage employment comprises just 13 per cent of all employment. Outside of agriculture, self-employment (as own-account or contributing family workers) is the largest

category of employment. Manufacturing employment is relatively small and the garment sector is responsible for over half of all opportunities in manufacturing. Services account for roughly a quarter of all employment (or 61 per cent of non-agricultural employment). Like Kenya, efforts to reduce poverty through employment, based on the existing structure of employment alone, should thus focus on raising the returns to labour in agriculture and services.

TABLE 1.7: Structure of employment in Cambodia, 2003/2004

Employment category	Number employed			% of total		
	2003	2004	Total	2003	2004	Total
Non-agricultural						
Private employee	476,328	373,674	850,002	14.5	11.3	12.9
Public employee	239,092	67,097	306,188	7.3	2.0	4.6
Own-account worker	441,030	454,373	895,403	13.5	13.7	13.6
Employer	2,226	477	2,703	0.1	0.0	0.0
Contributing family worker	181,853	342,387	524,240	5.5	10.3	7.9
<i>Total non-agricultural</i>	<i>1,340,529</i>	<i>1,238,008</i>	<i>2,578,536</i>	<i>41.0</i>	<i>37.0</i>	<i>39.0</i>
Agricultural						
Employee	133,265	148,166	281,431	4.1	4.5	4.3
Own-account worker	1,055,806	628,617	1,684,423	32.2	18.9	25.5
Employer	2,503	1,980	4,484	0.1	0.1	0.1
Contributing family worker	693,203	1,228,410	1,921,614	21.1	37.0	29.1
<i>Total agricultural</i>	<i>1,884,778</i>	<i>2,007,173</i>	<i>3,891,951</i>	<i>57.0</i>	<i>60.0</i>	<i>59.0</i>
Other/unclassified	53,594	72,972	126,565	1.6	2.2	1.9
Total	3,278,900	3,318,153	6,597,053	100.0	100.0	100.0

Source: Heintz 2009.

In agrarian economies, efforts to reduce poverty through employment should focus on raising the returns to labour in agriculture and services

In Kenya, the recent growth of the horticultural sector provides an interesting example of how export performance may be linked to employment creation and poverty reduction. The employment effects of the rapid expansion of horticulture include increases in smallholder farm production and in the number of workers on large commercial operations. The primary products of the sector are fresh fruits, vegetables and cut flowers. Fresh vegetables and fruits are linked to smallholders, while the production of cut flowers is organized by larger commercial enterprises. In terms of wage employment, which is concentrated in cut flowers, 60 to 70 per cent of workers are women and most are young – half the workforce is under 21. Initially, employment in the horticultural sector appeared to reduce poverty and raise living standards among households, when compared to those households that were not involved in the sector. The effect was particularly strong in rural areas.³⁸ However, enforcement of international food standards has reduced the participation of smallholders, whose contribution to export earnings fell from 70 per cent in 1999 to only 30 per cent by 2000.³⁹ It should also be noted that many of the jobs generated are casual and seasonal, and income is volatile.⁴⁰

In Cambodia, the dynamic export sector is the garment industry. Representing less than 1 per cent of GDP in 1994, the industry has now grown to 16–17 per cent of GDP and nearly 80 per cent of exports. Women account for an estimated 81 per cent of all wage employment in the garment sector. However, only 31 per cent of all women who work as wage employees have jobs in this sector.⁴¹ Similarly, while women represent half of all employed individuals in Cambodia, they make up only 42 per cent of all wage employees. Individuals from provinces with higher-than-average inci-

dences of poverty migrate to work in the garment sector.⁴² An estimated 71 per cent of all garment workers remit 30 per cent or more of their earnings back to their households of origin.⁴³ Some garment firms are joint ventures with Cambodian investors, but most firms are entirely foreign-owned.⁴⁴ This lack of domestic embeddedness makes production more mobile and sensitive to policy changes.

These examples from Kenya and Cambodia underscore the difficulty of building a base of new, outward-oriented economic activities in low-income economies dominated by agriculture. Both horticultural products and garments are labour-intensive exports, subject to competitive pressures. External factors – such as the global economic crisis – have a profound impact on the markets for these products and, ultimately, employment in these sectors. Recent growth accelerations in many agrarian and other economies were linked to the boom in commodity prices and the growth of the world economy in the period 2000–2007. This growth led to some reduction in poverty. However, the economic and food crises have exposed the fragility of that growth. Key indicators of well-being, such as nutrition, are still very poor,⁴⁵ and may even have worsened as a result of agricultural liberalization that promoted agro-exports. A large number of people still live insecure lives even though, by \$1.25-a-day measures, they are above the poverty line. Many move in and out of poverty depending on prevailing conditions and replace more nutritious and costly foods with cheaper alternatives in order to reduce their daily expenses.⁴⁶ The need to enhance the livelihoods of small farmers in combating poverty in agrarian economies has been thrown into sharp relief by the food crisis. The next two sections examine these issues before discussing labour market and employment issues in mineral-rich economies.

Recent growth in many agrarian economies was linked to the boom in commodity prices, but the economic and food crises have exposed the fragility of that growth

Promoting employment and food security through support to small farmers

The food crisis can be traced to the liberalization policies of the 1980s and 1990s. In the global South, spending on farming as a share of public expenditures fell 50 per cent between 1980 and 2004, from \$7.6 billion to \$3.9 billion. By way of comparison, in 2006, farmers in countries that are members of the Organisation for Economic Co-operation and Development (OECD) received \$130 billion in direct payments in 2006.⁴⁷

In Latin America, economic liberalization reforms of the 1980s and 1990s tended to reinforce existing divisions between geographic locations and producers, and the region entered the new millennium with a higher proportion of poor and indigent rural dwellers than in 1980. The most dynamic products of the 1990s were those grown by modern, capitalized farmers with links to international agro-industry and export markets. Those in decline were largely produced by small farmers.⁴⁸ One of the real costs of liberalization in Latin America has been the rise in agricultural imports.

The rural effects of liberalization policies have been more profound among agriculturally dependent populations in sub-Saharan Africa. Compared to other developing regions, agriculture in sub-Saharan Africa had been a sluggish earner before liberalization, though not uniformly so. State bodies, such as marketing boards, were perceived as a costly drain on government revenue and inefficient in delivering inputs and paying farmers.

The reduction of state involvement was supposed to reverse the situation. From 1989 to 2004, the national budget share of agriculture in the region fell from 7 per cent to 5.3 per cent.⁴⁹ Larger scale commercial farmers and estate owners have been in a better position to take advantage of improved prices and new markets than smallholders. In several countries and for particular commodities, liberalization did produce spurts in smallholder production of export crops, but these gains have not been maintained.⁵⁰

As liberalization progressed, sub-Saharan Africa witnessed a steady decline of its agricultural exports as a share of world agricultural trade. Meanwhile, the problems surrounding food production and food security worsened. The 2002 shortages in southern Africa showed the increasingly perilous state of rural livelihoods. Deteriorating household food security in Malawi, Zambia and Zimbabwe was attributed to the loss of subsidies for fertilizers and seeds and of rural credit, and the erosion of agricultural marketing services, especially in remote areas. Although much derided, marketing boards serviced the need of smallholders for inputs, provided marketing channels to remote and widely dispersed farms, and enforced commodity standards. Their dismantling has led to serious concern on the part of many observers. The private traders that have taken their place provide patchy services, bypass farmers in areas where transport costs are high, and do not carry out adequate checks or enforce quality control.⁵¹

Expelling smallholders to urban fringes of economic systems characterized by jobless growth cannot be called development

There is a tendency to dismiss smallholder production for local markets as obsolete,⁵² especially as the pace of de-peasantization (peasant displacement from land and reliance on off-farm income) accelerates. De-peasantization is, however, the outcome of a politically organized food regime premised on increased privileges for corporate over peasant agriculture, as institutionalized in the subsidy structure of the World Trade Organization/Free Trade Area/Economic Partnership Agreement (WTO/FTA/EPA). In spite of market discrimination, small producers have an important social and ecological role (and many small producers would like to support them, as evidenced by recent mobilization in the transnational food sovereignty movements). Expelling smallholders to urban fringes of economic systems characterized by jobless growth cannot be called development.

An alternative agricultural model

Current development policy seeks to incorporate small farmers into what the World Bank calls a “new agriculture”, which is “led by private entrepreneurs in extensive value chains linking producers to consumers”.⁵³ The expectation is that the private sector will drive “the organization of value chains that bring the market to smallholders and commercial farms”.⁵⁴ In this view, the problem of smallholder agriculture (or rural poverty) is a problem of productivity and detachment from value-chain agriculture, through which farmers gain technologies to intensify their production of certain commodities for consumer markets. Such a view is fraught with problems from the perspective of social development and poverty reduction. There is often a trade-off between own consumption, production for local markets and production for global markets, with respect to addressing the problem of poverty and hunger in rural areas.⁵⁵

Neoclassical economics regards trade as the catalyst of growth, and certainly that has been the path taken historically. But trade does not always guarantee improvements in welfare, as is clearly evident today. Moreover, given the current catastrophe of slum proliferation, where industrialization and urbanization have been decoupled,⁵⁶ the question arises as to whether continued displacement of rural populations by intensive production of industrial grains (for example, feed crops versus food crops) and high-value foods for export is an appropriate vision for agricultural development. The premise that export agriculture is an economic necessity is perhaps the most questionable assumption from the perspective of social welfare, food rights and a sustainable environment. In a world of drastically shrinking limits, where it is urgent to curb unnecessary consumption and phase out fossil fuels, improving agricultural productivity to fuel the international food trade is arguably less important than improving agricultural productivity and the security of farming to provide local populations with enough and appropriate foods.

An alternative approach is prefigured in the work of the UN-sponsored *International Assessment of Agricultural Science and Technology for Development* in 2008. This report advocates a multifunctional role for agriculture in reducing poverty and social and gender inequality, stabilizing the cultures of

rural populations, and reversing environmental degradation and global warming. The report recommends strengthening local and regional food systems, democratizing food policy, and prioritizing the needs of small farmers by securing access to productive resources (seeds, land, water), credit, information, market infrastructure and fair trade systems. The report questions industrial agriculture and genetically modified food as the solution to the social and ecological crises associated with global agribusiness, on the grounds that markets fail to adequately value environmental and social harm. It also questions the salience of a market-driven approach, and its narrow focus on productivity, versus an integrative view of food, resource and nutritional security. Such an approach to food security that places the livelihoods of small producers at the centre of public policy could reduce vulnerability and should be seen as a crucial dimension of social policy in agrarian economies.

Without careful management, mineral wealth can be a mixed blessing

In many mineral-rich economies, structural transformation has involved a movement from agriculture to mining, or a change that is largely confined to the primary sector. In these economies, the mining sector dominates output but does not create enough jobs to lift the population out of poverty. The dominant actors are often transnational firms that use capital-intensive technologies, providing employment to a small, well-paid, skilled workforce. Governments can reallocate mineral rents to more productive sectors or act as channels through which such rents can be reinvested in the rest of the economy.

However, many countries have not used mineral rents to support development in sectors that can create more jobs. Manufacturing capacity remains extremely low even in the high-income economies of the Gulf states. Natural resource abundance may generate distortions in countries’ economic and political systems, leading to “Dutch disease”⁵⁷ (discussed further in chapter 8). Dutch disease (or the “resource curse”) refers to patterns of consumption and investment in boom periods (associated with dramatic

growth in revenue from resource extraction) that are not sustainable during periods of economic downturn. Exchange rates and wage rates appreciate, affecting tradable activities in manufacturing and agriculture. The outcome may be an enclave economy, such as in Equatorial Guinea, that generates extreme inequality and poverty even in contexts of high growth. Mineral resources create opportunities for corruption and pressures for redistribution in ways that do not enhance public welfare and development. Features of Dutch disease are likely to emerge in situations where the institutions that regulate the mineral sector and manage fiscal revenues are not well developed, and where state power is monopolized by rent-seeking rulers or is captured by powerful private interests.

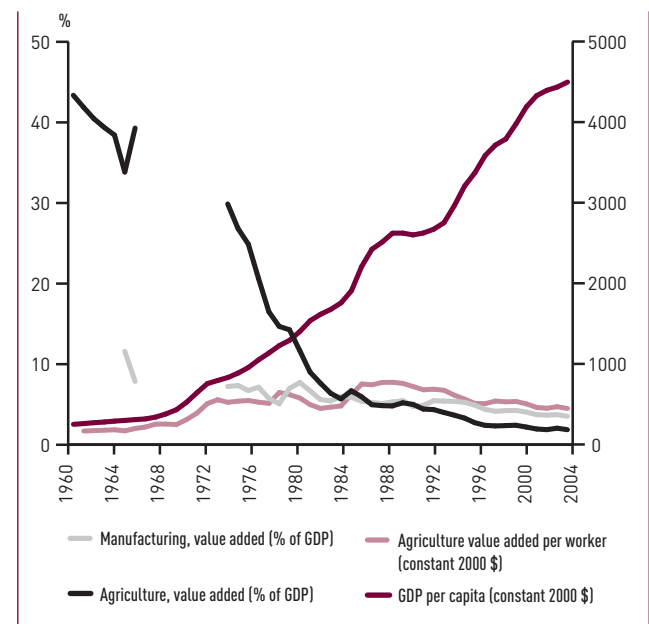
Many mineral-rich economies have not used mineral rents to support development in sectors that can create more jobs

Botswana: Successful resource management, but few jobs

Botswana represents a country that has managed its mineral wealth much better than most mineral-rich developing countries. Its development strategy prioritizes high growth, sound macroeconomic management and infrastructure development. Through policies that discourage exchange rate overvaluation, fiscal strategies that set targets on government spending, and the creation of special funds that stabilize mineral revenues, the government has consistently maintained a stable macroeconomy that has avoided the so-called resource curse.⁵⁸ Multiparty democracy, although practised under conditions of single-party dominance, has acted as a check on governmental arbitrariness, and a professionalized civil service has helped the state enforce its rules on economic management. The governing elite forged strong links to production-oriented cattle owners and successfully constructed pacts with traditional rulers and elites of key ethnic groups⁵⁹ that have allowed it to maintain stability.

However, success in governing the economy has not translated into broad-based and diversified growth. The share of agriculture in GDP has fallen drastically since 1960 (see figure 1.6), even though per worker output in agriculture has not increased. The diversification of the economy into manufacturing was not seriously attempted, and was definitely not achieved, since the share of manufacturing in GDP has declined as well. Nor have organized interests in civil society been strong enough to compel the state to adopt more redistributive policies.⁶⁰ While the share of public sector salaries rose, the minimum wages of less skilled/moderately educated employees fell below the poverty line by the 1980s, producing a class of working poor. A notable feature of Botswana's development is its relatively low level of industrialization and, like South Africa, high level of unemployment. Levels of unemployment, inequality (as measured by the Gini coefficient) and poverty remain high at about 20 per cent, 0.57 and 30 per cent, respectively.⁶¹ Mineral-rich Indonesia and Malaysia, which are among the top 10 developing-country exporters of manufactured products, have fared much better in transforming their economies from minerals to manufacturing.⁶²

FIGURE 1.6: Dimensions of structural change in Botswana, 1960–2004



Source: Ghosh 2008.

4. The Links between Employment and Poverty

The foregoing discussion on employment and labour markets is broadened out in the following section to explore the links between employment and poverty. Two sets of institutions are critical in shaping the employment-poverty nexus: the labour market and the household. Employment status is typically defined and analysed at the level of the individual or the job. Poverty – income poverty in particular – is most commonly defined and measured at the level of the household. Therefore, the structure of the household – in terms of the composition of dependants and earners – will directly influence how employment opportunities translate into changes in poverty outcomes.

Overall labour force participation is determined by prevailing economic conditions, as well as the social and cultural context, in particular gender norms. Households often respond to adverse economic shocks – including rising unemployment – by increasing their rate of labour force participation. Studies of labour market dynamics in Latin America have shown that women’s labour force participation increased in times of economic crisis and as a result of policies that trigger labour displacement, job instability and higher rates of unemployment.⁶³ Economic changes that cause women to enter the labour force are also associated with a deterioration in the average quality of employment opportunities, that is, greater reliance on informal or precarious forms of paid work. Households also increase their labour force participation in response to long-term structural unemployment. For instance, research in South Africa has shown that women’s labour force participation has responded to increases in household joblessness.⁶⁴ Finally, household poverty also raises the likelihood that children enter the paid labour force.

Therefore, the relationship between poverty and employment runs in both directions: poverty can increase total household employment, often in more marginal activities, and particularly among women and children. However, it is also important to recognize that the

additional employment income earned in this way will be combined with other sources of household income, ultimately influencing the depth and incidence of poverty. The links between employment and poverty depend critically on how the employed and the economically dependent populations are organized in households. If the burden of supporting the dependent population is unequally distributed, the result will be higher risks of poverty for certain segments of the population. Moreover, not only does income from employment need to support a larger number of people in households with more dependants, but choices in terms of employment are also limited in these households, due to the higher burdens of unpaid care work (see chapter 7).

The working poor poverty rate is one indication of how employment affects poverty

To shed light on the link between employment and poverty, this report defines a working poor poverty rate. The working poor are defined as those individuals who are (i) employed and (ii) living in households whose income or consumption levels fall below a poverty threshold. The working poor poverty rate is the number of working poor in a particular employment category expressed as a percentage of the total number of people in the same employment category. This indicates the likelihood that workers in particular types of employment will live in income- or consumption-poverty. Working poor poverty rates are derived from national poverty lines, which vary across countries; some countries use consumption data whereas others use income data. Since cross-country data on working poor poverty rates do not currently exist, this report uses two countries – Brazil and Kenya – to illustrate the relationship (see table 1.8). National poverty lines in Brazil and Kenya are determined differently. In Brazil it is based on income – whether or not a household’s income falls below the poverty line. In Kenya it is based on total household consumption. Therefore, we can compare the *relative* risk of being in poverty among employment categories in these two countries, but poverty rates are not directly comparable.

TABLE 1.8: Working poor poverty rates in Brazil and Kenya

	Brazil (2007)			Kenya (2005)		
	Male	Female	Total	Male	Female	Total
Formal employment (%)						
Paid employee (non-agricultural)	12.0	6.6	9.8	17.4	9.9	15.3
Of which are in the private sector	12.6	6.8	10.5	16.9	12.3	15.8
Of which are in the public sector	9.1	6.1	7.4	18.3	7.9	14.7
Self-employed (non-agricultural)	5.8	7.2	6.4	11.0	12.4	11.6
Formal agricultural workers	30.6	17.2	28.9	31.5	27.7	30.2
Informal, non-agricultural employment (%)						
Paid employee	26.2	24.8	25.4	35.3	29.4	33.3
Of which are domestic workers	31.6	31.0	31.1	39.0	30.5	32.3
Own-account workers	23.2	21.0	22.4	34.6	36.9	35.7
Employer	5.5	2.3	4.6	21.4	24.1	22.3
Contributing family worker	34.8	27.1	29.8	27.4	33.3	30.7
Informal, agricultural employment (%)						
Paid employee	56.2	48.5	55.4	43.2	51.9	45.8
Self-employed	44.0	46.5	44.3	47.3	46.6	46.9
Contributing family worker	63.1	59.0	60.7	50.4	47.2	48.7
Other employment (%)						
Production for own use	52.9	50.3	51.3	n.a.	n.a.	n.a.
Total	23.7	20.3	22.3	38.9	41.4	40.1

	Brazil (2007)			Kenya (2005)		
	Male	Female	Total	Male	Female	Total
Formal employment (%)						
Agriculture	30.7	18.1	29.1	32.9	31.1	32.2
Manufacturing	11.4	8.2	10.5	16.8	22.9	18.0
Construction	20.9	8.6	20.2	20.9	40.5	24.9
Services	10.9	6.3	8.7	15.0	9.4	13.1
Informal employment (%)						
Agriculture	51.4	52.8	51.9	48.2	47.5	47.8
Manufacturing	24.6	20.6	22.6	39.4	51.9	43.2
Construction	31.0	29.6	31.0	51.9	74.3	56.3
Services	20.2	23.4	21.9	32.3	32.9	32.6

Notes: Estimates are based on 2007 data from a Brazilian household survey known as PNAD and the Kenya Integrated Household Budget Survey, 2005. The Brazilian poverty line is set at half the 2007 minimum wage per capita of 380 reais. Brazilian poverty rates are based on household income. Kenyan poverty rates are based on household consumption – rural and urban poverty lines, based on National Bureau of Statistics calculations. n.a. = not available. Source: Heintz 2009.

In both countries, working poor poverty rates tend to be higher in agricultural versus non-agricultural employment, and in informal versus formal employment. Poverty rates for self-employed workers in the formal sector and outside of agriculture are lowest, on average. In Brazil, self-employment in the informal sector has a lower poverty risk than informal wage employment. In Kenya, this same pattern holds true for men, but not for women. Overall, the highest risk of poverty is associated with agricultural employment. In Brazil, agricultural self-employment has lower poverty rates on average than agricultural wage employment. In Kenya, this pattern holds true only for women.

The bottom part of table 1.8 presents working poor poverty rates per sector of economic activity. Again we see the same patterns. Informal employment has much higher poverty rates than formal employment and agricultural employment exhibits the highest poverty risk. The interesting comparison is between service employment and manufacturing employment. For formal employment, jobs in services are associated with a lower risk of poverty than jobs in manufacturing – this holds true for men as well as women in both countries. For informal employment, the same holds true (the one exception being women in Brazil, in which informal manufacturing has slightly lower poverty rates than informal services – but this may be explained by the large number of domestic workers in that country). These results emphasize the importance of having policies to support employment in services when devising poverty reduction strategies.

Of course, creating more formal jobs and fewer informal jobs would also have a significant impact on average poverty rates. The rate of informalization is higher in services than in manufacturing. Therefore, poverty rates for a typical manufacturing job may indeed be lower than poverty rates for a typical service job, since the latter is more likely to be unregulated, precarious and lacking basic protections. In the case study of the Republic of Korea, a similar pattern holds true for non-regular employment. Much of the growth in non-regular work in that country occurred in services and construction. Nevertheless, a real challenge is improving the quality of service and agricultural employment, instead of pursuing a single objective of increasing industrial employment.

5. Putting Employment Back on the Agenda: Implications for Policy

Economic policies to promote growth and development will only reduce poverty and inequality if the benefits of growth are widely shared. Employment represents a major channel through which additional income generated by faster growth can be distributed throughout the population. The issue of employment, therefore, must be reintroduced more forcefully in policy formulation. In doing so, some conventional wisdom must be upturned. It is often thought, for example, that jobs are a by-product of economic growth. Even the MDGs did not initially include employment goals. Likewise, inadequate employment opportunities are often seen as exclusively a labour market problem, with the most common prescription being increased flexibility achieved by rolling back regulations and social protections. Major categories of employment are sidelined or ignored altogether – specifically, employment in the informal economy. When these activities are recognized, policies often focus on promoting entrepreneurship instead of addressing the conditions under which labour is exchanged.

This concluding section presents some key elements of a framework for incorporating employment more centrally in the formulation of development policy. Given the variations in employment structures, there can be no one-size-fits-all employment policy. However, because employment structures are the outcome of processes of development and change, public policy should also focus on their transformation so as to create a stronger foundation for the universal provision of decent work opportunities.

Improve employment opportunities

Addressing labour demand, quality and mobility

Even if the structure of employment is taken as given, employment opportunities can be improved by addressing three key areas.

- First, policies must tackle insufficient labour demand. Many countries experience widespread unemployment

and/or underemployment, both of which have a common root cause: insufficient labour demand, which results from the demand for goods and services. Economic policies must seek to stimulate an adequate level of labour demand that will enable the majority of the population to move out of poverty.

- Second, the policy framework should support improvements in the quality of existing employment, which is often constrained by low productivity and/or the inability of workers to capture the benefits of productivity improvements. Improving the quality of employment involves raising productivity and improving wage levels, social protection and conditions of work. Balancing the need for increases in both productivity and employment, especially in economies with high levels of structural unemployment, is a big challenge.⁶⁵ However, productivity growth can support employment expansion if the rate of capital formation or accumulation is high, as demonstrated by Japan in the 1960s and early 1970s, and in the Republic of Korea during its period of high growth and industrialization.⁶⁶
- Third, workers must be agile enough to change jobs and move into other industries. Barriers to labour and economic mobility limit the redistributive impact of an employment-centred development strategy. A range of interventions – removing restrictions on the movement of labour, improving access to education and skills upgrading, providing basic financial services and reducing imbalances in the burden of unpaid work, for example – are instrumental in improving the mobility and economic status of workers.

Identifying and addressing the most significant constraints

A first step in improving employment opportunities is identifying the most significant constraints, which vary widely from country to country. This requires an understanding of the structure of employment and the associated economic and institutional context. Each of the five types of economies discussed in this chapter exhibits distinct characteristics and therefore will have different policy priorities. For example, the countries characterized by relatively high levels of agri-

cultural self-employment, such as Cambodia and Kenya, face different constraints to improving those jobs than countries with a large, urbanized workforce in wage employment. Policies to improve conditions for the poorest workers require knowledge of the employment arrangements in which individuals from low-income households work.

Macroeconomic policy is essential for addressing certain constraints to improving employment. For example, restrictive monetary policies that target low inflation rates reduce the growth of domestic demand. One frequent outcome of such policies is high real interest rates.⁶⁷ In some countries, high real interest rates have attracted short-term capital inflows, leading to an over-appreciated exchange rate and a heightened risk of volatile capital outflows. Therefore, an alternative monetary policy framework is essential for expanding domestic markets, maintaining a competitive exchange rate, and improving access to credit on affordable terms. Similarly, fiscal policies need to be reoriented to support greater public investment. Such investment is often essential for improving productivity and ensuring market access (for example, through new roads and better transportation).

Macroeconomic management represents only part of the policy toolkit. Selective industrial and agricultural policies and institutional reforms are also necessary. For example, limited access to credit may be primarily a result of the institutional structure of the financial sector. A more relaxed monetary stance may not make a significant difference in the absence of reforms that channel credit to activities that are currently shut out of formal financial institutions. Improved productivity may depend on very specific categories of infrastructure investment (for example, electrification schemes for residential areas to enhance the productivity of home-based workers). Given growing urbanization, innovative urban policies are also essential to support the livelihoods of low-income workers. Finally, there must be policies that focus on support for smallholders in order to feed rural families and the general population, improve rural productivity and incomes, and connect the agricultural sector more productively to other sectors of the economy.

Transform the structure of employment to make sustained inroads against poverty

Improving employment opportunities by taking the existing structure of employment as given is likely to be inadequate. The process of economic development involves the transformation of the structure of employment – not simply improving opportunities in existing activities. The long-term challenge is to move human resources into higher value added activities, raise the average level of labour productivity, and thereby increase wages and people’s incomes. The classic development trajectory involved the growth of industrial employment and a movement out of agriculture, facilitated by improvements in agricultural productivity and an increase in farm incomes. As this chapter has shown, in an open-economy setting with a high degree of global integration, this pathway may not be the only option. Nevertheless, the basic tenets remain valid: reallocating labour to more productive activities, smoothing the transitions between sectors, and helping lagging sectors keep up with the process of structural change will contribute to economic growth and development.⁶⁸

Reallocating labour to more productive activities, smoothing the transitions between sectors, and helping lagging sectors keep up with the process of structural change will contribute to economic growth

Macroeconomic policy, the investment climate and investment in infrastructure

In transforming the structure of paid employment, the macroeconomic environment plays a crucial supporting role. New investment is needed for the transformation of productive activities. Macroeconomic policies can facilitate raising productive investment by maintaining a favourable investment climate.⁶⁹ The elements of such an investment climate include the maintenance of low and positive real

interest rates, strong growth in demand (which may include a competitive real exchange rate) and low levels of volatility (which can be achieved, for example, by managing the destabilizing effects of short-term capital flows). Controls on the international mobility of financial capital may need to be put in place to realize these policy objectives.⁷⁰

An appropriate policy framework can also ensure that natural resources are used to improve employment outcomes. If the resources from commodity exports are used to fund strategic investment, instead of general consumption, the bias against tradable or export sectors can be minimized. Appropriate infrastructure investments can improve competitiveness and productivity, and help ensure that productive resources are allocated to activities with the potential to create decent employment opportunities.⁷¹ Managed exchange rates, instead of market-determined ones, can also help counter the problem of real exchange rate appreciation during commodity booms.

Structural transformation needs strategic policy interventions

Most of the developed countries and the newly industrialized countries of East Asia used industrial and agricultural policies to facilitate the structural transformations associated with their varied processes of industrialization. The precise policy mix differs across countries, but they shared a number of common features:

- government-directed investment in infrastructure;
- development finance to channel credit to specific productive activities;
- well-managed industrial and agricultural policies, such as subsidies and tax credits, extension services and redistributive land reform;
- the pursuit of dynamic competitive advantage by nurturing the development of strategic industries and activities; and
- social policies to improve the skill levels and welfare of the population, such as investments in education, training and research.

Similar kinds of interventions can be used in many countries today to transform the structure of employment and

encourage the development, in the longer term, of a solid foundation of decent work opportunities. Given the constraints of climate change, such interventions should also be low carbon-intensive and may require international agreements that support financial and technology transfers to developing countries.⁷²

The employment-centred interventionist policies that successfully reduced poverty in the past are incompatible with the neoliberal development strategies adopted by most countries in recent decades. Certainly, markets provide critical information about global consumption patterns and trends, the relative scarcity of inputs, and the distribution of productive resources. Such information is necessary, but not sufficient, to determine the optimal policy mix and allocation of labour to support sustained growth. Markets are often inadequate in meeting large and complex challenges that require urgent action, as demonstrated by the global economic crisis. A combination of non-market interventions and the use of market-generated information is necessary to achieve an employment-friendly development path.

The employment-centred policies that successfully eradicated poverty in the past are incompatible with neoliberal development strategies more recently adopted by most countries

Industrialization is important but is not the only viable path out of poverty. The case studies on Brazil and Kenya show that in some countries, service employment, including informal services, may be associated with lower risks of poverty than other forms of employment. Services are also an important source of paid employment for women. However, some caution is warranted before pursuing a service-led strategy. As the case of the Republic of Korea shows, service jobs appear to have a greater propensity to be part-time, temporary and more precarious in a number of respects in recent years. In the case of Kenya, services

have dominated informal employment. If service-led development simply means an expansion of these forms of employment, it will not lead to sustained improvements in living standards. In addition, lumping all services together obscures important differences. The service-led strategy in India has focused on employment in ICTs, but these jobs represent only a small fraction of service employment in the country. The challenge is to better understand the role of services in supporting economic development that leads to higher quality, and more stable, livelihoods over time. For countries with high levels of agricultural employment, it is clear that progress cannot be made without improving the productivity, incomes and well-being of smallholders, whose livelihoods depend on agriculture and who can provide a strong foundation for food security in most poor countries today.

Extending labour laws, and social protections and regulations, to all forms of employment

Typically, employment and labour market policies apply only to formal and not to informal employment, which may be exposed to higher poverty risks. Therefore, part of the transformation of the structure of employment involves the extension of labour law, social protections and regulations to all forms of employment. In some cases, these institutional changes may be as important as the redistribution of labour across economic sectors in improving the average quality of employment and managing risk in a way that safeguards people's welfare.

Finally, despite the potential for an employment-centred development policy to reduce poverty and support human development, it is not enough. Full employment in the strict sense of the term is not possible in market-based economies, and individuals may wish to exit employment to pursue other activities (such as education, care or community organizing). Moreover, not all segments of the population can, or necessarily should, participate in paid employment, such as those with severe disabilities, the sick, children and the frail. These caveats do not diminish the importance of employment as a foundation for inclusive development. However, as Section two of this report will show, complementary social policies are also necessary.

Notes

- 1 United Nations 1995, Commitment No. 3.
- 2 United Nations 2009b.
- 3 Kaldor 1967; Kuznets 1971. For the early European industrializers, the process took much longer than in countries that industrialized later.
- 4 United Nations 2003.
- 5 In terms of the individual observations, the highest share of industrial employment observed among all 120 countries is about 40 per cent.
- 6 Palma 2005.
- 7 Pilat et al. 2006.
- 8 Heintz 2009.
- 9 UN-HABITAT 2010.
- 10 For data, see Heintz (2009).
- 11 ILO 2008a.
- 12 Akyüz 2006; Freeman 2004. Workers producing for the world market are estimated to have increased from about 300 million to almost 800 million by 2000. It is estimated that the global capital-labour ratio has fallen by more than 50 per cent.
- 13 Akyüz 2006.
- 14 McCartney 2004.
- 15 Chang 2003a; Amsden 2001.
- 16 Kwon and Yi 2008.
- 17 Grubb et al. 2007.
- 18 Khoo Bhoo Teik 2008.
- 19 Oi 2008; Dinh 2008.
- 20 Oi 2008.
- 21 Dinh 2008.
- 22 UNIDO 2002/2003.
- 23 Seekings and Natrass 2005.
- 24 Seekings and Natrass 2008.
- 25 Singh 2008; Dasgupta and Singh 2006.
- 26 Kirby 2008.
- 27 Chibber 2003, 2008.
- 28 Nagaraj 2008; Kohli 2008.
- 29 Singh 2008; Dasgupta and Singh 2006.
- 30 Chandrasekhar 2007.
- 31 Nagaraj 2008.
- 32 Counting the poor has been a contentious issue in India. There are controversies over: (i) the representativeness of the sample; (ii) comparability of sampling procedure over the years; and (iii) deflators used to adjust for inflation that varies across regions and income classes, and varying consumption baskets. See Nagaraj (2008) and Suryanarayana (2008).
- 33 Nagaraj 2008.
- 34 Nagaraj 2008; Deaton and Drèze 2002.
- 35 Mkandawire 2001b.
- 36 Bangura 2008.
- 37 Pollin et al. 2008.
- 38 Jenkins 2005.
- 39 Humphrey 2008.
- 40 Jenkins 2005.
- 41 In 2006, the garment industry provided over 340,000 jobs in around 300 factories. ILO 2008a.
- 42 Ministry of Commerce, Cambodia 2004.
- 43 Ministry of Commerce, Cambodia 2004.
- 44 Yamagata 2006; Kolben 2004.
- 45 UN 2009a; FAO 2009.
- 46 Hanlon 2007.
- 47 The Economist 2008; ActionAid 2008.
- 48 Deere 2005; UNRISD 2005.
- 49 Fan et al. 2007.
- 50 Whitehead 2009.
- 51 Whitehead 2009; UNRISD 2005.
- 52 McMichael 2009.
- 53 World Bank 2007:8.
- 54 World Bank 2007:8.
- 55 McMichael 2009.
- 56 Davis 2006.
- 57 Hinojosa et al. 2008.
- 58 Maipose 2008.
- 59 Selolwane 2006.
- 60 Selolwane 2008; Nthomang 2007.
- 61 Siphambe 2008.
- 62 Indonesia's manufacturing sector was adversely affected by the Asian crisis of 1997. Since then, growth in the sector has been volatile.
- 63 Cerrutti 2000; Arriagada 1994.
- 64 Casale 2003.
- 65 Seekings and Natrass 2008.
- 66 Akyüz 2006.
- 67 Cornia 2006.
- 68 Cook 2006.
- 69 Akyüz 2006.
- 70 Epstein 2007.
- 71 Sachs 2007.
- 72 United Nations 2009a.

Income Inequality and Structural Change

Inequality is considered by some to be of little social concern. As long as poverty is minimized, it is argued, there should be no principled objection to the unbridled gains of the very rich. In some hands, this argument becomes one of active advocacy: that the concentration of wealth should be cultivated to generate savings, investment and growth.¹ Yet the fact that high levels of inequality are often found in the poorest countries exposes the weakness of this argument. Evidence suggests, in fact, a two-way causal relationship between poverty and inequality. There are additional important grounds for a concern with inequality. The international human rights framework commits governments to uphold equality in civil and political rights and to take steps progressively to achieve this. Furthermore, some notion of equity is central to the construction of socially inclusive states and the realization of substantive citizenship.²

High levels of inequality are often found in the poorest countries, and evidence suggests a two-way causal relationship between poverty and inequality

Easing inequality has, however, been marginal to the poverty reduction agenda of the international development community in recent years. Apart from a commitment to eliminate gender disparities in primary and secondary education, the Millennium Development Goals (MDGs) do not explicitly focus on inequalities, despite the affirmation of the principles of equality laid out in the Millennium Declaration. More recently, several reports³ have underscored the intrinsic value of equality as well as its relevance for achieving growth and reducing poverty. But the view articulated in the World Bank's *World Development Report 2006*

emphasizes equality of *opportunities* as opposed to *outcomes*. This argument justifies unequal outcomes if the processes that generate them are "fair",⁴ and advocates interventions only to protect those who fall below an absolute threshold of need. Such a view results in a weak redistributive agenda that shies away from any serious consideration of wealth and income redistribution *now*, emphasizing instead investments in opportunities that might produce a more equitable *future*.⁵

This chapter examines the causes, patterns and dynamics of inequality, with a particular focus on inequalities of income and wealth, often referred to as vertical inequalities. Inequalities among groups (horizontal inequalities) or based on factors that determine identity, such as ethnicity and gender, will be dealt with in chapters 3 and 4. In this and subsequent chapters, emphasis is placed on both the *intrinsic* and *instrumental* value of redistributive policies and processes that lead to equitable outcomes.

Based on extensive analysis of country case studies, the chapter demonstrates that increases in inequality are linked to a range of economic policies that have dominated the development agenda in recent decades. These include financial liberalization, regressive taxation, privatization in the context of weak regulation, public expenditure policies that fail to protect the poor during crisis or adjustment periods, and labour market policies that lead to precarious forms of flexibility, informalization and an erosion of minimum wages and union bargaining power.⁶ Other causes of rising inequality include disparities in educational attainment, technological change and employment policies that widen wage gaps between skilled and unskilled workers; rural-urban wage differentials in the process of structural change; inequality in asset ownership (including land); and unequal access to credit and basic production inputs, particularly in the agricultural sector.

Increases in inequality are linked to a range of economic policies that have dominated the development agenda in recent decades

Chapter 1 has argued that the overall structure of employment, and the distribution of employment across sectors, has significant implications for the well-being of a population and for poverty reduction. Continuing this line of reasoning, this chapter discusses the importance of structural change, changing global intersectoral terms of trade and macroeconomic policies for the evolution of inequality. It argues that despite the importance of structural change in determining levels of inequality, there is no single pattern that holds for all countries across time. Instead, as the case studies illustrate, (i) redistributive policies can moderate inequalities even at early stages of industrialization, and (ii) rapidly industrializing economies with a previously egalitarian income distribution may experience rising inequalities in the absence of corrective measures. Furthermore, (iii) most low-income agrarian societies that have not yet experienced sustained growth and industrialization, and whose public policies lack a redistributive focus, generally have high levels of inequality; and (iv) the growing dominance of the financial and technological sectors in national economies, especially in contexts where economic policies favour market liberalization and less redistribution, increases inequality.

This chapter also shows that structural change – in terms of the changing roles of agriculture, industry and services in an economy – and the global terms of trade among these sectors are closely related. In the short run, global terms of trade have a direct effect on inequality in a liberalized economy. For instance, a fall in global commodity prices tends to drive up inequality in agrarian economies by lowering the relative incomes of commodity producers. A technology bubble raises incomes at the top. High interest rates are, in general, bad for debtors and good for creditors; they thus raise inequality since the latter are almost invariably richer than the former. This underscores the importance of

global governance of financial and commodity markets and the management of global monetary policy.

Reducing inequality has value in its own right, and also yields substantial benefits in terms of both poverty reduction and growth. There are a number of mutually supportive redistributive policies that governments can adopt, including:

- land reform, especially in highly unequal economies where the poor depend substantially on land for their livelihoods;
- fiscal reforms that improve tax administration, prevent tax evasion and avoidance, and limit opposition to progressive taxation and redistribution (see also chapters 8 and 10);
- income-generating employment opportunities (as discussed in chapter 1); and
- expenditure-related policies that enhance the welfare of the poor (such as the range of social policies discussed in Section two of this report).

Reducing inequality has value in its own right and also yields benefits in terms of both poverty reduction and growth

In sum, four key messages are highlighted in this chapter.

- Income inequality is on the rise, partly as a result of neoliberal economic policies adopted in the 1980s and 1990s.
- Growth and equity can be mutually reinforcing, but only when supported by well-thought-out economic and social policies. Such policies should pay particular attention to the needs of small farmers.
- Successful implementation of redistributive policies calls for a stronger state role.
- Global forces are now a major factor in the movement of inequality within and between countries, and should be managed more deliberately to avoid negative repercussions for the poorest countries.

The chapter is organized as follows.

Section 1 discusses why inequality matters in the fight against poverty.

Section 2 reviews the evidence for trends in inequality globally.

Section 3 examines the links between structural change and global intersectoral terms of trade in contributing to inequality. It also discusses how both domestic structural change and external forces affect inequality in a number of countries representing different patterns and stages of development.

Section 4 concludes with a discussion of redistributive policies that governments can adopt to create wealthier, more equitable societies.

1. Income Equality and Poverty Reduction

As noted above, equity has intrinsic value and is central to the achievement of human rights and citizenship. One dimension of inequality – related to income and wealth – is closely linked to poverty. At the most basic level, the distribution of income within a country has a direct impact on the welfare of its people. A more equal distribution of national income means that aggregate welfare (where the welfare of each individual is given equal weight) is higher for any given level of average per capita income, and poverty is lower.

While greater equality is often considered to come at the expense of growth, lower inequality can contribute to greater economic efficiency

While greater equality is often considered to come at the expense of growth, there is also evidence that under some circumstances, and with appropriate institutional arrangements, lower inequality can contribute to greater economic efficiency. The development of the Scandinavian countries is illustrative here. Through a process known as the Meidner-Rehn mechanism,⁷ political commitment to egalitarian economic outcomes constrained business from competing on the basis of wage costs, which were consequently higher than those of their international competitors. Companies were therefore forced to raise labour productivity in order to stay competitive.⁸ This policy preceded the advance of the region from the middle to the top of the European (and world) income scales. A similar effect was seen in the United States during the New Deal of the 1930s and the golden age of economic growth. For the European region as a whole, there is evidence that countries with lower inequality have better employment performance.⁹ In other words, business can absorb technological change at a faster pace in societies that systematically reduce disparities in pay structures, encouraging an increase in productivity and raising per capita incomes faster than the global average.

High levels of inequality inhibit development

At the same time, a growing body of evidence points to the negative relationship between high levels of inequality (often considered to be a Gini coefficient more than 0.4) and improvements in economic and social well-being.¹⁰ High levels of income inequality are dysfunctional for development for a number of reasons.¹¹

- First, high levels of inequality make it harder to reduce poverty through growth. With high levels of inequality, growth tends to be concentrated in certain sectors, with those who are not linked to these growth sectors being excluded from the benefits. Such exclusion, in turn, lowers the potential for growth, particularly in a context of poverty, by constraining the productive capacity of the poor and thus their potential contribution to growth. Under such circumstances, a large proportion of the workforce (the poor) have

limited productive capacities for reasons that include inadequate nutrition and ill health, low levels of education or skills, a lack of employment opportunities or limited access to productive assets, such as land and credit. Furthermore, the economic exclusion of a significant proportion of the population contributes to their social and political exclusion through processes of disempowerment and lack of recognition or representation.

- Second, high levels of inequality can also retard growth by translating into lower effective aggregate demand in the economy. In highly unequal societies, the poor are more likely to be locked into a subsistence economy and have limited disposable income for the purchase of manufactured goods. This limits the size of the domestic market and hinders the potential for industrialization that is an important driver of growth.
- Third, high levels of inequality have negative implications for the building of inclusive states that have the capacity to implement redistributive and progressive economic and social policies. High levels of inequality may also undermine the realization of civil, political, economic and social rights, and the exercise of substantive citizenship. Inequality is often a factor in rising levels of crime and social unrest, which are inimical to growth. In extreme cases, especially where inequality is manifested along ethnic lines, it can lead to war and the failure of the state (see chapter 3).
- Fourth, without deliberate policy interventions, high levels of inequality tend to be self-perpetuating. They lead to the development of political and economic institutions that work to maintain the political, economic and social privileges of the elite. In highly unequal societies, the poor have little political influence; in the absence of meaningful representation to change underlying structures that perpetuate inequalities, they may become locked into poverty traps from which it is difficult to escape.
- Finally, even under conditions of rapid growth, inequality is likely to be reinforced by the distribution of the externalities of growth. For example, the poor are most likely to bear directly the burden of environmental degradation arising from rapid

industrialization. Only when the fruits of growth are distributed equitably – either directly as income or socially through the provision of infrastructure and other public goods – is the statistical fact of a rising gross domestic product (GDP) experienced as an improvement in overall living conditions and well-being.

Only when the fruits of growth are distributed equitably is the statistical fact of a rising GDP experienced as an improvement in well-being

2. Global Trends in Inequality

The global income gap remains daunting

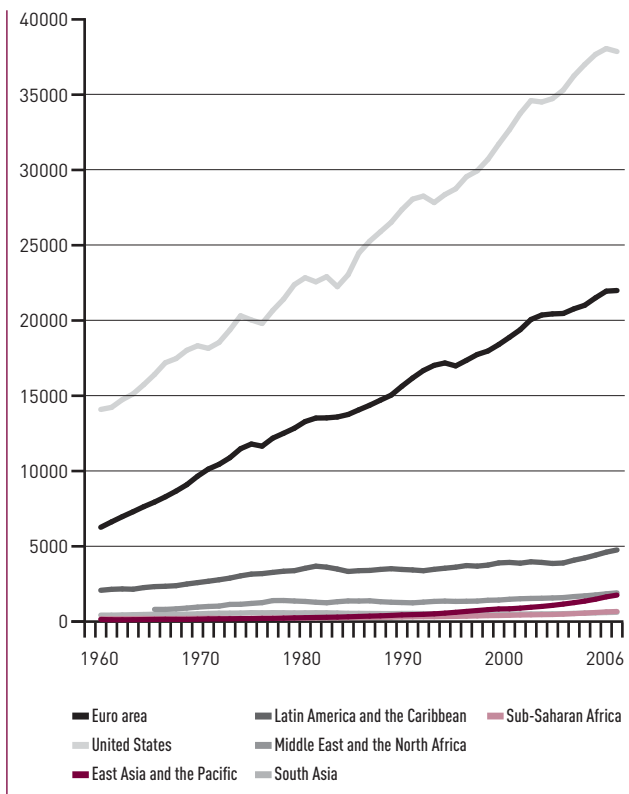
Economic growth is important in facilitating structural change that is poverty reducing.¹² An assessment of the per capita incomes of major regions and countries from 1960–2006 illustrates the persistence of the global income gap and how little real and sustained economic growth has occurred for most developing economies, in terms of substantially improved per capita GDP. Although most countries in the developing world experienced episodes of growth during this period,¹³ that growth has not been sustained in most cases. Nor has it generated decent jobs. The income gap (in terms of per capita GDP) between rich and poor countries has not lessened.¹⁴ Figure 2.1 provides evidence on real per capita incomes (in constant 2000 US dollars) across some major country groupings for 1960–2006, illustrating the persistently large income gap between rich and poor countries. Indeed, the differences in per capita incomes in 1960 were so large that even quite rapid growth in some regions over the subsequent four and half decades has not made the gap more respectable.

Thus, while the per capita income of the fastest growing developing region – East Asia – increased more than tenfold over this period (compared to an increase of less than threefold for the United States), in 2006, the average income in the United States was still 15 times that of East Asia. For other developing regions, per capita income gaps were even larger and are, in some cases, growing. Thus, the per capita GDP in 1960 of countries currently in the euro zone was 34 times that of South Asia; by 2006, this had increased slightly to 36 times. For sub-Saharan Africa, the widening gap is much starker. In 1960, the per capita income of countries now in the euro zone area was 15 times that of sub-Saharan Africa; by 2006, the difference was 38-fold.

Income inequality has increased in the majority of countries around the world

Countries vary widely in the nature of their income distribution. The Gini coefficient – the most commonly used measure of income inequality – ranges from 0.20 in Slovakia to 0.74 in Namibia,¹⁵ on a scale where 0 represents perfect equality and 1 represents total inequality. In general, the variance in income inequality among developing countries is much higher than that among rich countries. Countries with per capita incomes of \$20,000 or more have coefficients within the range of 0.25–0.45,¹⁶ whereas for many low-income countries they are more than 0.50. High inequality is thus a feature of underdevelopment.

FIGURE 2.1: Per capita income in 2000 US dollars



Source: Calculated from World Bank World Development Indicators online.

Most developing countries experienced little real and sustained economic growth, in terms of substantially improved per capita GDP, over the past 45 years

In many developing countries, extreme inequalities are driven by highly skewed distribution in the ownership of land. A high level of inequality (see table 2.1), such as that found in many Latin American countries, is difficult to transform without radical land reform. Conversely, more egalitarian land distribution creates a strong base for maintaining lower levels of inequality in the process of development. The initial structure of an economy – whether based on capital-intensive extractive industries or labour-intensive manufacturing, for example – also affects the level of income inequality likely to be found as well as the ease with which policies for income redistribution can be implemented.

TABLE 2.1: Landholding patterns in selected countries and regions

Country	Year	Distribution of landholding by percentile groups of agricultural households					Landless population as % of rural population (1988)	
		Lowest 20%	Second 20%	Third 20%	Fourth 20%	Highest 20%		
South America								
Bolivia	1978	5.8	5.8	5.8	9.3	73.3	10	
Ecuador	1987	1.0	1.6	4.2	9.6	83.6	23	
Peru	1984	3.3	3.3	3.3	17.1	73.0	19	
Central America and the Caribbean								
El Salvador	1985	5.1	5.1	5.1	10.6	74.1	41	
Guatemala	1979	0.8	1.6	3.3	4.2	90.1	21	
Honduras	1980–81	2.9	2.9	3.8	11.4	79.0	26	
South Asia								
Bangladesh	1983–84	2.3	5.4	12.5	23.6	56.2	20	
India	1976–77	4.1	4.1	6.3	20.3	65.2	30	
Nepal	1982	2.6	2.6	7.7	19.8	67.3	18	
Southeast Asia and the Pacific								
Indonesia	1976–77	3.0	6.2	11.3	24.0	55.5	15	
Thailand	1978	4.0	8.3	16.3	24.2	47.2	15	
Philippines	1981	3.2	8.1	11.6	20.4	56.7	34	
Near East								
Egypt	1984	11.2	11.2	11.2	11.2	55.2	25	
Morocco	1981–82	6.8	6.8	6.8	21.6	58.0	15	
West and Central Africa								
Cameroon	1984	3.6	9.3	15.0	21.6	50.5		
Ghana	1984	7.8	8.7	7.8	18.6	58.0		
Southern Africa								
Mozambique	1998	Smallholders accounted for 95% of cultivated land, with the remaining 5% occupied by state farms, cooperatives, private farms and joint ventures						
South Africa	1994	Smallholders held 13% of the land area, with 67,000 commercial farmers owning 86% of the agricultural land						
Zimbabwe	1993	One million smallholders in communal lands owned 50% of agricultural land; 13,335 large and medium commercial farms controlled 37% of the best agricultural land						

Source: Ghimire 2001.

The development experience of the first wave of East Asian states demonstrates that rising inequality in the early stages of development is not inevitable. In the case of the Republic of Korea and Taiwan Province of China, radical land reforms that preceded industrialization, the use of labour-intensive technologies during the early stages of industrialization, and investments in human capital that helped balance out opportunities available in urban and rural settings and across income groups were important factors in preventing the growth of inequality. High levels of growth without rising inequality were also seen in Singapore and Hong Kong, China, both city-states where agriculture was insignificant but where governments implemented basic social (particularly housing) policies to support the growth process.

Over the past two decades of economic liberalization, it has been much harder for countries to achieve high growth rates without increases in inequality

Over the past two decades of economic liberalization, it has been much harder for countries to achieve high growth rates without increases in inequality. Recent studies point to the fact that inequality has increased in the majority of countries throughout the world. One recent study¹⁷ found that income inequality increased in 30 out of a sample of 49 countries between the 1990s and the 2000s. It remained unchanged in six countries and in only 13 countries did it decrease. A similar result has been presented in a recent study by the International Labour Organization (ILO). It found that, between 1990 and 2000, “more than two-thirds of the 85 countries for which data are available experienced an increase in income inequality, as measured by the Gini index”.¹⁸ Of the 20 advanced countries in the sample, inequality decreased in only four, while of the 21 transition countries in the sample, inequality decreased in only three. Among the developing countries studied, patterns of change tend to vary by region. In Asia, inequality decreased in only

two out of eight countries. Significantly, India and China were among the countries that experienced an increase in inequality. In Latin America, inequality declined in six out of 15 countries for which data were available. It was only in the Middle East and North Africa and in sub-Saharan Africa that more countries experienced a decline rather than an increase in inequality. However, even though inequality decreased in these regions, the resulting level of inequality remained high (a Gini coefficient of more than 0.40) in most of the countries studied.

The gap is growing between wage earners and those who derive their income from profits

A broad pattern of growing income inequality under economic liberalization, reflected in rising Gini coefficients, is supported by data on other dimensions of inequality. An important indicator in this regard is the functional distribution of income – that is, the distribution of income between wages (income from labour) and profits (income from capital). This provides a general indication of how well wage earners are faring relative to employers and others who derive their income from the ownership of capital, such as productive equipment and financial assets. Typically, industrialized countries have only a small sector of self-employed producers, and the bulk of total income derives from either wages or profits. As a result, the share of wages in GDP is closely correlated with changes in overall income inequality as determined by a summary measure such as the Gini coefficient. Thus a rise in the share of wages in GDP is likely to mean a reduction in overall inequality, since wage earners tend to be at the lower end of income distribution, while the opposite is true of those who derive their incomes from profits. A rise in the share of wages also usually reflects a tight labour market and the increased bargaining strength of workers.

In developing countries, the picture is less clear-cut, since there is often a large informal sector consisting of self-employed petty producers or service-providers whose meagre incomes place them at the bottom of the income

scale. Yet their incomes are usually recorded in national statistics as profit or a return on the assets used to engage in economic survival activities. In this context, there is no simple interpretation of what a change in the share of wages in GDP means in terms of overall inequality. For example, if an increase in the share of non-wage income is largely due to an increase in average incomes in the informal sector, then this would be a desirable change from a distributional standpoint. Nevertheless, even in countries with high levels of informality, an analysis of the change in the wage shares that is confined to only the formal sector of the economy can provide useful information on trends in inequality. A change in wage shares within the formal sector can be interpreted in the same way as an overall change in the wage share of advanced economies. For instance, a decline in the wage share in the manufacturing sector of a developing country does tell us that the bargaining strength of workers is weakening, either because of an excess supply of labour relative to demand, the strengthened power of employers due to increased exit options as a result of globalization, or the suppression of labour unions or collective bargaining mechanisms.

Between 1980 and 2000, the average wage share of national income fell by 10 points in the euro zone, a clear sign of redistribution from labour to capital

A study commissioned by UNRISD,¹⁹ based on panel data for 25 member countries of the Organisation for Economic Co-operation and Development (OECD) over the period 1973–2003, found that the wage share of national income fell or remained constant in 23 cases. These falls were quite large in some cases. Between 1980 and 2000, the average labour share fell by 10 points in the euro zone²⁰ – one of the largest decreases and a clear sign of redistribution

from labour to capital. The study also found evidence of a strong and persistent link between functional and personal income distribution. In the sample of 25 countries, 17 of the 18 countries that experienced an increase in inequality in the functional distribution of income also experienced a simultaneous increase in inequality in the personal distribution of income.

The same phenomenon appears to have been at work in some developing countries. Bearing in mind the difficulties in interpreting changes in the functional distribution of income in developing countries, it is still significant to note the findings from a recent ILO study.²¹ The study, which covered 29 advanced, 33 developing and 11 transition economies, concluded that three-quarters of them witnessed a decline in the wage share of national income. The fastest decrease – of more than 13 per cent – was found in Latin America. The advanced economies and Asia also experienced significant declines. Wage shares fell in Asia by over nine percentage points during the period 1985–2002, and by the same amount in advanced economies over the period 1980–2005.

3. Inequality, Structural Change and Global Intersectoral Terms of Trade

How should these changing patterns of inequality among and within countries in a globalized economy be explained? Is there a common global pattern and, if so, what does this tell us about global economic governance? To answer these questions, this section examines global, regional and national datasets on economic inequality developed by the University of Texas Inequality Project.²² These datasets are a unique resource, providing consistent and reliable measures of pay inequality for a large number of countries from the early 1960s to the early years of the twenty-first century. These measures suggest certain broad patterns and relationships between economic inequality and structural change (see box 2.1).

BOX 2.1: A methodology for measuring income inequality

The measures of inequality derived from the University of Texas Inequality Project (UTIP) can be applied to many sources of data and do not require recourse to micro-level datasets derived from sample surveys. The resulting measures are often comparable both through time and across countries.^a The method is summarized in Conceição et al. (2001) and is based on the work of Theil (1972), who argued that an inequality measure computed from grouped data provides a consistent lower-bound estimate of inequality for the entire population. Relatively coarse disaggregation is sufficient to capture the major movements of inequality in the whole distribution.

Income distributions are approximate statistical fractals (that is, they produce similar patterns at different scales and from different points of observation), so that observation of the entire distribution, or even of a statistically representative portion of it, is not necessary in order to observe change with reasonable accuracy most of the time. All that is required is to observe an important part of the distribution (say, the manufacturing sector) on a consistent basis over time. Since this part is linked organically to other parts that may not be observed, such as agriculture and services, movements in the observed part are usually – but not always – representative of movements in the shape of the entire distribution. Changes in the structure of incomes often occur because of changes in the relative positions of major industrial groupings (a rise of industry over agriculture, for instance, or of finance over industry) or in the relative position of different geographic areas, differentially affected by demographic change, climate or war. Thus, after a certain point, further disaggregation adds little useful information.

The inequality measures developed by the UTIP are also broadly consistent with conventional, survey-based income inequality measures, or can be made so by statistical adjustment after allowing for conceptual differences between pay and income and for the many different kinds of inequality that are reported in the survey-based literature (for example, income, expenditure, gross or net of tax, household or personal).^b The dataset on which the UTIP measures are based covers more than a hundred countries over three or four decades. Measures of inequality may also be calculated both within and among regions inside many countries. In some countries, inequality measures can be computed on a monthly basis.

However, it is important to note that the UTIP approach has its limitations. Of these, perhaps the most important is that the work is statistical and comparative; it cannot be substituted for detailed case-by-case analysis. The UTIP data are also largely focused on pay, aggregated by sector and region. Pay is associated with jobs, not with households, and the datasets lack information on the characteristics of the workers or their families. For this reason, the UTIP studies are not well suited to an analysis of the social welfare consequences of political and economic change, nor of the effects of such change on gender or ethnicity, except where these attributes are associated with the distribution of jobs. Finally, the data are entirely pretransfer, and shed no light on the post-transfer distribution of income. However, transfer payments are very limited outside of the OECD region. Within that region, the scale of transfers is closely correlated with the equality or inequality of pay structures, so that the inequality rankings found in the UTIP data would not change much if post-transfer income were included.

Notes:^a Galbraith and Kum 2005, 2003. ^b Galbraith and Kum 2005, 2003. Source: Galbraith 2008.

Early development thinking held that inequality rose in the early stages of development, and then declined

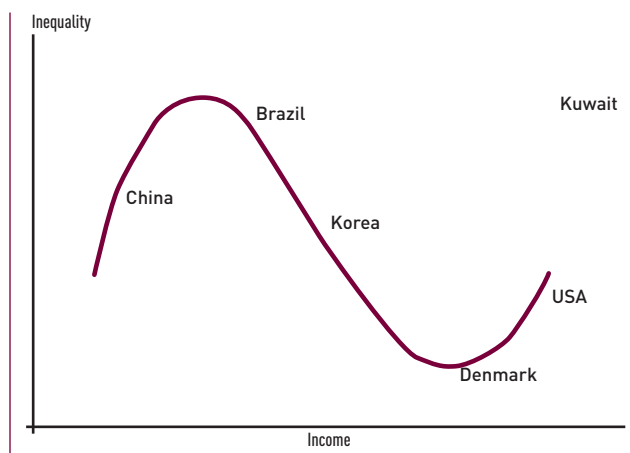
An important strand of early development thinking held that an inverted-U shaped curve described the relationship between the level of development and the degree of inequality in the distribution of income. The Kuznets curve²³ summarized a process whereby inequality increased in the initial stages of development but then reversed itself as development proceeded. Kuznets identified the transition from agriculture to industry as the prime mover of a process of increasing inequality in the early stages of economic development, simply because towns and cities are always richer on average than the countryside around them. However, as economic development matured, the weight of agriculture in the whole economy would shrink, and ultimately urban phenomena would come to dominate the evolution of inequality. At that point, Kuznets argued, the dynamics of factory life, including the rise of labour unions and democratic politics, would cause inequality to decline.

The Kuznets curve describes a process of structural change (or intersectoral transition) specific to the history of economic development in the United States, the United Kingdom, much of Europe, and Japan. The process has been repeated elsewhere – but not everywhere. In mineral-rich countries dominated by extractive industries, or in post-industrial societies dominated by services such as technology and finance, different patterns would be expected. Kuznets' enduring message is not that a single curve should be found in the history of all countries in all periods, but that the essence of understanding inequality lies in understanding the intersectoral transitions, or structural changes, that produce it.

Figure 2.2 shows an augmented Kuznets curve,²⁴ which suggests that for large agrarian societies in the process of industrialization, of which China is the leading example today, the rural-to-urban transition still drives the rise in inequality. In only a few other industrializing countries does the agrarian population remain sufficiently large for the intersectoral transition out of agriculture to dominate

the picture; most developing countries, especially outside Africa, are over the hump of the inverted-U (if the hump exists) and on the downward-sloping portion of the curve.

FIGURE 2.2: Stylized augmented Kuznets curve



Source: Galbraith 2008.

Among the highest income countries, notably the United States, the United Kingdom and Japan, a different dynamic takes over.²⁵ The most advanced economies have procyclical movements of inequality, because their highest income sectors, services in technology and finance, enjoy their greatest income growth in boom times, whether driven by domestic investment or by exports. This is also true of small economies dominated by services such as finance and real estate, of which Hong Kong, China is a prominent modern example. Meanwhile, the world is speckled with mono-line producers (that is, countries dependent on a single commodity, such as oil) where distribution is driven by the peculiar characteristics of an extractive economy. They are characterized by high per capita income, a low-wage (often immigrant) manual workforce and high inequality.

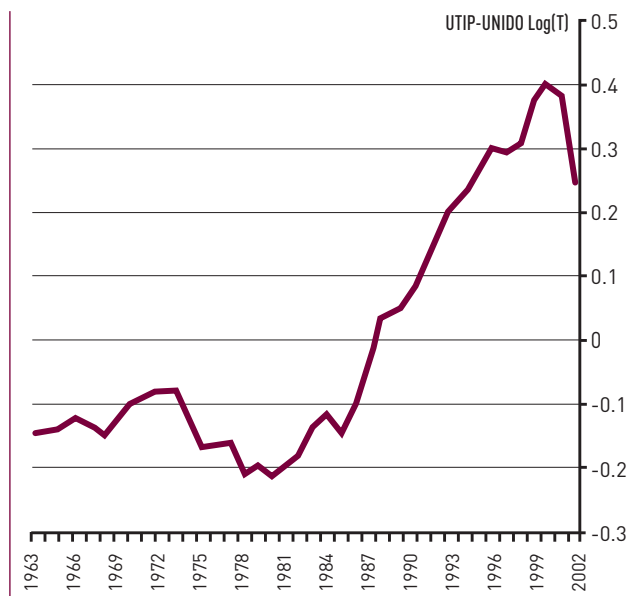
Global intersectoral terms of trade are a key determinant of inequality

Intersectoral transitions (structural changes between agriculture, industry and services) within countries, and the global

terms of trade between these sectors, are closely connected. We would therefore expect global intersectoral terms of trade to influence inequality within countries, even in the absence of significant structural change. Thus, a boom in commodity prices will tend to reduce inequality in a country with an important agricultural sector, simply because it tends to raise the relative income of farmers; whereas a fall in commodity prices will depress incomes in such a country. A cartel action to increase the price of oil gives producers resources to redistribute or invest (for example, into construction); meanwhile, it may raise the cost of production and consumption in other countries, increasing unemployment among industrial workers and squeezing the incomes of the middle classes in wealthier countries.

In a world of globalized financial and commodities markets, these effects will be global: they should show up everywhere (or almost everywhere) at once, and they do.²⁶ From the early 1960s onwards, patterns in the expansion or contraction in the level of inequality have tended to be found during the same time period within countries around the world. These patterns have four phases, as illustrated in figure 2.3.

FIGURE 2.3: Global patterns of inequality over time, 1963–2002



Source: Kum 2008.

Four phases of inequality

The first phase, which occurred from the first observed year (1963) until around 1971, was a period of relative stability, with no common movement in the measures of inequality.

The second phase, from 1972 until around 1980, was a period of moderate decline in inequality in much of the world. This period coincided with the collapse of the global financial framework of the Bretton Woods era, and the subsequent inflationary boom, abetted by large-scale commercial bank lending at negative real interest rates.

The third phase is one of sharply rising inequality, beginning around 1982 and continuing to the end of the century. It was associated with the calamity of the global debt crisis, initially most severe in Latin America and Africa, followed by the collapse of communist governments in Central and Eastern Europe, and finally by a wave of deregulation and liberalization in Asia in the 1990s. The specific experience of countries and regions varies, but they share several common characteristics: collapsing imports; a shrinking fiscal base and therefore public sector retrenchment; trade liberalization; de-industrialization; and the simultaneous decline of both the civil service and the industrial working class. Globalization eventually brought financial investment to some countries, stimulating the rise of new sectors – most notably real estate, insurance and banking – accompanied by global pay scales and a rise in speculation. The overall pattern almost exactly resembles that found in another major study²⁷ that examined inequality among countries, unweighted by population. This should not come as a surprise: events that increase the gap between rich and poor people within countries should also, in principle, broaden the gap between rich and poor countries, since the latter are just unbalanced collections of the former.

The pattern has exceptions. India and China, for example, avoided the global rise in inequality in the 1980s, arguably because they had not liberalized their financial markets, and were therefore relatively unaffected by the debt crisis. While inequality in China had started to rise from low levels during the 1980s, the sharp and problematic rise in inequality dates from the crisis of 1989. In India, the rise in

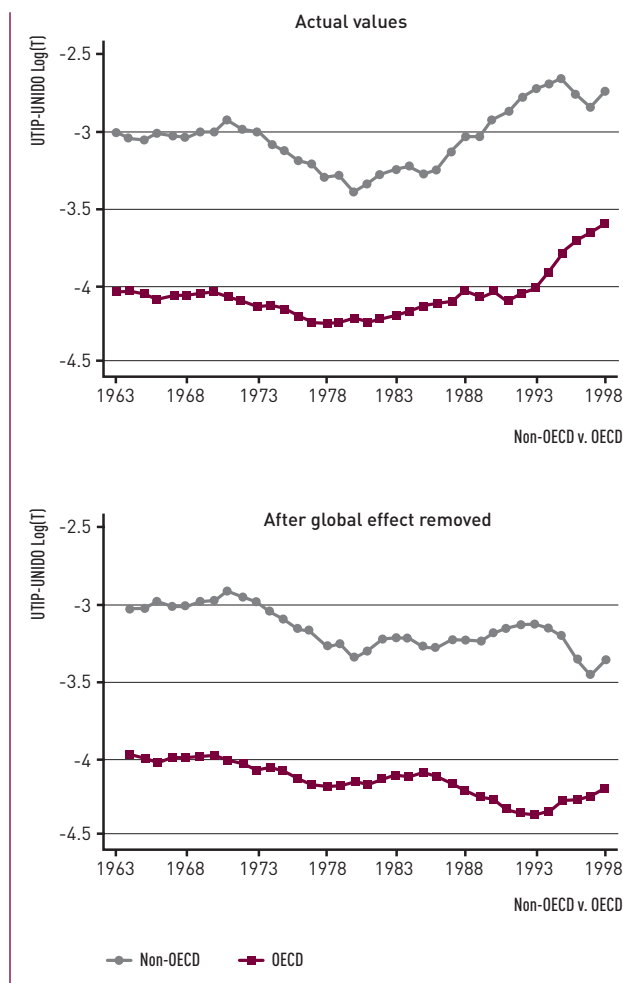
inequality started with the liberalization reforms of 1992.²⁸ These exceptions help to confirm the hypothesis that a major driver in the movement of inequality in the age of globalization is not idiosyncratic national policy or even structural change within countries, but global forces affecting intersectoral terms of trade.

The fourth phase, beginning in 2001, is again one of declining inequality. It coincides with the marked relaxation of credit conditions that followed the attacks of 11 September 2001 in the United States and a repudiation of the Washington consensus policies (the reform package promoted by Washington, DC-based institutions such as the International Monetary Fund/IMF, the World Bank and the United States Treasury Department) associated with adverse growth and social development in many countries. These changes appear to have permitted both higher growth and some abatement of the extreme increases in inequality that had afflicted the developing world for the previous 20 years. The commodities boom during this period also benefited low-income agrarian countries. The dramatic onset of the global economic crisis in 2008 has undoubtedly brought an abrupt end to this brief period of declining inequality. Low-income agrarian economies now face sharply reduced growth, a contraction of output, rising unemployment and a renewed rise in poverty.

Most low-income agrarian economies are highly unequal

If the global element in rising inequality in the 1980s and 1990s had not existed, there would have been no increase in economic inequality on average around the world. Indeed, given the Kuznets forces affecting inequality in the process of economic development, inequality in most countries and on average would have declined. Figure 2.4 illustrates this calculation, separating out member countries of the OECD and non-OECD countries to show how global forces affect each group. The figure also illustrates a core fact: high-income industrialized countries enjoy markedly more equality, on average, than low-income developing countries.

FIGURE 2.4: Inequality within countries, with and without the global effect



Source: Galbraith and Kum 2003.

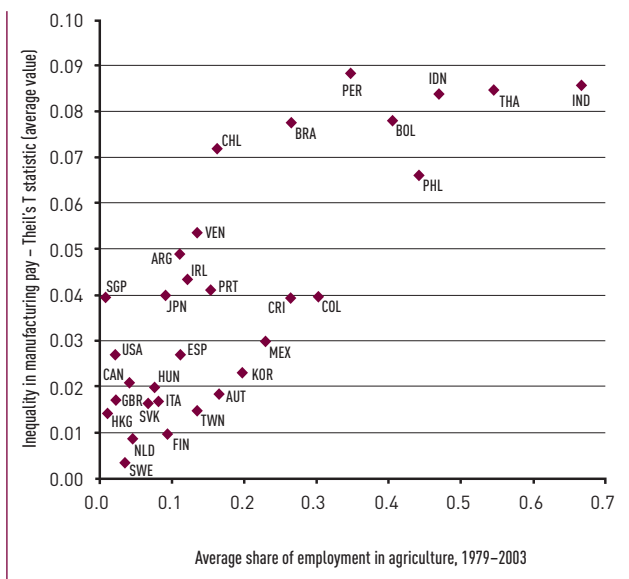
The high inequality of most low-income agrarian societies may be puzzling. However, particularly in the tropics, agricultural arrangements are frequently descended directly from feudal land tenure systems or from slavery. Such arrangements differ from the historical cases examined by Kuznets, such as the United Kingdom and nineteenth-century North America, or from the East Asian economies after land reform, where small freeholders predominated. Except in some parts of Africa, low-income agrarian economies with egalitarian income structures are rare, and in the past century have tended to emerge only after violent

revolution, as in China (1949), Cuba (1959) and Viet Nam. Even in these countries, however, inequality is rising (albeit from very low levels) with more liberal economic reforms.

High-income industrialized countries enjoy markedly more equality, on average, than low-income developing countries

Without these countries, it is doubtful whether the inverted-U shaped curve would have a low-income upward-sloping component at all in recent decades. Figure 2.5 illustrates the relationship between the share of agriculture in total employment and inequality in manufacturing pay for a selection of developed and developing countries. The positive relationship is strong and consistent: the higher the population in agriculture, the higher the level of inequality.

FIGURE 2.5: Inequality in manufacturing pay and the share of agriculture in employment in selected countries, 1979–2003



Source: Galbraith 2008, from data in Kum (2008).

Global forces now shape the movement of inequality within countries

Taken together, the issues outlined above paint a complex picture, yet one with regular features. For any given country, the movement of inequality can be said to depend on three factors:

- the position of the country on an augmented Kuznets curve, reflecting previous processes of structural change;
- the current process of structural change and growth in income; and
- the country's integration into the global economy, and thus the external impact of changes in intersectoral terms of trade.

In sum, in most cases, structural change in the process of economic development tends to reduce inequality. Exceptions exist, two of which are:

- low-income post-revolutionary agrarian societies in the process of urbanization, industrialization and transition to market capitalism; and
- high-income post-industrial societies as they move towards economies dominated by services in technology and finance.

Likewise, crises and shocks that periodically disrupt the processes of economic development tend to raise inequality. Structural change in the process of economic development is relatively slow, whereas the impact of shock and crisis is rapid and highly visible in the data (although such events have been relatively rare to date, at least at a global level).

For this reason, changes in relative prices (or the terms of trade) between sectors tend to dominate the actual movement of economic inequality. Commodity booms generally benefit lower income developing countries, while financial bubbles and interest rate shocks generally benefit high-income groups within financialized economies, at least in relative terms. Since oil and grain prices and interest rates are set in global markets, it is not surprising that the movement of economic inequality should now be largely a common global phenomenon, operating in much the same way (though certainly not symmetrically) in most of the world.

How structural change and global forces affect inequality: Country examples

Based on the arguments and framework developed above, the remainder of this section highlights key features of the development experience of a number of countries. These cases illustrate the relationship between different stages and patterns of structural change, exposure to external economic forces and inequality.

Rapid industrialization: The case of China

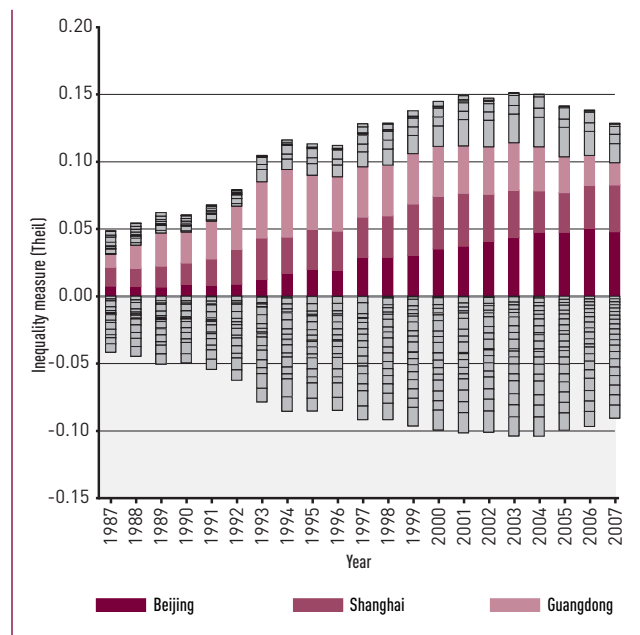
China provides a classic example of the evolution of inequality dominated by internal structural change, at least until very recently. In the 1980s and 1990s, the country was largely insulated from external relative price changes. Although it is now well integrated into international food and fuel markets, it still enjoys an internal price level for most labour-intensive wage goods, such as food, clothing and housing, that is far lower than the external prices of these goods. Rapid growth starting from the point of an agrarian economy that had undergone major reforms after the egalitarian practices of communism implied rising inequality, accelerated by urbanization as growing urban-rural differentials prompted greater migration from the countryside into the cities. This dynamic constitutes China's greatest social challenge, and authorities are locked in an ongoing effort to balance control over internal migration with a construction programme sufficiently vast to accommodate the urban inflows that cannot be prevented.

China provides a classic example of the evolution of inequality dominated by internal structural change

In recent years, China's picture has been complicated by large inflows of speculative capital. Some of it is moving through the current account in the trail of an enormous export boom, which has, in turn, fuelled an epic real-estate boom in Beijing, Shanghai and a few other locations. These factors exacerbate inequalities between rural and urban areas, as well as between different regions or provinces.

Figure 2.6 illustrates the changing contribution of various Chinese provinces to the country's inequality up to 2007. Each segment of each bar represents the contribution to overall inequality of a particular province in a particular year. Those provinces with incomes above the national average show positive values, and those with incomes below the national average show negative values. The figure provides a succinct measure of the rise and fall in relative terms of Chinese provinces relative to each other. Of particular note is the contribution of Beijing, neither a coastal city nor a primary centre for the production of goods for export, which continued to rise even after the diffusion of economic growth caused the relative shares of Guangdong and Shanghai to tail off in the late 1990s and early 2000s. This is at least in part related to the construction boom that preceded the 2008 Olympics and illustrates the extent to which financial forces may be coming to dominate and to destabilize the pattern of relative incomes inside China.

FIGURE 2.6: Contribution of provinces to interprovincial inequality in China, 1987–2007



Note: The bar segments represent elements of the Theil index, specifically the population weight times the ratio of average sector pay to country pay (times the log of the same ratio). Thus above-average pay sectors show positive values, those with below-average pay show negative values. The Theil measure for each year is the sum of the bar values for that year. Source: Galbraith et al. 2008.

Dualism and industrial crisis: Brazil and Mexico

In most of Latin America, by contrast, large-scale urbanization, globalization and, specifically, the internationalization of finance occurred decades ago. In the 1980s and 1990s, countries found themselves afflicted by the (closely related) scourges of negative growth and adverse terms-of-trade shocks as well as by the debt crisis, all of which increased inequality. In Mexico and Brazil, the debt crisis and resulting industrial slump were associated with a sharp rise in inequality,²⁹ as the collapse of import-substituting industries diminished the unionized working class. It is reasonable to infer that import-substituting industrialization had worked to reduce the (very high) inequalities associated with traditional Latin American economic dualism, and that the later shift towards an export-oriented growth model would again be characterized by a more unequal income structure. However the short-term movement of inequality during the transition between these two models was clearly governed by the same forces that generated macroeconomic and industrial crises in the first place.

In the 1980s and 1990s, Latin American countries found themselves afflicted by negative growth and adverse terms of trade as well as by the debt crisis, all of which increased inequality

The experience of Mexico and Brazil during this period also illustrates the simple relationship between wage inequality in industry and the rate of economic growth. As long as economic growth is sufficiently rapid to absorb the natural rise in the labour force, inequality in pay structures tends to be stable or decline. When growth falls short of that threshold, inequality tends to increase.³⁰ For countries in the latter situation, combating rising inequality is, in large part, a matter of restoring stable internal growth and thus absorbing the growing labour force into productive employment. But as long as such countries remain exposed

to external financial shocks, more stable global financial governance must also be part of the solution.

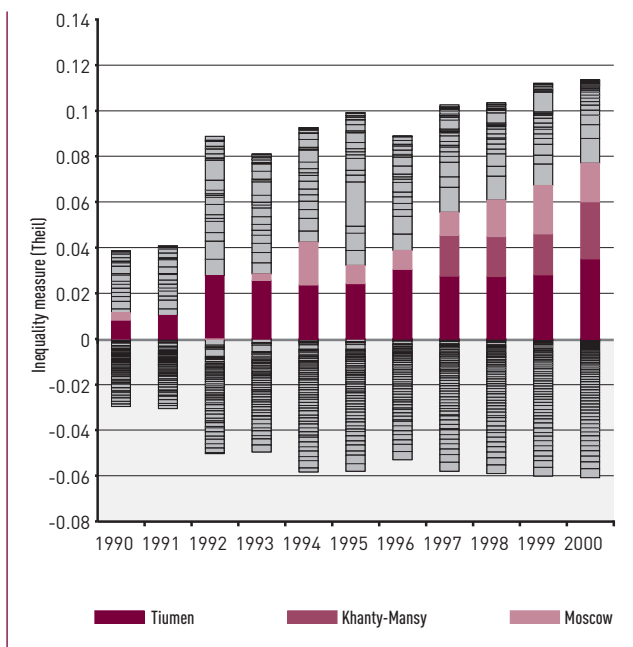
The experience of Mexico during the peso crisis in 1995 demonstrates the connection between external finance and economic inequality for many developing countries. A position on the periphery of the global economy implies important trading relations with much richer countries, and therefore a duality in the productive economy at home – between producers who sell to the external market and those who sell to domestic consumers. Workers in the former tend to be better paid than those in the latter, simply because industries with rich customers who earn hard currency can afford to pay a premium for labour. The former are also much better insulated against a currency crisis. When the peso crisis hit Mexico in 1995, export sectors were able, for the most part, to simply translate their dollar earnings into peso wages at the new exchange rate. Those who produced for the domestic economy, as manufacturers or as service providers, could not do this, and their relative wages fell instantly as the peso collapsed. In addition, their markets subsequently dried up, since consumers were forced to pay more for imported staples (such as corn) that were now available only at a dramatically higher peso price. There was a sharp rise in inequality in pay in the Mexican manufacturing sector following the 1995 peso crisis.³¹

Transition economies

In the industrialized economies of Central and Eastern Europe, the combination of a large manufacturing sector and a communist political regime produced low inequality until the system collapsed in 1989. It is worth noting, however, that the collapse of communist regimes in Hungary, Poland, Yugoslavia and the Soviet Union was not unrelated to economic pressure. All were deeply indebted to the West at a time of depressed prices for primary commodities and exceptionally high real interest rates. These pressures exacerbated the underlying inefficiencies of the communist system, prompting efforts at reform that eventually opened the door to regime change. At that point, de-industrialization and price liberalization, leading to a very rapid move towards world price levels, combined to drive inequality up dramatically.

The case of the Russian Federation has been analysed using data for the years 1990–2000.³² The dramatic increase in inequality came in 1992, with the implementation of shock therapy, starting with price liberalization. This resulted in the sudden collapse in the real wages of both agricultural and manufacturing workers as well as of non-commercial sectors, such as health and education, previously supported by the state. Energy and finance consequently became the leading sectors of the new Russian Federation, with Moscow rising as a world city in a country otherwise mired in post-communist stagnation. The situation became so extreme by the end of the century that the lightly populated western Siberian oil and gas regions of Tiumen and Khanty-Mansy had become major drivers of the inequality of Russian incomes overall. Meanwhile, the conflict-affected regions of the southern Caucasus had fallen far below the rest of the country in reported relative income. Figure 2.7 provides a schematic view of the interprovincial shifts in the Russian Federation during the disastrous transition decade.

FIGURE 2.7: Contributions of three provinces to interprovincial inequality in the Russian Federation, 1990–2000

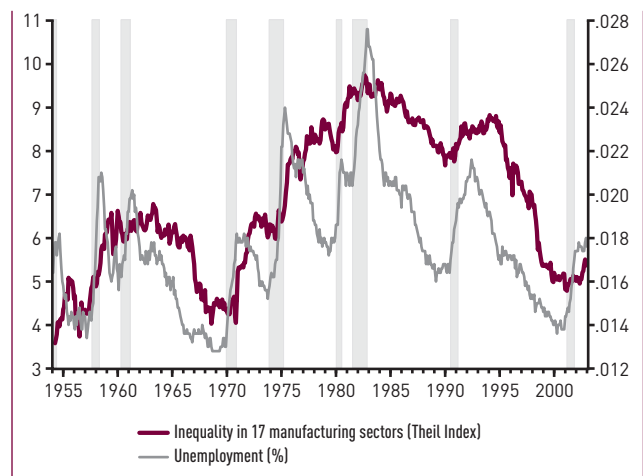


Source: Galbraith, Krytynskaia and Wang 2004.

Financialized economies

In the United States, inequality rose from the early 1980s under the demand shock of tight monetary policy and a high dollar – a backward movement on a downward sloping Kuznets curve. This movement was repeated in the recession of the late 1980s. Inequality in pay, particularly in manufacturing, then declined through much of the following decade as the economy recovered and eventually produced very high levels of employment. Figure 2.8 illustrates the close relationship between inequality in the structure of manufacturing pay in the United States and the rate of unemployment.

FIGURE 2.8: Monthly manufacturing pay inequality and unemployment in the United States, 1953–2003

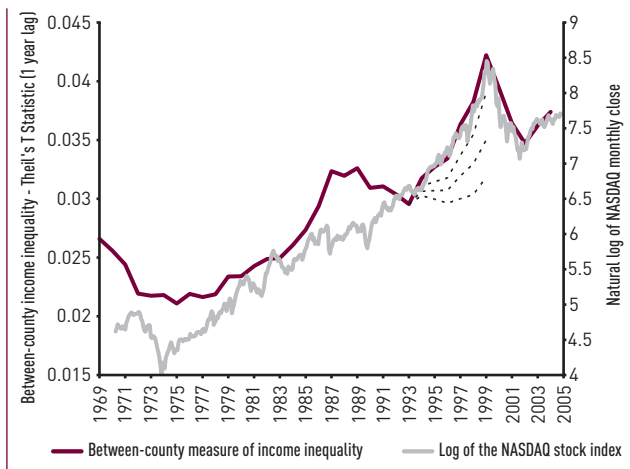


Note: Recessions indicated by grey lines. Source: Galbraith 2009.

In the last years of the decade of the 1990s, rapid growth in the United States was driven by a technology bubble. This produced increasing inequality – represented as a move up an upward-sloping segment of the Kuznets curve – as the country moved through the transition from an industrial economy to one largely centred on technology and finance.³³ The effect of this increase in inequality on household incomes was greatly exacerbated by the dramatic appreciation of capital asset valuations on the reported income of a very small number of very rich people. If the effects of rising income in just five counties – New York (Manhattan), New York; Santa Clara, San Francisco and San Mateo counties in California; and King County in Washington – are removed

from the data, about half of the rise in between-county inequality in household incomes in the United States in the last years of the 1990s would not have occurred.³⁴ Removing the income growth of just 15 counties neutralizes the entire increase in between-county inequality. Figure 2.9 illustrates this finding, and shows that the rise (and occasional decline) in income inequality in the United States is substantially due to changing valuations on the stock market, specifically the technology-rich NASDAQ.

FIGURE 2.9: Between-county measure of income inequality and the log of the NASDAQ stock index in the United States, 1969–2005

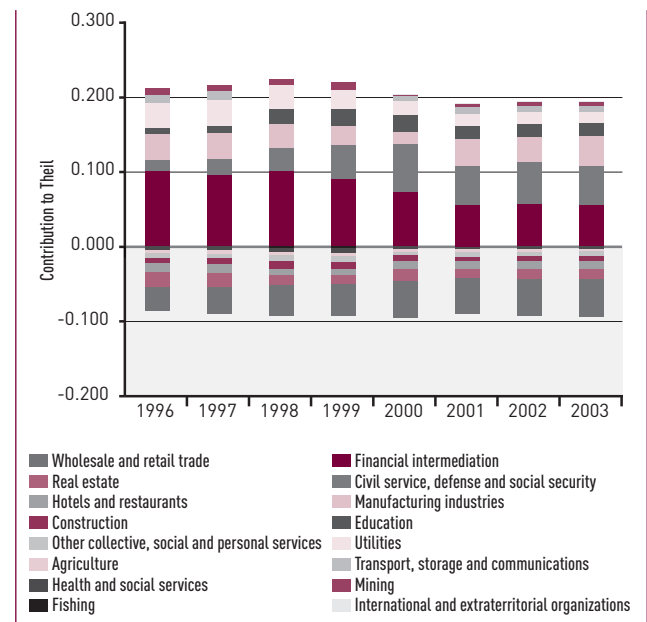


Note: Dotted line indicates hypothetical change in inequality 1993–1999 under the counterfactual of average national income growth in five counties: New York (Manhattan), New York; Santa Clara, San Mateo, and San Francisco counties in California; and King County in Washington. Source: Galbraith and Hale 2008.

Financialization, or the growing dominance of the financial sector in national economies, is strongly linked to neoliberal economic policy reform, which gained strength in the 1980s and 1990s and tended to favour national financial and political centres (Buenos Aires, Moscow, São Paulo, Shanghai and Beijing) at the expense of the hinterlands. In the wake of a financial crisis or stabilization policies, such as Brazil's Real Plan, the share of the financial sector in an economy is likely to shrink and overall inequality among sectors and regions to fall. Figure 2.10 illustrates this pattern for the case of Brazil, which at the peak of neoliberal policies channelled an extraordinary share of national income into the financial sector. Notwithstanding the small absolute size of the sector,

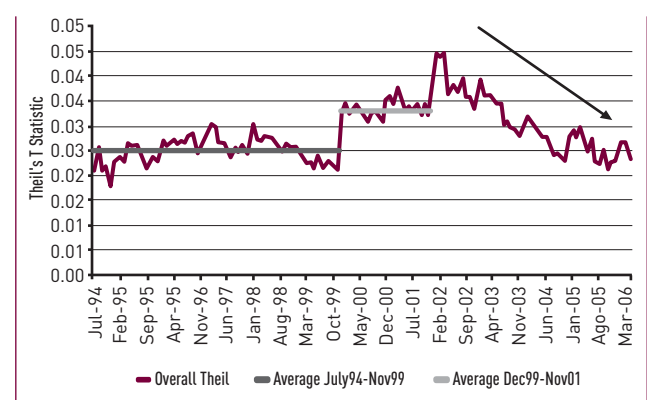
it would be reasonable to see the diversion of resources into banking as a principal motor of total income inequality in Brazil. Using monthly data for the case of Argentina, figure 2.11 shows that the financial crisis in 2002 triggered a process in which inequality – at least within the formal sector – was reduced in the post-crisis years.

FIGURE 2.10: Contribution of sectors to economic inequality in Brazil, 1996–2003



Source: Galbraith et al. 2007.

FIGURE 2.11: Monthly measure of interprovincial inequality in Argentina, 1994–2006



Source: Galbraith et al. 2007.

Some countries have avoided rising inequality

Even though rising inequality was characteristic of the period under discussion (the 1980s and 1990s), it was not observed everywhere. In Northern Europe, notably in Scandinavia, historically among the most egalitarian regions in the world, measures of inequality remained steady throughout the 1980s and at least into the early 1990s. The Nordic experience relates in part to the strong tradition of unionization, centralized pay bargaining, and (in the case of Norway) the collective management of resources gleaned from the oil boom. Meanwhile, in parts of Southeast Asia, especially Singapore and Indonesia, inequality appears to have declined throughout the early 1990s. In parts of Latin America, notably Brazil and Argentina, inequality appears to have peaked with the crises of 1993 and 2002, respectively, and to have declined with the stabilizing growth experienced in subsequent years.³⁵

4. Redistributing Wealth and Income: Implications for Policy

Poverty is far more than relative deprivation of material goods; it may be accompanied by hunger, malnutrition, ill-health and morbidity, shortened life expectancy, illiteracy, social exclusion and a constant struggle for survival.³⁶ Given the relationship between poverty and inequality presented in this chapter, policies to reduce inequality are important instruments for reducing poverty. Moreover, higher levels of income inequality tend to undermine civil, political, economic and social rights, as well as the realization of substantive citizenship and inclusive states.

Make deliberate policy choices to ensure that growth and equity reinforce one another

In the 1990s, the view gained ground among some in the international development community that high growth rates were sufficient to alleviate poverty, especially if there were no changes in income distribution.

One highly publicized World Bank paper³⁷ argued that growth was good for the poor and that countries pursuing Washington consensus policies enjoyed faster growth in average incomes. This argument implies that governments need not follow deliberately pro-poor growth policies and that what matters most is the income level of the poor, rather than equality. However, there is a growing body of evidence suggesting that:

- there is no trade-off between equity and growth;
- an unequal income distribution is not immutable and can be affected by economic and social policies;
- equity can make growth more inclusive and pro-poor; and
- equity can also serve as an important agent of economic growth.³⁸

Recognition that equity and growth can be mutually reinforcing still leaves open the question about the necessary economic and social policies to produce such an outcome. While current research disputes the simplistic view of trade-offs between equity and growth, it does not suggest that the virtual cycle of growth and equity is automatic. The possibility of a negative impact of one on the other suggests a need for deliberate policy choices and design to ensure that equity has a positive impact on growth, and vice versa.

Deliberate policy choices and design are needed to ensure that equity has a positive impact on growth, and vice versa

Research has shown that the posited positive relationship between growth and poverty reduction based on cross-section regressions across countries merely described an average relationship around which there were significant disparities. A recent study³⁹ shows that one-sixth of the 285 cases (consisting of different periods of time in different countries) used in a World Bank study⁴⁰ that downplayed the role of redistributive policies in poverty reduction in favour of growth, proved to be exceptions to the rule.

These were cases in which growth failed to reduce poverty or where poverty decreased without significant growth. An examination of these cases highlights the central role played by redistributive policies. At different periods of time in the Nordic countries, as well as in developing countries such as Colombia, El Salvador and Peru, strong redistributive policies meant that poverty decreased by more than was predicted in the study. In the case of developing countries, land reform was a prominent aspect of these policies. Conversely, in cases where poverty either increased or decreased less than predicted, there was a reversal or weakening of these same redistributive policies. Other studies,⁴¹ including some from the World Bank itself, have shown that in countries with high levels of inequality, poverty is reduced more slowly in response to higher growth. Similarly, periods of highest growth were not necessarily the ones in which poverty reduction was the greatest. Even in countries with fast growth and poverty reduction, regional pockets of poverty and deprivation have persisted. This suggests that growth alone is insufficient to reduce poverty and that redistributive policies to change the distribution of income and assets are important.

Redistributive policies that countries can adopt include those that:

- provide the poor with greater access to productive assets, such as land, and reform inequitable tenancy arrangements;
- stimulate investment in irrigation and rural roads, create public works programmes for infrastructure development and increase access to credit;
- initiate fiscal reforms to improve tax administration, prevent tax evasion and avoidance, and limit opposition to progressive taxation and redistribution;
- generate employment opportunities;
- enhance the welfare of the poor through sound social policies; and
- help create a stable global economic environment that responds to the needs of poor countries.

Chapter 1 has discussed strategies for improving employment opportunities, and Section two of the report will examine social policies and tax strategies for redistributive

and socially inclusive outcomes. The remainder of this chapter will highlight a number of issues related to fiscal redistribution, land reform, improving the livelihoods of small farmers, and global economic governance.

Strengthen the role of the state in fiscal redistribution

Successful implementation of redistributive policies calls for a stronger state role. Fiscal redistribution, which entails both progressive taxation and patterns of expenditure that improve the welfare of the poor, has occurred only to a very limited extent in developing countries. In contrast to many industrialized countries where fiscal redistribution brings about a drop in the Gini coefficient of 10–15 per cent, it is at most a few percentage points in most developing countries. As chapter 8 argues, the main obstacle to fiscal redistribution is the low tax base, due to the large proportion of the population with low incomes and to the presence of a large informal sector that is outside the tax net. Nevertheless, it remains true that tax revenues are typically even below this structurally determined level for several reasons. The first is a weakness in tax administration and consequent tax evasion and avoidance, which tends to be widespread. The second is the presence of generous tax concessions. And a third is the trend in the era of increasing globalization towards lowering rates of income and corporate taxation. This, together with a parallel trend towards reliance on indirect taxes, such as value added tax, reduces the progressivity of the tax system. Given these facts, there appears to be room to increase both the yield and the progressivity of the tax system through fiscal reforms, such as tightening tax administration and resisting trends towards more regressive forms of taxation.

Turning to the expenditure side, the picture is less bleak. An increasing number of countries are introducing social programmes for the poor, such as cash transfer schemes and public works programmes. Despite their limitations, some of these programmes have been large enough in scale to have a perceptible impact on poverty reduction, as chapter 5 will show. In this regard, universal social protection

programmes tend to have a greater potential for redistribution and quality control than targeted programmes. Improving the poor's access to education, health care and other social services, as described in chapter 6, also helps to reduce inequalities and poverty. It enhances the capabilities of the poor and the efficiency or skill levels of the labour force in general, in addition to reducing the burden of disease. Public works programmes, which have gained prominence in many low-income countries as strategies for tackling poverty, should be focused not only on job creation, but also on the building of local infrastructure, since this will yield significant positive externalities for the affected local communities.

Refocus on land reform

The primary target for production-oriented public expenditures should be agricultural and rural development, since they have the greatest impact on poverty reduction. A central redistributive issue here is land reform. In countries with a high degree of inequality in land ownership – and concomitant high landlessness – well-implemented redistributive land reforms can yield gains in terms of reduced poverty and inequality as well as increased output. The redistributive benefits of land reform will come not only from the increased asset base and incomes of previously landless and marginal farmers, but also from ending exploitation based on market and non-market power previously wielded by landlords. In addition, the more balanced level of land ownership that will emerge will yield external benefits to local communities, since cooperative communal projects to strengthen the local economy are more likely to develop. Potential gains in production will also come from the well-known inverse relationship between farm size and productivity. Provided land reforms are accompanied by effective programmes of support to small farmers, these productivity gains can be very significant. Smallholders in agrarian economies where land is not a severe constraint can benefit from investments in rural infrastructure and seedlings, extension services and credit.

Despite the success of land reforms in Japan, the Republic of Korea and Taiwan Province of China in the early

post-war period, and in several other countries since then, land reform largely disappeared from the national and international policy agenda in the 1980s. There was a revival of interest in the issue in the mid-1990s, sparked by the emergence of land-based conflicts in countries such as Brazil, Mexico and Zimbabwe, as well as by the salience of the issue in the aftermath of the overthrow of dictatorships in Bolivia, Indonesia, the Philippines and South Africa. Although it has reappeared on the policy agenda, the substance of discussions on land reform has taken a very different form. In line with neoliberal thinking, the focus has been on market-based reform and no longer on the redistribution of land ownership. A key aspect of this approach dictates that any transfers of ownership should be market-based (willing seller, willing buyer), ruling out expropriation or compulsory purchase. In addition, it focuses on increasing access to land through tenancy reform rather than through ownership. Some of these tenancy reforms reverse the outcomes of previous land reforms by removing ceilings on land ownership and tenancy. A driving force is the promotion of capitalist agriculture, as reflected in moves towards the privatization of communal land and the encouragement of large-scale farming, spearheaded by multinationals. There has been surprisingly little debate on how this new approach compares to earlier approaches in terms of potential benefits, despite the obvious significance of this issue for redistributive policies. It would be timely and beneficial to open such a debate.

Look after the best interests of small farmers

Globalization has led to the growth of worldwide production chains for traditional export crops as well as a range of floricultural and horticultural products that have increased export opportunities for smallholders in developing countries. But this development does not obviate the need for a strong state role in increasing the capacity of small farmers to respond to these new opportunities. Emerging global production chains are dominated by large multinational corporations that enjoy considerable market power; this opens up the possibility of unfair contracts with low returns and wages for the small farmers and workers involved.

It also creates a new responsibility for governments to regulate the terms under which poor farmers are incorporated into these production systems. In addition, some of these new export opportunities are in specialized niche markets that are very demanding in terms of the quality standards that must be met. This severely curtails the number of developing countries that can find a foothold in these markets without extension and marketing services provided by the state.

The growing dominance of multinational corporations in global agriculture is also shifting research priorities away from harnessing advances in biotechnology for the development of crops with higher yields that are better adapted to local ecological conditions, which could be of immense benefit to poor farmers. Instead, attention has shifted to biotech applications that could raise profits in large-scale commercialized agriculture. At the same time, publicly funded crop research programmes of the type that produced the green revolution have been declining both internationally and nationally. It is important from the standpoint of redistributive and poverty reduction policies that these issues be faced seriously with a view to framing counter-measures.

Advocate for reforms in the governance of the global economy

Not only should all possible redistributive policies be considered on their own merit; they should also be placed in the context of globalization and overall development strategies. As explained earlier, income distribution and poverty reduction are as much the outcome of a chosen development strategy and global dynamics as of deliberate decisions about how much redistribution and what type of redistributive policies a country adopts. Given the importance of global economic forces in determining both growth and income inequality in developing countries, and in the wake of the economic crisis, special attention must be given to reform in the governance of globalization. The goal must include the creation of a global economic environment that is compatible with growth and poverty reduction in poor countries.

Key elements of this reform should include greater stability in the international monetary system and in global commodity markets; stronger support for the development of least developed countries; and the restoration of greater policy space and autonomy to developing countries⁴² (see chapter 10). Greater stability is required to avert a replay of the scenario in which developing countries have seen their development and poverty reduction efforts periodically nullified by financial crises and extreme fluctuations in commodity prices, including those of food. Stronger support for the least developed countries is required, entailing the reduction of vulnerability to commodity price and interest rate shocks, more access to rich country markets, increased financial assistance, and phasing out of agricultural subsidies in rich countries that impact adversely on poor countries. Similarly, greater policy space and autonomy are essential because the combined straightjacket of restrictive multilateral rules, neoliberal policy conditionality, and global financial market discipline has clearly blocked the adoption of more promising paths to development.

Chapter 1 has shown that deeper economic liberalization and restrictive monetary policy have not always been the optimal path. Several of the countries that have benefited from globalization, such as those in East Asia, and now China, India and Viet Nam, have followed heterodox policies that involved controlled rather than all-out liberalization of trade and investment policies and of capital markets. These countries maintained a measure of import protection, adopted selective industrial policies and retained controls over foreign direct investment flows and the capital account. In fact, there are few examples of countries that have prospered from unfettered liberalization.

Developing countries need alternative monetary policies to expand domestic markets, maintain competitive exchange rates and improve access to credit. They also need fiscal policies that will support greater public investment, which is essential for improving private sector productivity and market access by building new roads and providing better transportation. Unskilled labour is the most abundant factor of production in developing countries, so making maximum use of it, through labour-intensive production strategies, is an efficient strategy to raise growth and reduce inequalities.

Notes

- 1 Forbes's (2000) econometric study concludes that inequality is good for growth.
- 2 Maxwell 2001; Thomson 2003; Anderson and O'Neil 2006.
- 3 World Bank 2006; UNDP 2005; UNDESA 2005; UNRISD 2005.
- 4 Anderson and O'Neil 2006.
- 5 Razavi 2006.
- 6 Cornia 2004.
- 7 Meidner and Rehn 1951.
- 8 Huber and Stephens 2001.
- 9 Galbraith and Garcilazo 2004.
- 10 Cornia 2004; Shorrocks and van der Hoeven 2005.
- 11 This section draws on Lee (2009).
- 12 This section is based on Ghosh (2008).
- 13 Hausmann et al. 2004.
- 14 Ghosh 2008.
- 15 Ferreira and Ravallion 2008.
- 16 Ferreira and Ravallion 2008.
- 17 Ferreira and Ravallion 2008.
- 18 ILO 2008b:9.
- 19 Giovannoni 2008.
- 20 Euro zone refers to member countries of the European Union which use the euro as their national currency.
- 21 ILO 2008b.
- 22 Galbraith (2009) and Atkinson and Brandolini (2001) are critical of widely used datasets on inequality, which are based on limited sample surveys.
- 23 Kuznets 1955.
- 24 Galbraith 2009. The essential features of this curve were first discussed by Conceição (2001).
- 25 Galbraith 1998, 1989.
- 26 Galbraith and Kum 2003.
- 27 Milanovic 2007.
- 28 Galbraith, Roy Chowdhury and Shrivastava 2004.
- 29 Calmon et al. 2000.
- 30 Calmon et al. 2000.
- 31 Calmon et al. 2000.
- 32 This dataset was developed by Krytynskaia from original sources in Goskomstat, and reported in Galbraith, Krytynskaia and Wang (2004).
- 33 Galbraith 1998, 1989.
- 34 Galbraith and Hale 2008.
- 35 Galbraith et al. 2007.
- 36 This section draws on Lee (2009).
- 37 Dollar and Kraay 2002.
- 38 The World Bank strongly supported this position in its *World Development Report 2006*.
- 39 Donaldson 2008.
- 40 Dollar and Kraay 2002.
- 41 Cornia 2004; Shorrocks and van der Hoeven 2005.
- 42 UNCTAD 2004.

Tackling Ethnic and Regional Inequalities

Structural change affects individuals, groups and regions differently. Group membership is intrinsic to human development, and when the benefits and costs of structural change correspond to ethnic or religious affinities, or geographic location, individuals may perceive development in terms of those cleavages. Such inequalities can be a source of conflict and adversely affect well-being. However, measures of inequality that rank individuals and households by income often exclude group and spatial dimensions.

Group inequalities are closely linked to the ways in which groups are integrated into different sectors of the economy, as well as their representation in political and social institutions. They are also reflected in how identities are valued in the cultural sphere. Such inequalities are therefore multi-dimensional and encompass economic, social, cultural and political dimensions. Achieving equality in each of these dimensions has intrinsic value, and is also instrumental in promoting equality along other dimensions, or in achieving other development goals.

Addressing ethnic and spatial inequalities is critical to poverty reduction for a number of reasons. First, between-group (or horizontal) inequalities make up a large component of overall inequality within any country. A focus on only vertical inequality (see chapter 2) may obscure important differences among groups or regions. Some groups may be seriously disadvantaged or have higher than average concentrations of poverty even when overall vertical inequality is low. Second, regional inequality in large industrializing countries, as well as in most developing and transition economies, appears to be on the rise. If ethnic groups are geographically clustered, industrialization or development may bypass groups that are not located in economically dynamic zones, intensifying poverty in the neglected areas. Third, inequalities between ethnic groups can lead to conflict, which is likely

to affect development. Indeed, most conflicts today tend to have an ethnic dimension¹ and are difficult to resolve. Fourth, horizontal or between-group inequalities are significant because, in some situations, it may not be possible to improve the position of individuals without tackling the position of the group.

In ethnically diverse societies, spatial and ethnic inequalities may be closely interrelated, although the dynamics may differ in situations where ethnic groups are highly mobile or widely dispersed. Widening regional inequalities are typical of early stages of development, while decreasing regional inequalities tend to characterize more mature stages of development. However, it is not always obvious how ethnic inequalities will evolve over time as incomes increase.

Indeed, while ethnic inequalities are often created by a foundational shock that may propel a country along a particular development trajectory, those inequalities often persist for long periods of time after the shock. Moreover, individuals may become trapped because of the difficulties of moving across groups. Groups that start from a position of privilege may forge ahead, while those that have historically been disadvantaged may fall into a vicious cycle, or a relative poverty trap. Breaking through these cycles of wealth accumulation will be crucial to tackling poverty among disadvantaged groups.

The issues discussed in this chapter point to five main conclusions.

- The process of development affects ethnic groups and regions differently. Some groups and regions may experience high levels of poverty and are particularly disadvantaged even when economies are growing and overall vertical inequality and aggregate poverty are low.

- Redistributive policies can help mitigate ethnic and spatial inequalities. It is easier to correct ethnic inequalities if an economy is growing, the target population has access to policy-making institutions, and the redistributive policy is part of a wider strategy to transform the economy and eliminate poverty, irrespective of ethnicity.
- Affirmative action policies may improve horizontal inequalities but worsen intra-group and (overall) vertical inequalities. Policies that target both ends of the distribution curve may lead to improvements in both inter- and intra-group income distribution; those that focus on the upper end of the curve may lead to a worsening of intra-group inequality.
- Regional disparities appear to respond well to regional development strategies. Even poor countries that have pursued such strategies have reduced poverty in the worst-off areas.
- Correcting horizontal inequalities is political. Without political inclusivity, there is little chance of implementing effective remedial policies for disadvantaged groups.

The chapter analyses the evolution of inequalities between different regions and ethnic groups in selected countries as well as policies for their mitigation.

Section 1 discusses conceptual issues, patterns of regional inequality and reasons for the persistence of ethnic inequalities.

Section 2 compares country case studies across multiple dimensions of inequality and patterns of development. Countries are classified as agrarian, industrializing and dualist.

Section 3 concludes with a discussion of policies for correcting horizontal inequalities.

1. Ethnic and Spatial Inequalities and Development

In situations where regional and ethnic boundaries coincide, the reasons for regional inequalities may be more or less the same as those behind ethnic inequalities. However, where ethnic groups coexist within the same geographic location, different factors may explain the emergence and persistence of spatial and ethnic inequalities. This section first examines why spatial inequalities arise and how they are likely to evolve.

Many factors contribute to spatial inequalities

The literature on economic geography offers two interrelated explanations for the emergence of spatial inequalities. The first relates to various endowments, such as natural resources or proximity to rivers, coasts and borders. The second relates to efficiency gains and agglomeration forces that amplify a region's initial advantage.² Agglomeration forces can lead to "virtuous circles of self-reinforcing development in some cities or regions, while other regions lag behind".³

The regional composition of public expenditure may also contribute to regional inequalities. One study⁴ finds that rural-urban disparities in neonatal care and school enrolment in 24 African countries are closely linked to disparities in the distribution of public education and health services. Similarly, in Peru, research⁵ suggests that, while geographic variables such as altitude, soil type and temperature provide a good explanation for the regional variance in income, once public infrastructure variables are added to the model, geographic variables lose most of their explanatory power.

Increased openness to international trade can also be a factor that intensifies regional inequalities. Export-oriented regions tend to benefit more and grow faster than interior regions.⁶ China's increased openness to international trade contributed significantly to the sharp increases in regional

inequalities after 1978.⁷ Similarly, Mexico's spatial inequalities worsened as a result of trade liberalization prompted by the North American Free Trade Agreement (NAFTA).⁸

Policies that restrict migration can be another contributing factor. Restrictions on migration in China prevented poor regions from benefiting fully from the rapid growth of coastal regions and thereby contributed to increasing regional inequalities.⁹ Similarly, in Chile, fiscal impediments including restrictions on the sale or rent of subsidized housing effectively inhibited migration and contributed to the persistence of regional inequalities in the 1980s and 1990s.¹⁰

Regional inequalities typically increase in early stages of development, and later even out

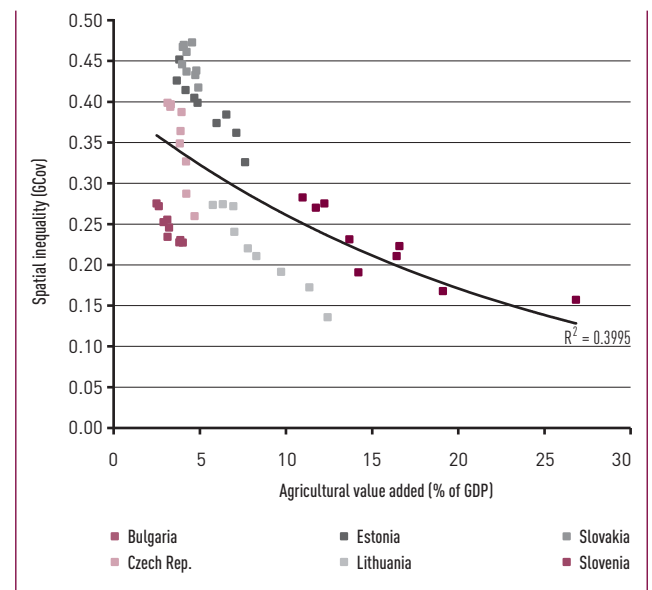
Research suggests that an inverted-U shaped curve describes the evolution of regional inequalities. In other words, regional inequalities tend to increase in early stages of development and typically decline as development progresses.¹¹ In the early stages of development, most economic activities tend to be concentrated in a few regions where the income and production factors needed for their generation are concentrated. This may lead to economies of scale, which boost the growth of those regions but increase regional inequalities. However, at some point, the initial growth areas will experience congestion costs associated with excessive agglomeration. There may also be spatial diffusion of technology, and other regions may offer new locational advantages to firms, such as lower production costs or lower levels of unionization. The spatial diffusion of development will eventually lead to a reduction of regional inequality.¹²

Figures 3.1, 3.2 and 3.3 show trends in regional inequality in three sets of country groups. Regional inequalities are measured using the population-weighted coefficient of variation (the group coefficient of variation/GCov).¹³ The focus is on the relationship between regional inequalities and economic structure, using the proportion of agricultural value added as the explanatory variable rather than industry or services.

This assumes that regional inequalities are primarily generated by the transition from agriculture to industry, rather than the post-industrial transition to services.

Figure 3.1 shows the relationship between the absolute level of regional inequality plotted against the agricultural contribution to the economy for six transition countries in Eastern Europe from the mid-1990s to the mid-2000s. The figure shows a remarkably clear and consistent trend: higher levels of regional inequality are associated with lower economic dependence on agriculture. It is worth noting here that no statistically significant relationship holds between the overall level of gross domestic product (GDP) per capita and the level of inequality in these countries (not depicted graphically).

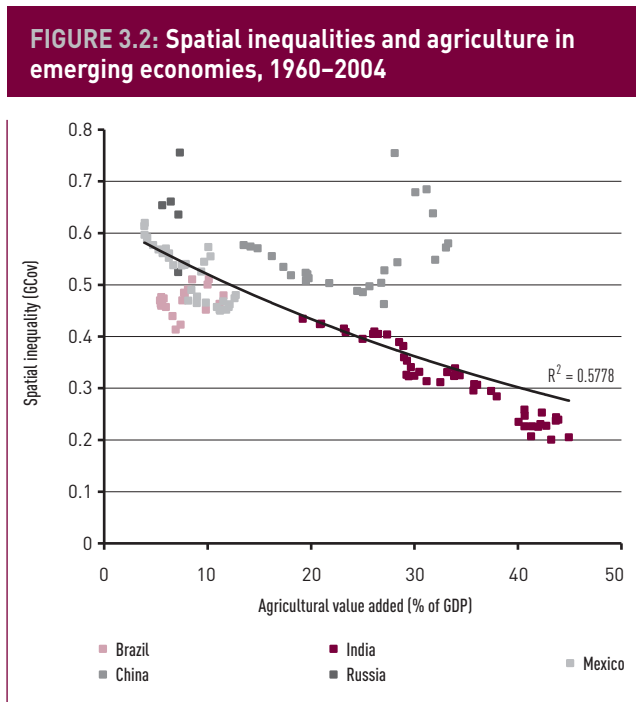
FIGURE 3.1: Spatial inequality and agriculture in transition economies, 1996–2005



Source: Brown and Langer 2009.

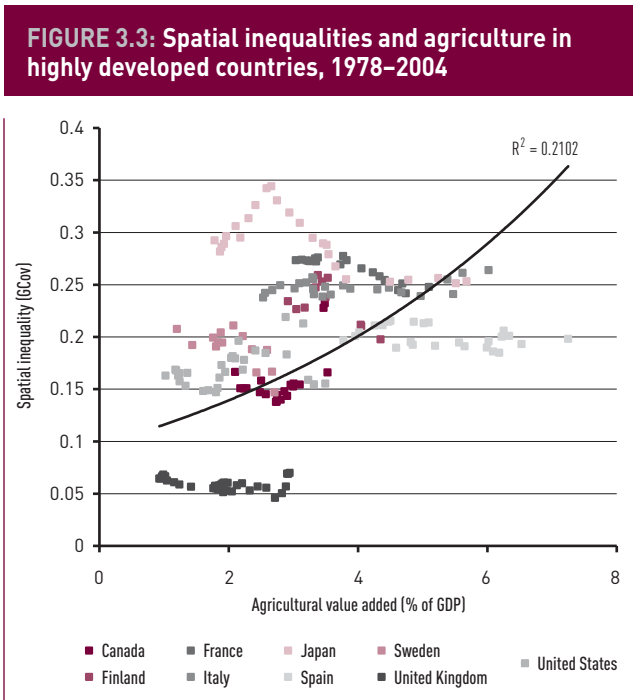
Figure 3.2 shows the link between agricultural contribution to GDP and regional inequalities for the emerging economies of Brazil, China, India, Mexico and the Russian Federation, although the data for the last cover only a very short period. There is a clear inverse link between agricultural dependence and the extent of spatial inequalities,

although at a much higher level of inequality according to the GCov measure. The relationship with GDP per capita is insignificant. It is important to note that less agriculturally dependent countries have exhibited higher regional inequalities. In addition, with the exception of China, the within-country variation across years remains remarkably close to the overall trend.



Source: Brown and Langer 2009.

Figure 3.3 shows the same relationship for nine developed countries. The findings here are very different. While all countries have very low levels of agricultural value added, the broad trend is the reverse: those countries with particularly low agricultural dependance have very low regional inequalities, although the relationship is weak. In addition, the within-country variation across years is much less significant: while agricultural rates have shifted over time for most countries, the level of spatial inequality has not changed noticeably over time, with the exception of Japan. These data strongly confirm the view that early stages of industrialization often lead to an increase in regional inequalities, but the trend at the farther end of the scale is less clear.



Source: Brown and Langer 2009.

Ethnic inequalities are often rooted in historical circumstances

Ethnic inequalities evolve differently. Certain historical circumstances or foundational shocks¹⁴ that drive structural change, such as slavery or colonialism, are often the basis for ethnic inequalities. In Malaysia, for instance, the economic disadvantage of the Malay has its origins in the ethnic division of labour established by the British colonial government around the 1920s. While the Europeans, Chinese and Indians were mostly employed in the high-productivity modern sector as entrepreneurs, managers and employees in firms, estates and trading companies, the Malays were mostly engaged in low-productivity peasant agriculture and fishing. In the same vein, ethnic inequalities in the United States have their origins in 300 years of economic, physical, legal, cultural and political discrimination based on ethnicity, with slavery as the foundational shock. Apartheid is also a foundational shock that has led to the persistence of South Africa’s ethnic inequalities.

Ethnic inequalities are often created by a foundational shock, but once the shock has ended, such inequalities tend to persist

In contrast to the hypothesized inverted-U shaped curve relationship between regional inequalities and development, it is not clear how ethnic inequalities will evolve as incomes increase. Indeed, while ethnic inequalities are often created by a foundational shock, such inequalities tend to persist for long periods after the shock has ended. Scholars¹⁵ have identified the following factors as crucial to the persistence of ethnic inequalities:

- Unequal rates of accumulation, due to inequalities in income and imperfect markets. Deprivations or riches at one point in time make it harder or easier to accumulate assets in the future. If an individual or group has a higher income due to higher assets, then saving is easier. In theory, perfect capital markets should enable people to borrow to overcome their saving disadvantage. In practice, however, banks require collateral, which means that borrowing, too, is easier for the rich than for the poor. Extensive empirical evidence shows that poorer individuals and groups accumulate less, both with respect to human and financial capital.¹⁶
- Dependence on the returns of one type of capital to make other types of capital available. For example, human capital permits greater earnings, which enable people to accumulate more. Financial capital is more productive if people have human capital with which to use it. Human capital may be more productively employed if people have financial capital, and both types of capital are likely to be better used with good social networks. Inequalities may intensify if individuals or groups lack one or other type of capital.
- Asymmetries in social capital. Asymmetry in social capital occurs among individuals – poor people tend to have more contacts with other poor people than with richer people. The same principle applies more strongly

among groups, since there is a strong tendency for cultural groups to have more intra-group interactions than inter-group ones.

- Discrimination by individuals and non-governmental institutions. Group members are often subject to discrimination or favouritism by non-group members in accessing different types of capital and employment by virtue of their group characteristics. Unequal endowments today may be partly a reflection of past discrimination. Effects persist even if equal employment opportunities exist for the same educational attainments, since past discrimination may have led to inequality in educational endowments.
- Group inequalities often include political inequalities, which may reinforce social and economic inequalities. This means that those who are deprived socially and economically also lack political power. These political inequalities may exacerbate social and economic inequalities, since they often lead to bias in the distribution of government resources, including access to services and government employment and contracts.

Group inequalities often include political inequalities, which may reinforce social and economic inequalities

Combinations of these factors can result in vicious and virtuous cycles: groups starting out in a privileged position accumulate more, have higher returns to assets and thus sustain their privilege, while those who are underprivileged fall into a vicious cycle, or relative poverty trap. Breaking through these cycles is crucial if poverty is to be effectively addressed.

While the origins and evolution of spatial and ethnic inequalities can sometimes be explained by similar factors, there are exceptions. Moreover, relatively moderate regional inequalities may accompany very severe ethnic

inequalities, as in the United States and Malaysia in the 1960s. Where there is an overlap between ethnicity and region, the factors that explain regional inequality are likely to explain ethnic inequalities as well. Where this is not the case, factors explaining regional inequalities are less useful. However, in practice, the dynamics of regional and ethnic inequalities are difficult to separate and often explain different parts of the same puzzle.

2. Ethnic and Spatial Inequalities and Structural Change

This section discusses the evolution of spatial and ethnic inequalities in countries with different patterns of structural change. In addition to determining the evolution of both types of inequalities, it highlights the main policies that have stimulated changes in inequality. It is important to note that ethnic identities are not always easy to pin down, since they are, for the most part, situational or constructed. Objective attributes of language, religion, culture or shared history can be fuzzy and may not always correctly describe a person's ethnicity. Furthermore, ethnicity competes or overlaps with many other forms of identity and is subject to change.¹⁷ This makes classification of ethnic groups difficult. Self-identification is important. However, many countries do not include ethnicity as a variable in their censuses. Accurate data on ethnicity are, therefore, not easily available.

The following case studies analyse the evolution of regional inequalities in terms of income, poverty, employment and access to services, drawing on data from censuses, domestic household surveys, the World Bank's Living Standards Measurement Study (LSMS) and the Demographic and Health Surveys (DHS). Since social and economic data are generally not available in ethnically disaggregated form, DHS are the main data source for assessing ethnic inequalities. These surveys have been conducted in about 70 developing countries and are usually repeated every five years. The standard DHS consists of a household questionnaire and a women's questionnaire for which a nationally representative sample

of women aged 15 to 49 are interviewed. In addition to asking a range of questions on issues such as family planning, maternal and child health, reproductive behaviour, contraception, breastfeeding and nutrition, the surveys also ask questions about ethnic background, place of birth and social and economic situation. An important assumption is that inter-ethnic inequalities inferred from the women's questionnaires are a good approximation for the inequalities among ethnic groups in general. For some countries, the LSMS has an ethnic variable and can therefore also be used to assess inequalities among ethnic groups.

How inequalities have evolved in agrarian and industrializing economies

Agrarian economies

As chapter 1 has shown, the failure of many low-income countries to industrialize means that agriculture or mining continues to play a dominant role in their economies. A large proportion of the agricultural labour force remains in the subsistence sector, which accounts for the bulk of food production but has lower returns than the agricultural export sector and industry. If states do not have a redistributive agenda, development strategies anchored in agricultural and mineral exports may put regions and ethnic groups that are located in resource-rich areas in a privileged position in terms of investments, productive employment, services and infrastructure. Ghana and Côte d'Ivoire are illustrative of such a situation. On the other hand, local ethnic groups in resource-endowed regions may be disadvantaged if more influential outside groups use state power to appropriate the resources, or if outside groups that have settled in the endowed regions dominate the production or marketing of the resources.

Development strategies anchored in agricultural and mineral exports may put regions and ethnic groups in resource-rich areas in a privileged position

Ghana. The country's 23 million people are divided into 92 ethnic groups, with four accounting for about 86 per cent of the population. Despite migration, ethnicity and administrative regions roughly coincide. The Akan are by far the largest ethnic group with approximately 49 per cent of the population; they form the majority of the population in five of the 10 regions in the south, followed by the Mole-Dagbani in the north, with around 17 per cent of the population. The third largest group, with about 13 per cent of the population, are the Ewe, found predominantly in the Volta region in the southeast. The fourth largest group, with around 8 per cent of the population, are the Ga-Dangme, who live mainly in the Greater Accra region.¹⁸ Ethnic differences are partly reinforced by religious differences: Muslims, who represent only 16 per cent of the population, make up an important part of the population in the north.

Colonial policy favoured investment in southern regions; there was very little development of infrastructure or human capital in the north

Most agricultural and mining activities are concentrated in the south. British colonial policy favoured heavy investment in regions where gold, diamonds, timber and cocoa were readily produced and cheapest to export. There was very little development of infrastructure or human capital in the north. Post-colonial development strategies reinforced these inequalities, including the structural adjustment policies of the 1980s, which channelled most funds to the capital and to the cocoa, timber and mineral industries in the western, eastern, Ashanti and Brong Ahafo regions.¹⁹ Some projects were undertaken in the north in the 1990s, including the extension of the national electricity grid and the rehabilitation of north-south roads, and expenditures

on education and health were increased. However, the vast majority of public expenditure and investment continued to be directed to the south. Current investment patterns essentially mirror those of the 1990s, although more public expenditure and investment have started flowing to the north as a result of funding from the Heavily Indebted Poor Countries (HIPC) initiative, which benefits the north disproportionately.²⁰

Data confirm the regional inequalities outlined above. In 1960, the north had only 17 per cent of the gross value added per capita of the Greater Accra region. The north remained much poorer in terms of income, infrastructure, education and medical services in the 1970s. According to one composite measure of development,²¹ the northern and upper regions had levels of development equivalent to only 11 per cent and 7 per cent, respectively, of the level found in the Greater Accra region in the mid-1970s. Other indicators, including school enrolment, infant mortality and share of income, also show the persistence of a sharp north-south divide.²² Though the north appeared to have caught up with the south in terms of literacy and infant mortality in the 1990s (see table 3.1), the north-south divide actually worsened considerably with respect to poverty incidence and income. Increased public expenditure in the north has been positive, as illustrated by the decline in poverty between 1998/1999 and 2005/2006. But despite recent improvements, north-south disparities remain severe. Because the Mole-Dagbani are dominant demographically in the north and the vast majority of them live in those regions, the inequalities between northern and southern ethnic groups largely mirror north-south inequalities. This is captured by a number of indicators, as shown in table 3.2.

Though the north appeared to have caught up with the south in terms of literacy and infant mortality, the divide worsened with respect to poverty incidence

TABLE 3.1: Social and economic inequalities among regions in Ghana, 1988–2006

	Incidence of poverty (%) ^a			Mean annual per capita income ^b (Cedis)		Access to health services (%) ^c	Primary school enrolment (%) ^c	Infant mortality rate (%) ^d			
	1991/1992	1998/1999	2005/2006	1991/1992	1998/1999	1997	1997	1988	1993	1998	2003
Western	59.6	27.3	18.4	116,000	568,000	28.0	74.6	76.9	76.3	68.0	66.0
Central	44.3	48.4	19.9	118,000	444,000	35.9	72.0	138.3	71.6	83.8	50.0
Greater Accra	25.8	5.2	11.8	146,000	932,000	77.6	70.4	57.7	58.4	41.4	45.0
Volta	57.0	37.7	31.4	116,000	415,000	41.7	70.2	73.5	77.8	53.8	75.0
Eastern	48.0	43.7	15.1	85,000	527,000	32.8	78.1	70.1	55.9	50.2	64.0
Ashanti	41.2	27.7	20.3	111,000	622,000	43.2	72.2	69.8	65.2	41.9	80.0
Brong Ahafo	65.0	35.8	29.5	101,000	548,000	31.9	72.4	65.0	48.7	77.3	58.0
Northern	63.4	69.2	52.3	72,000	210,000	18.4	40.0	103.1	113.7	70.1	69.0
Upper East	66.9	88.2	70.4	83,000	321,000	8.2	45.0	103.1	105.0	81.5	33.0
Upper West	88.4	83.9	87.9	76,000	206,000	19.8	36.1	103.1	84.5	70.6	105.0
National	51.7	39.5	28.5	–	–	37.2	67.0	77.0	66.0	57.0	64.0

Sources: ^a Data from the Ghana Statistical Service. Available at: www.ghanainfo.org, accessed on 29 January 2008. ^b Shepherd et al. 2005. ^c Data from the Ghana Statistical Service 1997. ^d Data from the Ministry of Health, Ghana. Available at: www.moh-ghana.org/moh/facts_figures/default.asp, accessed on 29 January 2009.

TABLE 3.2: Social and economic inequalities among ethnic groups in Ghana, 1993–2003

Indicator	Akan (%)	Ga-Dangme (%)	Ewe (%)	Mole-Dagbani (%)
1993				
With electricity	39.2	53.8	29.5	15.2
Access to flush toilet	8.6	12.9	6.6	3.1
Piped water in residence	18.9	32.1	15.0	8.2
Completed at least primary school	66.7	64.0	59.2	15.1
Completed at least secondary school	3.6	8.8	4.3	1.4
1998				
With electricity	51.3	60.3	39.7	24.3
Access to flush toilet	11.3	17.3	7.8	2.6
Piped water in residence	19.6	36.6	17.1	9.3
Completed at least primary school	68.1	65.8	64.2	13.6
Completed at least secondary school	4.7	11.3	6.3	1.5
2003				
With electricity	59.5	58.9	40.0	28.4
Access to flush toilet	15.0	22.4	15.3	3.0
Piped water in residence	20.8	31.5	17.7	9.5
Completed at least primary school	72.5	64.5	61.7	22.2
Completed at least secondary school	7.6	13.1	10.4	4.1

Source: Brown and Langer (2009), based on the 1993, 1998 and 2003 Ghana Demographic and Health Surveys.

Côte d'Ivoire. Côte d'Ivoire shares similar characteristics with Ghana. The country's 20 million people are divided into 70 ethnicities, which are usually clustered into five groups. The Akan form the largest cluster with about 42 per cent of the population and are located predominantly in the eastern and central parts of the country. The southwest is predominantly inhabited by the Krou, who constitute about 13 per cent of the population. The Southern Mandé are largely in the west and constitute about 10 per cent of the population. The Voltaic and Northern Mandé are dominant in the north and together account for about 34 per cent of the population. Importantly, while the northern groups constitute the vast majority of the Ivorian population in the northern regions (72 per cent), 44 per cent of them live in the south due to extensive internal migration. Côte d'Ivoire has a large proportion of foreigners, accounting for about 26 per cent of the population in 1998. Because most of these foreigners originate from Burkina Faso, Mali and Guinea, they share important cultural and religious traditions with northern Ivorians. Christians form the largest group, with about 34 per cent of the population, and Muslims with about 28 per cent. However, as the vast majority of non-Ivorians are Muslim (about 70 per cent), they tilt the balance in favour of Muslims. While the Akan and Krou are predominantly Christian, Voltaic and Northern Mandé are mostly Muslim. Although the north is predominantly Muslim, about 70 per cent of all Muslims live in the south.

Like Ghana, Côte d'Ivoire is characterized by a serious north-south divide, which stems from ecological and climatic differences and the varying impact of colonialism and post-colonial development policies. The colonial power, France, supported the rapid expansion in the southern and southeastern parts of the country of the production for export of coffee and cocoa. The post-colonial government of Félix Houphouët-Boigny maintained the export-oriented agricultural model. While the development strategy produced impressive results, the concentration of investment, jobs and wealth in the southern parts of the country exacerbated the disparities between the north and south.

Starting in the late 1960s, however, the Ivorian government began promoting commercial food production in

the north in order to reduce food imports. An increasing amount of government expenditure and investment went to the north, which moderately reduced regional inequalities. Houphouët-Boigny actively encouraged internal north-south as well as international migration through his land policy, which was based on the slogan, "The land belongs to those who develop it" (*La terre appartient à celui qui la met en valeur*). Many northerners migrated to the cocoa and coffee plantations in the south. Yet while regional income inequalities were reduced between 1965 and 1975, they nonetheless remained severe, which threatened political stability. In response, the government initiated the Programme du Nord, a massive public investment scheme, to reduce inequalities.²³ With the deteriorating economic situation at the end of the 1970s, however, public investment in the north dried up. The sharp decline in coffee and cocoa prices triggered a serious economic crisis and the adoption of structural adjustment policies. Because the negative impact of the recession on expenditures was considerably larger in southern regions, the regional divide improved somewhat in relative terms. Nonetheless, it appears that the war and the subsequent split of the country between a rebel-controlled north and a government-controlled south in 2002 have more adversely affected the social and economic situation of the north.

Côte d'Ivoire's north-south divide stems from ecological and climatic differences and the impact of colonialism and post-colonial development policies

Regional income inequalities at independence were indeed quite severe. Income per capita (including non-monetary income) in Abidjan in 1965 was 11 times higher than in the north; the northern regions were also doing considerably worse compared to other parts of the country. Income per capita in the central part of the country was 1.9 times higher than the north; in southern regions it was 2.6 times

higher. If only cash income is taken into account, the northern disadvantage was even more pronounced: monetary income per capita in Abidjan, central and southern regions was 37, 4.5 and 7 times higher, respectively, than in the north. Similarly, educational differences between the north and south, as well as between the south and west, were also severe in 1967–1969. The north had a primary school enrolment rate of 14.9 per cent in 1967 versus a rate of 55.3 per cent in the south, 32 per cent in the centre, 35.5 per cent in the centre-west area, 33.1 per cent in Abidjan, and 13.3 per cent in the west.²⁴

As a result of increased public investment and government expenditure in the northern regions starting in the late 1960s, the north-south divide diminished considerably between 1965 and 1975, as shown in table 3.3. Yet while income inequalities between the two regions were reduced during that period, the north continued to be seriously

disadvantaged. In 1975, per capita income in the north was still about 22 per cent less than the national average and 65 per cent less than in Abidjan. The drying-up of funds for the Programme du Nord worsened the inequalities. In 1985, the mean expenditure per capita in the north was about 50 per cent below the national average. Mean expenditure data for 1985 suggest that although the Voltaic and Northern Mandé had the lowest mean expenditure per capita (244,000 and 338,900 CFA francs, respectively), the difference between these two northern ethnic groups and the national average (350,000 CFA francs) was considerably less than the differences between the national average and the northern regions.²⁵ This suggests that northerners who migrated from the north to the south or were born in the south were doing significantly better than the people in the northern regions themselves. All three southern ethnic groups had a mean expenditure per capita that was well above the national average.

TABLE 3.3: Per capita income in Côte d'Ivoire, 1965 and 1975 (constant 1965 CFA francs)

	Monetary income per capita			Total income (including own-consumption)		
	1965 (thousands of CFA francs)	1975 (thousands of CFA francs)	% change	1965 (thousands of CFA francs)	1975 (thousands of CFA francs)	% change
Abidjan	33.6	47.1	40.2	60.5	66.0	9.1
South	19.5	26.0	33.3	31.5	40.1	27.3
Central West	10.0	18.3	83.0	19.0	31.7	66.8
West	5.8	9.0	55.2	13.4	17.9	33.6
North	3.8	8.9	134.2	16.0	22.8	42.5
Centre	12.8	13.6	6.3	28.1	30.1	7.1
East	10.8	9.4	-13.0	23.4	24.3	3.8
Southwest	6.5	8.8	35.4	15.3	17.8	16.3
National	11.0	15.3	39.1	23.2	29.2	25.9

Source: Bresson 1980:78.

Table 3.4 provides a number of other indicators for 1994–2005, drawn from the DHS. While the inequalities between the northern (Northern Mandé and Voltaic) and southern (Akan, Krou and Southern Mandé) ethnic groups in terms of educational attainment largely mirrored north-south inequalities, ethnic inequalities showed a somewhat different picture with respect to the other three indicators.

More specifically, the Northern Mandé appeared to be doing roughly the same or even better in terms of electricity, a flush toilet or piped water in their home than the three southern ethnic groups. The main reason for this is that the Northern Mandé are more likely to live in urban areas than the other ethnic groups, since trade is their primary economic activity.

TABLE 3.4: Social and economic inequalities among ethnic groups in Côte d'Ivoire, 1994–2005

Indicator	Akan (%)	Krou (%)	S. Mandé (%)	N. Mandé (%)	Voltaic (%)
1994					
With electricity	50.3	33.5	34.1	58.8	30.2
Access to flush toilet	25.0	18.7	10.3	16.6	10.5
Piped water in residence	35.8	23.6	15.4	33.3	18.6
Completed at least primary school	26.8	29.3	16.8	16.3	13.3
Completed at least secondary school	1.4	1.0	0.4	1.1	0.7
1998/99					
With electricity	66.0	55.5	46.2	54.5	40.8
Access to flush toilet	27.7	21.8	8.4	12.9	11.8
Piped water in residence	42.5	44.8	19.0	35.0	30.5
Completed at least primary school	42.9	51.6	23.6	15.8	20.0
Completed at least secondary school	4.9	4.4	0.8	1.6	1.9
2005					
With electricity	60.1	59.2	49.9	74.1	52.3
Access to flush toilet	27.4	26.0	14.6	15.6	11.2
Piped water in residence	47.5	43.7	32.3	49.6	32.8
Completed at least primary school	44.3	53.3	33.7	21.5	24.8
Completed at least secondary school	9.8	6.4	4.5	3.9	3.5

Source: Brown and Langer (2009), based on the 1994, 1998/1999 and 2005 Côte d'Ivoire Demographic and Health Surveys.

This comparison points to a number of conclusions. First, in agrarian economies such as Ghana and Côte d'Ivoire, climatic differences that predispose certain regions to better crop production than others are a major obstacle to balanced growth, especially in the absence of redistributive policies. Moreover, structural adjustment programmes (SAPs) that emphasize investment in tradable sectors exacerbate these disparities. However, where governments have undertaken programmes to address underdevelopment in relatively deprived regions – in Côte d'Ivoire in the 1960s and in Ghana in more recent years – these can have a relatively rapid and positive impact on well-being.

In agrarian economies, government programmes to address underdevelopment in deprived regions can have a rapid and positive impact

Industrializing economies

Chapter 1 has shown that a small number of developing countries or areas have recently undergone a pattern of industrialization in which industrial employment increased substantially. Average living standards rose, dramatically reducing poverty. While the most successful of these – Hong Kong, China, the Republic of Korea and Taiwan Province of China – are relatively homogenous ethnically, others – such as Indonesia, Malaysia, Singapore and Thailand – are multi-ethnic. Poverty and inequality may not only assume ethnic dimensions, but can undermine rapid growth and structural change without appropriate policies that address ethnic or regional divisions. The experience of Malaysia and Indonesia illustrates this argument.

Malaysia. Among all the Southeast Asian countries, Malaysia ranks second highest in terms of development (after Singapore), but highest in terms of income inequality. With a Gini coefficient of 0.49,²⁶ Malaysia also has

high inequality in terms of human development beyond the Southeast Asia region. Among countries of comparable human development, only the Latin American country of Panama has higher income inequality. However, regional inequality in Malaysia is the second lowest in Southeast Asia – surpassed only by the Lao People's Democratic Republic. Inequality and its remediation have been at the heart of Malaysian economic policy since 1969 – not regional or vertical income inequality, however, but ethnic inequality.

The early years of Malaysia's independence were marked by severe social and economic disparities between the majority Malays and other indigenous groups (together termed the Bumiputera) – who tended to be poor, rural subsistence farmers – and the minority Chinese community, which dominated the national economy. The other major immigrant community was Indian. This group was more diverse, with many relatively well-off Indians in the civil service, but a significant proportion of the poor working in the rubber plantations.

The policy that ushered in the great industrial and social transformation after ethnic riots in 1969 had two objectives: reducing ethnic inequalities and eliminating poverty, regardless of ethnicity. The export-oriented growth strategy supported labour-intensive manufacture of textiles, garments and electronics, which absorbed a large number of unskilled ethnic Malays from the rural areas into the formal industrial sector.²⁷ However, unlike the Republic of Korea and Taiwan Province of China, where domestic capital acted as the vanguard for industrial development, the Malaysian government preferred foreign direct investment (FDI) since it was initially wary of promoting domestic capital, which was fractured along ethnic lines. Affirmative action, an ethnic coalition pact and interventionist industrial policies were pursued.

To reduce ethnic inequalities, the government systematically used ethnic quotas and targets to regulate access to state assistance, business opportunities, tertiary education and civil service recruitment – primarily in favour of ethnic Malays.²⁸ The ethnic pact involved power sharing at the

elite level by the leading parties of the three main ethnic groups. The pact preserved the position of Chinese capital and largely ceded control of the state to the Malays. Implemented in a context of sustained high rates of growth, affirmative action and industrial strategies reconfigured the ethnic structure and allowed the state to later support large domestic conglomerates through privatization of state assets. Whereas most Malaysians earned their living from agriculture in the 1960s, by 2000 the share had dropped to only 16 per cent. Manufacturing employment expanded in leaps and bounds – from 7 per cent in the 1960s to about 28 per cent in 2000. While many of the New Economic Policy’s ambitious targets were not quite met, the period saw a drastic decrease in ethnic imbalances.

The remediation of ethnic inequality has been at the heart of Malaysian economic policy since 1969

The Malaysian government frequently releases summary data on ethnic inequalities across a variety of dimensions – including income, employment and poverty – although the raw data of household income surveys are closely guarded. These data are often reported in academic studies, either as absolute averages or as dispersion ratios.²⁹ It is possible to condense these ratios into an overall index of ethnic inequality. Figure 3.4A demonstrates this using three measures of horizontal inequality calculated for the three main ethnic groups – Malay/Bumiputera, Chinese and Indian – and a small fourth group (Other). Also reported is the bare Chinese-Bumiputera dispersion ratio (C:B Ratio), which is the ratio between the two largest and most politically important groups. All measures are indexed to their 1970 value for ease of comparison. Between 1979 and 1984, the data on which these figures are based referred only to West Malaysia, without including the states of Sabah and Sarawak, a break represented by the dashed section of each curve.

FIGURE 3.4A: Ethnic inequality in Malaysia, 1970–2002

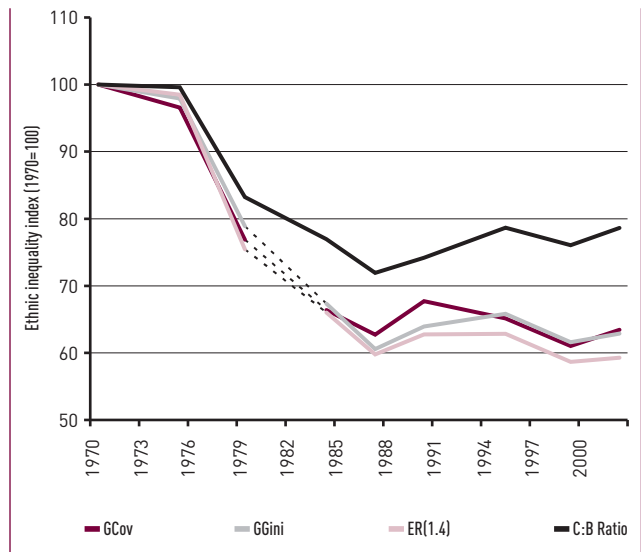
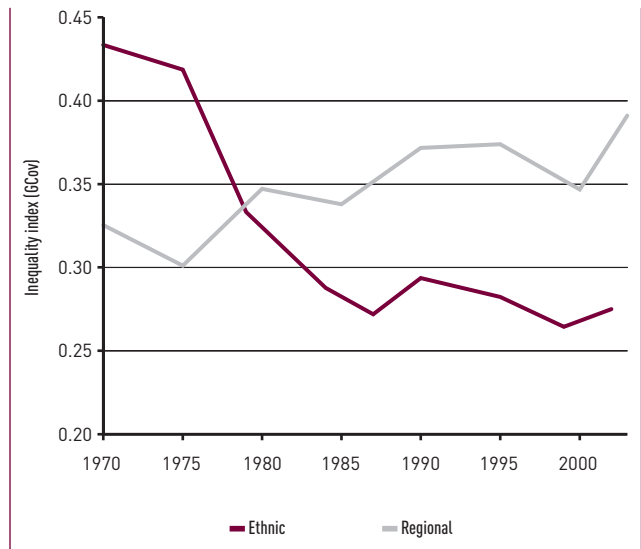


FIGURE 3.4B: Ethnic and regional inequality trends in Malaysia, 1970–2003



Notes: The three measures are the group coefficient of variation (GCov), the group Gini (GGini), and the Esteban-Ray polarization index (ER). See Brown and Langer (2009) for details. Source: Brown and Langer 2009.

The three composite measures of horizontal inequality are highly correlated across time. They all show a significant drop in horizontal inequality between the mid-1970s and the mid-1980s – a period associated with the full implementation of the New Economic Policy, from the passing of the Industrial Coordination Act in 1976 to the loosening of the New Economic Policy by the Mahathir administration following the 1986 recession. This decrease is also reflected in the Chinese-Bumiputera dispersion ratio, although not as strongly. From the mid-1980s, however, the composite indices show a broadly flat trend with only minor variations up and down, while the Chinese-Bumiputera dispersion ratio has been steadily increasing again, with the exception of the period 1995–1999.

Two regions stand out in terms of regional inequality: the eastern Malaysian states of Sarawak and Sabah, and the northern, Malay-dominated states of Kelantan and Terengganu. Populated largely by the non-Malay Bumiputera groups, Sarawak and Sabah have failed to benefit significantly from the pro-Bumiputera policies of the New Economic Policy. Similarly, Kelantan and Terengganu, even though Malay, continue to lag behind, with poverty rates about twice the national average. Figure 3.4B shows the absolute changes in regional and ethnic inequality since 1970.

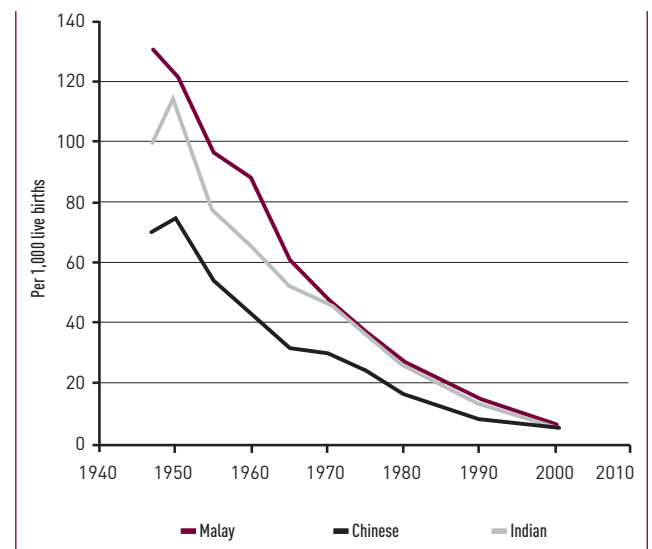
As already discussed, ethnic inequalities diminished rapidly before flattening out in the mid-1980s. In contrast, changes in regional inequalities have been less consistent, but the trend is clearly upwards. In 1970, inequality among ethnic groups was about one-third higher than that among Malaysian states; today, the reverse is true, with regional inequalities more than 40 per cent higher than ethnic inequalities. This suggests that intra-ethnic inequalities may have risen.

Overall, Malaysia has made huge strides in human development. In the course of a generation, it has succeeded in lifting all groups and reducing the gaps between them in the areas of health, education, occupation and industry.³⁰ This has not been even, with the minority indigenous communities generally falling behind with regard to

education and, hence, occupation. The record is less striking in income – specifically inter-ethnic income – restructuring. Mean incomes have risen considerably for all groups. Although inter-ethnic gaps at the mean have narrowed, they have narrowed much less than in the non-income measures of health and education.³¹ However, it is a significant achievement that income inequality has been reduced to around 25 per cent for Chinese-Malay disparity, and to zero for Indian-Malay disparity.³²

Overall inter-group disparities may have remained steady relative to each other, but have declined substantially in absolute terms. To give some indication of this, figure 3.5 charts changes in the infant mortality rate by ethnic group since 1945. While the ratio of performance has remained broadly steady – with both Indian and Malay groups experiencing an infant mortality rate that is about 50 per cent higher than the Chinese over the entire period – the absolute level has declined drastically.

FIGURE 3.5: Infant mortality rate by ethnic group in Malaysia, 1945–2000



Source: Brown and Langer 2009.

Inter-group disparities in Malaysia may have remained steady relative to each other, but have declined substantially in absolute terms

Indonesia. In Indonesia, public policy has focused on regional inequalities. Since independence in 1950, the country has been beset by regional and ethnic problems, partly due to the fact of its geographic spread across some 2,000 islands. Ethnic diversity is extremely high, rendering attempts to quantify ethnic inequality problematic. According to the 2000 census and the 2002 household survey (National Socioeconomic Survey/SUSENAS), the largest group are the Javanese, who account for just under half the population. The second largest group (18 per cent) are the Sundanese, who also originate from Java. Besides these two large groups, no other group constitutes more than 6 per cent of the population.

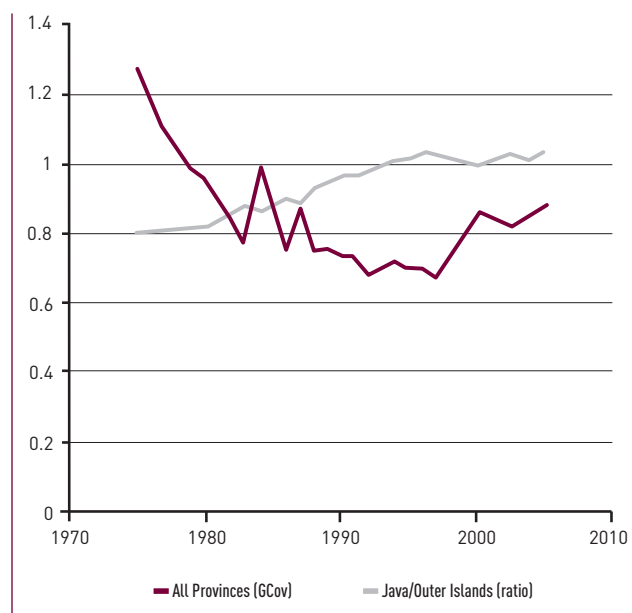
Since independence, Indonesia has been beset by regional and ethnic problems, partly due to the fact that it is spread across some 2,000 islands

Indonesia followed an export-oriented growth strategy, driven by FDI and buoyed by significant oil revenues. Poverty alleviation has been significant, although not as successful as in Malaysia. Poverty rates have declined from an estimated 53.6 per cent in urban areas and 38.7 per cent in rural areas in 1970 to 9.7 per cent and 12.3 per cent, respectively, in 1996.³³ After 1998, Indonesia instituted a radical decentralization programme, including the introduction of a mandatory equalization formula through which the central government is obliged to disperse more

money to less wealthy provinces and districts. Indonesia now ranks as among the most fiscally decentralized countries in the world.

Figure 3.6 tracks the level of regional inequality in Indonesia since 1975. A previous data series (not graphed) showed an initial spike in the level of regional inequality in the early 1970s, which is largely attributable to the discovery and exploitation of natural resources in Aceh, Riau and Papua, which saw their respective gross regional domestic product per capita accelerate significantly. The subsequent decline in provincial inequalities confirms the standard interpretation that, while in many ways corrupt, the Suharto regime was relatively redistributive in its management of natural resource revenues, particularly through the INPRES (Presidential Instructions) system of regional disbursements.³⁴

FIGURE 3.6: Provincial horizontal inequalities in Indonesia, 1972–2002



Sources: Brown and Langer 2009.

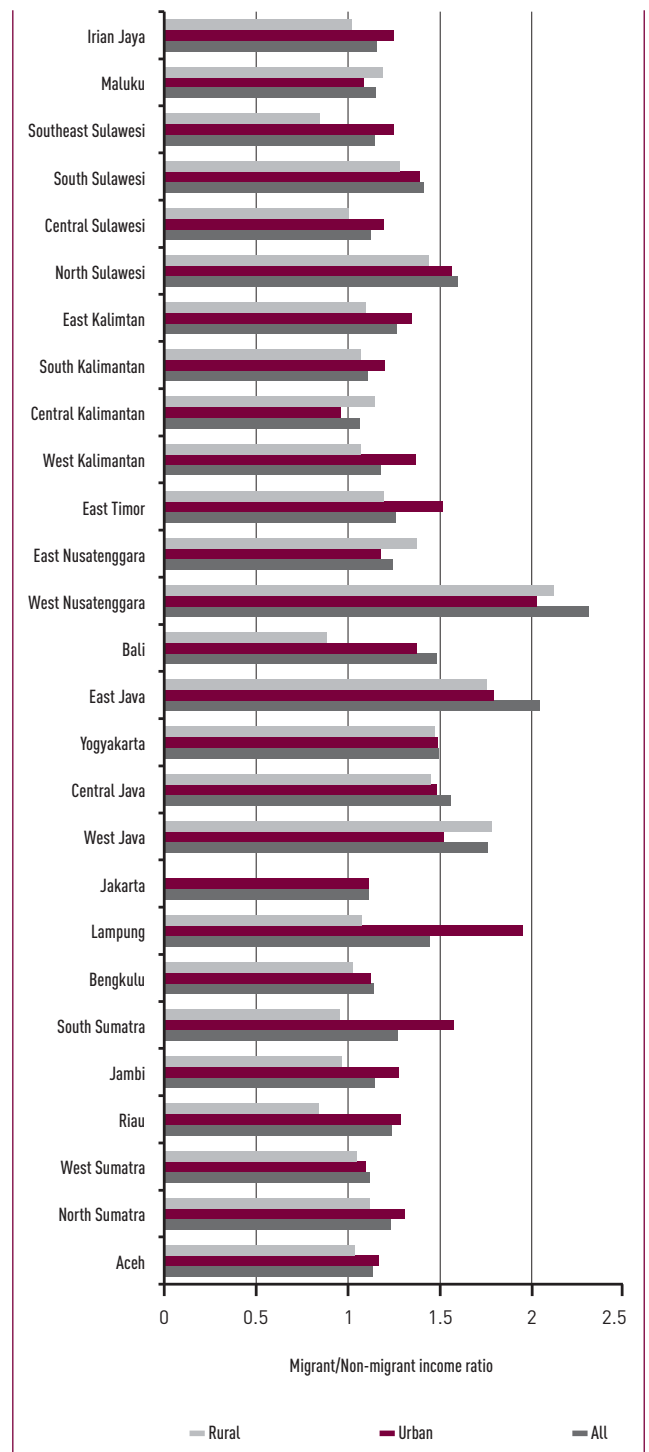
Since democratization and decentralization at the end of the 1990s, however, regional inequalities have increased noticeably. Analysis of household expenditure shows that

while overall inequality declined between 1990 and 1999, the proportion of this inequality accounted for by differences among provinces increased from 13 per cent to 21 per cent.³⁵ The politics of resource wealth distribution and service delivery was particularly marked in those provinces with high natural resources but, from Jakarta's perspective, dubious political loyalties – either due to their military incorporation into the country, as in West Papua and East Timor, or because of their history of rebellion, as in Aceh. The politics of resource distribution assumed a cycle of rebellion, negative social and economic effects, and thus further rebellion. Poverty in Aceh increased by 239 per cent from 1980 to 2002; over the same period, poverty in Indonesia as a whole fell by 47 per cent. By 2000, Aceh's gross regional domestic product had risen to fourth out of 30 provinces, largely due to income from natural resources, but its poverty rank had also increased to fifth from 28th.

Tracking ethnic inequalities in Indonesia is difficult because the ethnic make-up of the country is so diverse and because the state prohibited collection of such data for long periods of time. However, insights into the dynamics of ethnic inequality can be obtained through an examination of the impact of migration. Under Suharto, appointments to positions of local power by the central state in Jakarta resulted in increasing political dominance of the Javanese. In addition, the massive state-sponsored transmigration programme and associated informal migration was a key source of social exclusion and horizontal inequalities on the outer islands.

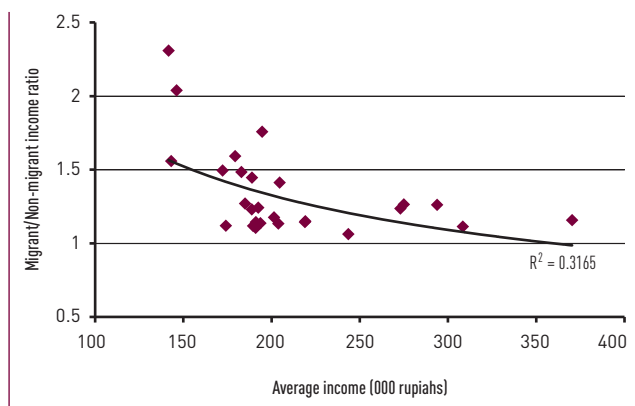
Figure 3.7 shows the average income of migrants relative to non-migrants by province. In every province, the overall average income of migrants was significantly higher than that of non-migrants. In some provinces, local-born residents retained an income advantage in rural areas – notably provinces in the southern part of Sumatra, which received relatively fewer transmigrants. However, in urban areas, migrants held an income advantage in all provinces except central Kalimantan. Moreover, as figure 3.8 shows, the disparity between migrants and local residents is considerably greater in poorer provinces.

FIGURE 3.7: Ratio of migrant to non-migrant incomes in Indonesia, by province, 1995



Source: Brown and Langer 2009.

FIGURE 3.8: Average income and migrant/non-migrant income ratio in Indonesia, by province, 1995



Source: Brown and Langer 2009.

This comparison of Malaysia and Indonesia points to a number of conclusions. First, redistributive policies – whether primarily ethnically oriented, as in Malaysia, or regionally oriented, as in Indonesia – are not incompatible with rapid growth. Second, significant improvements in basic human development indicators can be achieved across multiple dimensions of horizontal inequality (as also confirmed by the evidence cited above for Ghana and Côte d’Ivoire). But the final note is one of caution: where policies target one dimension of horizontal inequality, this may not translate into a reduction – and indeed may even be accompanied by an increase – in another dimension of horizontal inequality, even when the demographics of these two dimensions are largely overlapping.

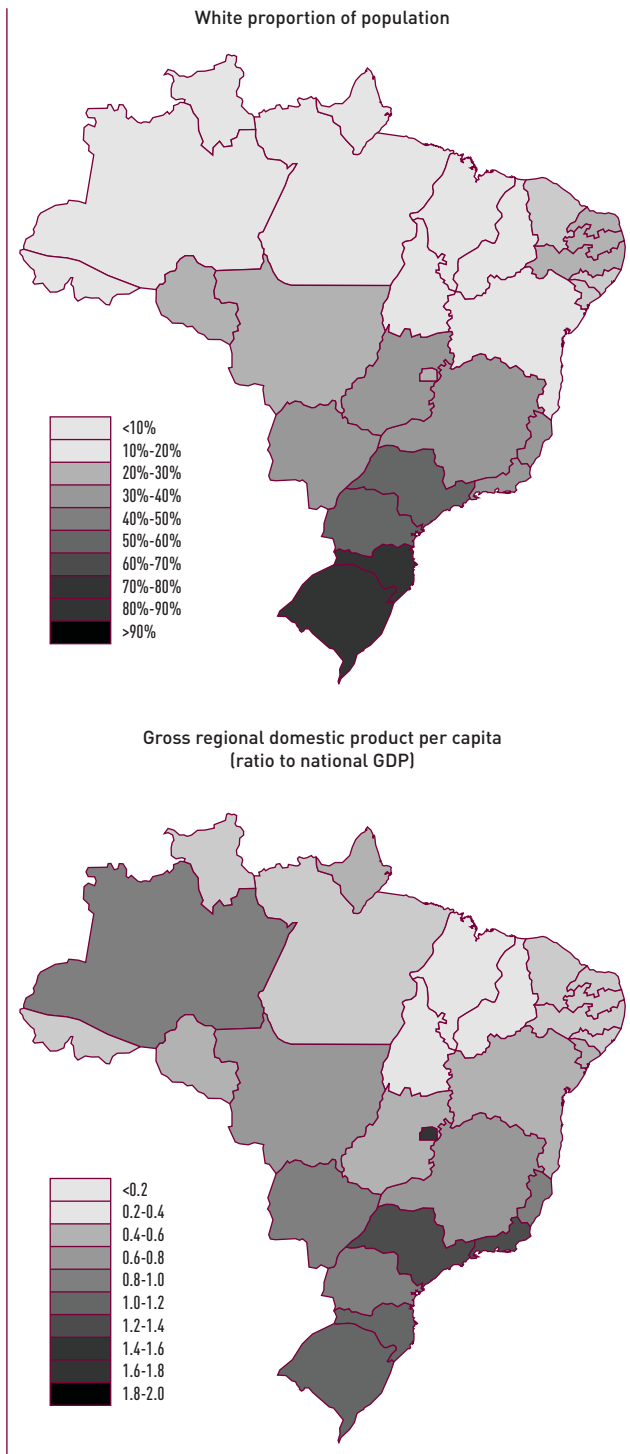
Redistributive policies – whether ethnically oriented, as in Malaysia, or regionally oriented, as in Indonesia – are not incompatible with rapid growth

Dualist economies

As reported in chapter 1, many middle-income countries have made important strides in industrialization, but have been less successful in incorporating large segments of their population into the development process. In situations where the majority of the population is indigenous, as in South Africa, an ethnically segregated policy guided development and made it difficult for the majority black population to benefit from development. In Brazil, non-white groups are also disadvantaged, even though there is no explicit regime of separate development. In Mexico, efforts were made to incorporate the largely indigenous peasantry through land reform after the revolution of 1910 and the birth of the Institutional Revolutionary Party. However, the relationship was based on patronage and, after 1940, the dualist agrarian structure re-emerged as peasant farmers lost control of land they legally owned.³⁶

Many middle-income countries have made important strides in industrialization, but have been less successful in incorporating large segments of their population into the development process

Brazil. The population of Brazil, like much of Latin America, is characterized by a large degree of ethnic mixing, with most people tracing some degree of mixed heritage from white settlers, black descendants of slaves and indigenous groups. Since 1950, the Brazilian census has distinguished five population groups – *branco* (white), *preto* (black), *pardo* (brown, or mixed descent), *indígena* (indigenous) and *amarelo* (East Asian). In the latest census, a slight majority of the population identified themselves as white, around a third as brown, about 7 per cent as black, and less than 1 per cent as Asian. As figure 3.9 indicates, there is a strong overlap between geography and ethnicity, and between geography and social and economic performance.

FIGURE 3.9: Ethnic distribution and gross regional domestic product per capita in Brazil, by state, 2000

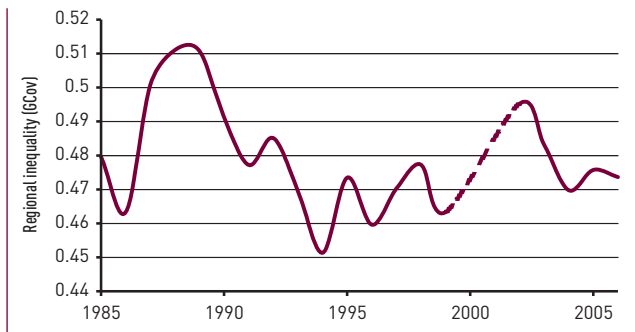
Source: Brown and Langer 2009.

Brazil followed an import-substitution policy for much of its independence period. Its economy was heavily reliant on coffee, making it vulnerable to price fluctuations. Import substitution only started to deliver rapid industrialization in the 1940s; between 1950 and 1975, the economy grew at around 7 per cent per year. By the 1980s, however, increasing debt and oil shocks led to stagflation – the lost decade in which GDP per capita growth slowed to 1.4 per cent and real incomes shrank by 6 per cent. Brazil re-democratized in 1988 with a new constitution that radically altered the political economy, implementing substantial fiscal decentralization to the state level and mandating educational and other social and economic priorities. Subsequently, facing a hyperinflationary threat, the administration of Fernando Collor de Mello began a process of trade liberalization and privatization. It was only after the Real Plan of 1994 pegged the Brazilian real to the US dollar, however, that inflationary pressures were brought under control. Despite fears that he would renege on debt repayments and undo the monetary restraint of the previous decade, President Luiz Inácio Lula da Silva, in power since 2002, has overseen a continuous, though modest, era of growth.

Brazil is a country of high regional and ethnic inequalities, which have remained remarkably steady over the long term. The mean income of black and brown (or *pardo*, as in figure 3.11) households is only half that of whites. In fact, black and brown households account for 66 per cent of poor households, even though they account for 48 per cent of the population.³⁷

The drop in regional inequalities starting in the late 1980s (see figure 3.10) followed major decentralization initiatives, higher growth rates in the majority of states in the poor northeastern region, a significant real growth of the national minimum wage, and pursuit of wide-ranging social assistance schemes that benefited the poorest states.³⁸ The per capita value of government transfers was much higher in the poorer states than in the richer ones.³⁹

FIGURE 3.10: Regional inequality index in Brazil, 1985–2006



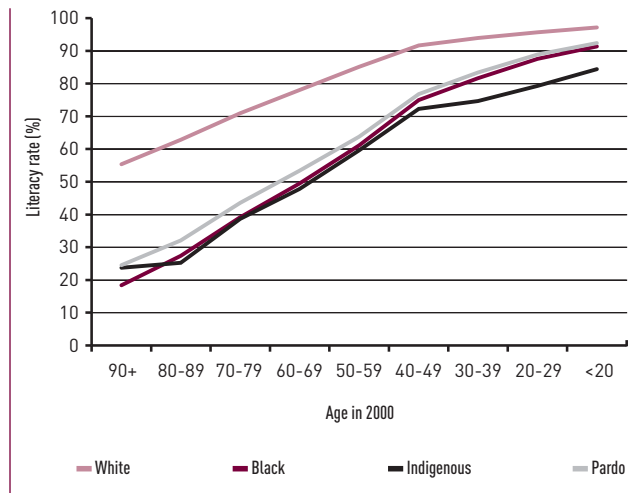
Source: Brown and Langer 2009.

In 1980, when employment levels were at their highest, there was little difference among ethnic groups. Indeed, the brown employment rate at 90.7 per cent was slightly higher than that of whites (89.3 per cent), with the black employment rate at 89.5 per cent. As employment rates fell over the subsequent two census periods, however, white employment rates fell much less severely; between 1990 and 2000, the white male employment rate fell by less than eight percentage points, whereas the equivalent fall for both black and brown groups was around 14 per cent.

Figure 3.11 traces changes in literacy rates of the four main ethnic groups by age cohort in 2000. While literacy gaps for the four groups have narrowed for those below 40 years of age, they remain high for older individuals.

Brazil is a country of high regional and ethnic inequalities, which have remained remarkably steady over the long term

FIGURE 3.11: Literacy rate by age cohort and ethnic group in Brazil, 2000



Source: Brown and Langer 2009.

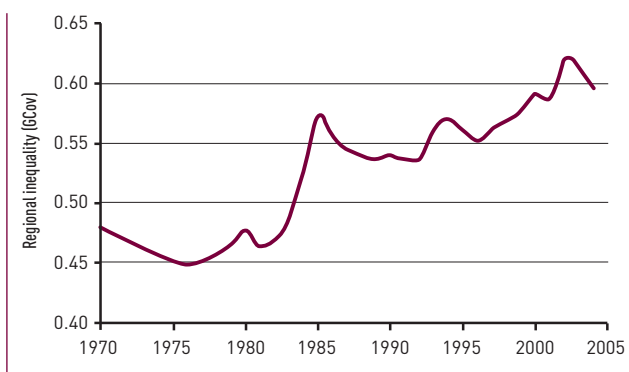
Mexico. Like Brazil, Mexico is characterized by relatively fluid ethnic boundaries between whites, *mestizos* and indigenous peoples. Unlike Brazil, however, Mexico does not have a substantial population of African descent. The ability to speak an indigenous language is often taken as a proxy for ethnicity. By 2000, 9.3 per cent claimed to speak both Spanish and an indigenous language; 2.5 per cent said they spoke only an indigenous language; and 88.3 per cent reported that they do not speak any indigenous language. The geographic distribution of indigenous groups is highly concentrated, however, with over 60 per cent of indigenous-language speakers living in the four southern states of Oaxaca, Chiapas, Veracruz and Yucatán. Moreover, indigenous speakers do not constitute a clear majority in any state, although in Chiapas, Oaxaca and Yucatán they constitute about half the population.

Like Brazil, Mexico’s early development trajectory was marked by severe and increasing social inequalities, which gave rise to political unrest. The Porfiriato period between 1876 and 1911, named after Porfirio Díaz, who was president of the country for all but four of those years, was marked by considerable economic growth driven by an open policy towards foreign investment. This growth was unbalanced, however, with the northern regions neighbouring the United States and home

to most of the country's natural resources the primary beneficiaries. These inequalities were a major driving factor in the descent into political instability and intermittent civil war, which ultimately brought the Institutional Revolutionary Party to power in the late 1920s. Badly affected by the depression of the 1930s, it was only after the Second World War that Mexico resumed sustained economic growth through a successful policy of import substitution, leading to the Mexican miracle that saw sustained growth and industrialization until the end of the 1960s. Like Brazil, Mexico's economy entered a period of stagflation in the 1980s, with minimal GDP growth and high inflation between 1982 and 1988. Mexico began instituting liberalization policies in 1988, culminating in the ratification of NAFTA in 1994.

Mexico has exhibited a consistent upward trend in regional inequalities (figure 3.12). All states with significant indigenous populations began the period with per capita GDP well below the national average, which, for the most part, remained broadly steady over subsequent years, with two notable exceptions: Quintana Roo and Campeche. Both of these states experienced rapid growth over the period relative to the national average and are now well above average in terms of GDP per capita. Along with Tabasco, Campeche is home to most of Mexico's oil and gas resources, while Quintana Roo, on the Yucatán Peninsula, has benefited primarily from tourism centred on its Mayan archaeological sites, which now accounts for around 50 per cent of gross regional domestic product.

FIGURE 3.12: Regional inequality index in Mexico, 1970–2005



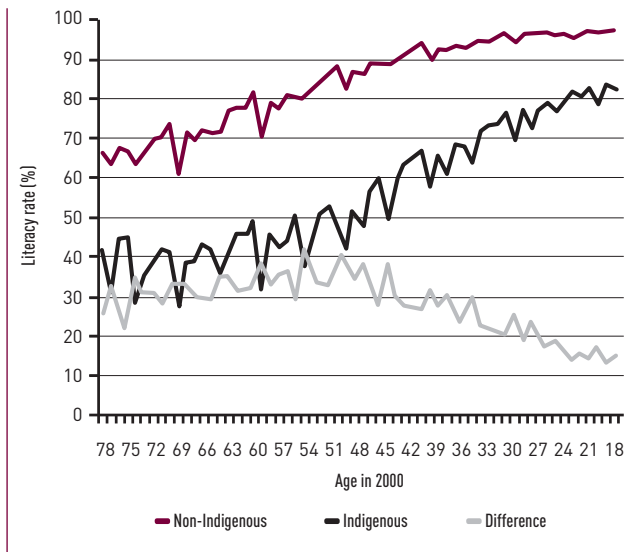
Source: Brown and Langer 2009.

The absence of good income data makes tracking changes in ethnic inequalities difficult. In 1970, more than three-quarters of indigenous people were agricultural workers. By 1990, this share had diminished to about 60 per cent, but this figure barely shifted in the decade of liberalization, remaining around 60 per cent in 2000. In 1990, the ratio of indigenous people in the skilled and semi-skilled occupational categories relative to their proportion in the workforce as a whole was 0.39 – a marked increase on the respective ratio in 1970 (0.28) and, indeed, higher than in 2000 (0.36). In other words, since 1990, there have been only about a third the number of indigenous people in skilled and semi-skilled occupations than we would expect to see if employment were distributed proportionately. While the indigenous have maintained an apparent overall advantage in terms of employment rates, this has largely been due to their concentration in the rural agricultural sector, a phenomenon that liberalization has done little to change.

Figures 3.13 and 3.14 show the literacy rate and average years of schooling among indigenous and non-indigenous groups in the 2000 census, broken down by age. Though all groups have made significant advances over time, there is a noticeable difference in the rates of catch-up among indigenous groups. Among non-indigenous people below the age of 40, full literacy has been more or less achieved. And while indigenous people in this age group lag behind, younger age cohorts are catching up such that equal levels of literacy can be expected in the near future, based on these trends.

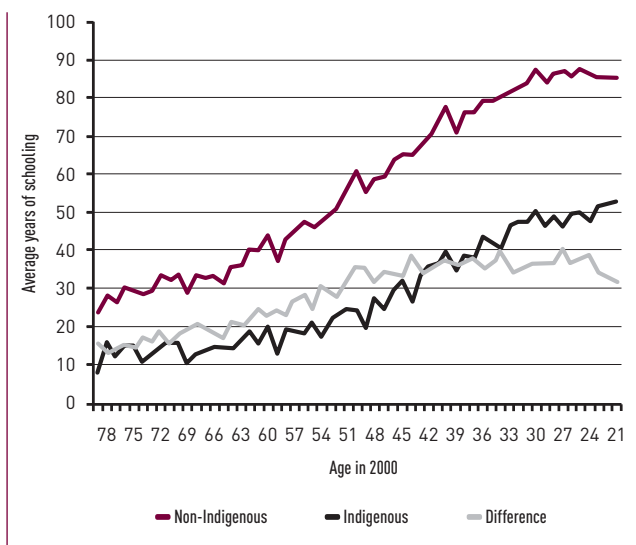
In contrast, though average years of education are also rising in both groups, the absolute gap in years of education was actually increasing among older people. For those under age 50 or so, the gap has remained relatively constant with non-indigenous groups having an advantage of around three years of education within each age cohort, even as overall levels rise in both groups among younger cohorts.

FIGURE 3.13: Literacy rate by indigenous status and age in Mexico, 2000



Source: Brown and Langer 2009.

FIGURE 3.14: Average years of education by indigenous status and age in Mexico, 2000



Source: Brown and Langer 2009.

In both Brazil and Mexico, the era of liberalization was accompanied by three major trends: decentralization, trade liberalization and privatization. Trade liberalization is typically seen to exacerbate regional inequality, and Mexico largely conforms to this trend. However, Brazil appears to provide counter-evidence to this pattern because of the higher growth rates experienced in the majority of poor states, increases in the national minimum wage, and the large-scale social assistance schemes (see chapter 5) that disproportionately benefited the poorest states. Both countries have also made significant advances in basic human development indicators irrespective of ethnicity and state, but have struggled to translate this into similar reductions in income inequality. It is too early to tell whether or not the recent affirmative action programmes for black Brazilians will make any inroads into this disparity.

3. Addressing Ethnic and Regional Inequalities: Implications for Policy

Ethnic inequalities appear to be a universal feature of multiethnic developing countries, and are much more difficult to address than regional inequalities. The persistence of ethnic inequalities may be due to discriminatory public policies, the way labour markets are structured, and differential access to governance institutions. Labour markets may be ethnically segmented because of past public policies, unequal development, or efforts by individuals from specific groups to protect advantages in certain lines of activity. Public policies and market segmentation may lead to physical segregation of groups, further reinforcing ethnic prejudice and antagonism.

Inequalities can also arise from the effects of development policies and practices on different groups. When ethnicity overlaps with social class, inequalities may assume hierarchical ethnic-class dimensions of the types that may breed xenophobia and violence. Such inequalities may mask other cleavages by creating an ethnically divided society. Many

forms of ethnic inequalities are, however, ambiguous. Individuals in an assumed ethnic group may, for instance, rank well in social and economic terms but the ethnic group may be disadvantaged nationally. Inequalities may occur in education, health provisioning, housing, income, employment, infrastructure development and asset holdings, such as land. Ethnicity may become a powerful tool in the hands of elites and politicians in struggles over public office and resources.⁴⁰

Ethnic inequalities are not just a problem in poor countries. Studies of advanced industrial societies⁴¹ also report high levels of inequality between immigrant and indigenous groups that encompass various social and economic dimensions. Sharp inequalities also exist among groups with a long history of residence in some rich multi-ethnic countries, such as the United States.⁴²

Failure to reduce horizontal inequalities can have political consequences. The articulation of extreme views on the causes of and solutions to group grievances can, and does, lead to violence or civil war, inhibit growth and make poverty reduction more difficult. The proportion of conflicts identified as ethnic increased from 15 per cent in 1953 to nearly 60 per cent in 2005.⁴³

This concluding section presents some direct and indirect policies for correcting horizontal inequalities. Direct approaches, often referred to as affirmative action, involve targeting groups. Indirect approaches aim to achieve the same outcome via universal policies.⁴⁴

Affirmative action is best pursued as part of a larger framework

Affirmative action has been implemented in various guises in countries as diverse as Namibia and the United States, in some cases for disadvantaged majorities (as in Malaysia and post-apartheid South Africa), but more often for disadvantaged minorities (as in Brazil, India and the United States). Critics contend that affirmative action imposes heavy costs on the economy, through what are perceived as market distortions.⁴⁵ However, it is instructive to note

that in many cases the policies that generated the need for affirmative action were more distortionary and exclusionary than affirmative action policies themselves; and the persistence of ethnic inequalities may affect the welfare of disadvantaged groups and deprive society of the full utilization of the capabilities of all citizens.

The effects of affirmative action on economic growth vary widely from country to country and across different types of policy. Malaysia's phenomenal growth over the past three decades suggests that affirmative action is not inherently detrimental to growth. Moreover, there is evidence from South Africa that efficiency gains may have resulted from such policies.⁴⁶

The Brazil case shows that the majority of the poor northeastern states with a large percentage of minorities benefited disproportionately from social assistance programmes and have recently registered high growth rates. In Northern Ireland, the elimination or reduction of inequalities between Protestants and Catholics in higher education, housing, employment and recruitment to the police force contributed to the willingness of the Catholic community to support the peace process,⁴⁷ which provided a foundation for economic growth.

While improving horizontal inequalities, affirmative action in some cases can worsen intra-group (and overall) vertical inequality. This depends on whether policies target the lower or upper end of the income distribution curve. In India, the marginalized Dalit group has received both preferential access to universities and subsidies in tuition and housing. While these policies have improved the social and economic status of Dalits, many group reservations go unclaimed because deficient primary and secondary schooling prevents students from meeting even relaxed requirements. Ultimately, inadequate primary education and an overemphasis on tertiary education benefited the middle class, exacerbating class inequalities.⁴⁸

In Malaysia, however, youths of the targeted group were sent to well-equipped residential schools and then provided with preferential access to tertiary education. Beneficiaries

have now emerged as the new middle class. Policies targeted both capital ownership at the upper end of the income distribution (by compelling firms to distribute shares to disadvantaged Malays), and poverty eradication and educational and employment opportunities at the lower end. As a result, intra-group income distribution improved or at least did not worsen initially. Later approaches, which have focused on the upper end of the distribution curve, worsened intra-group inequality. Similarly, policies in South Africa have had most effect at the upper end of the distribution curve, and intra-group distribution has worsened.⁴⁹

Affirmative action works best when pursued within a larger framework that seeks to incorporate all citizens in national development and welfare provision. It is easier to reduce inequalities if an economy is growing, the disadvantaged population enjoys access to policy-making institutions, and the redistributive policy is part of a wider strategy that seeks to transform the economy and eliminate poverty irrespective of ethnic origin, as in Malaysia.

Redistributive policies may be controversial when economies are in recession, the policies do not have time limits, and fundamental inequalities, especially in education, are widening despite redistribution. This may give rise to feelings of frustration on the part of those who think they are better qualified than members of the targeted group.⁵⁰ Redistributive policies that depend on the choices of majority groups may be unsustainable if the majority public turns against them, as appears to be happening in the United States.

Affirmative action works best when pursued within a larger framework that seeks to incorporate all citizens in national development and welfare provision

Universal programmes may not be enough

Universal programmes that aim to reduce poverty irrespective of ethnicity can be considered indirect policies. If successful, they will improve the position of disadvantaged groups. Some empirical evidence⁵¹ suggests that when specific groups suffer from multiple deprivations in human, physical and social capital, universal programmes alone may be unable to reach them effectively since improvement in one dimension will have little impact on the overall level of deprivation. Thus, for instance, one study⁵² finds differential returns on education among indigenous and non-indigenous groups in Peru. When indigenous people obtain education levels on par with non-indigenous groups, their returns to education are lower.

Some differential returns can be explained in terms of discrimination either in the workplace or in government policy. In some cases, stringent antidiscrimination legislation can be effective, since such policies do not specifically identify particular groups for positive action, but rather prevent negative action against any group. Such antidiscrimination legislation was a cornerstone of attempts in the United Kingdom/European Union to redress the deprivation of Catholics in Northern Ireland from the 1980s onwards. These efforts were met with broad success, with unemployment differentials between Catholic and non-Catholic groups declining markedly in the decade running up to the Good Friday Agreement in 1998.⁵³

Another indirect approach to reducing horizontal inequalities, particularly in countries where ethnic groups are regionally concentrated, is to pursue a strategy of balanced regional development, rather than targeting specific groups directly. Such indirect strategies have been adopted in Ghana in the context of disbursing funds from the HIPC debt relief initiative. Indonesia under Suharto likewise followed a regional development strategy. However, Indonesia's experience with regional development has arguably been less successful in reducing ethnic tensions. Regional development strategies may have reduced disparities among provinces, but there is evidence that they may also have heightened ethnic inequalities within provinces, particularly in rural areas where the main beneficiaries of development have often been the largely Javanese migrant population.

Political and cultural inclusivity is key to action for disadvantaged groups

Correcting horizontal inequalities requires sensitivity to ethnic differences and is, in the final analysis, political. Without political inclusivity, there is little chance of implementing effective remedial policies for disadvantaged groups. Social and economic inequalities are also often intertwined with cultural exclusion. This is particularly important in relation to the cultural identity of the state – whether it embodies exclusion or subordination of practices associated with certain cultural groups, or reflects a cultural inclusivity that places equal value and visibility on the practices of all groups. Alternatively, the state can aspire to an acultural status or civic republicanism. However, this may turn out to be assimilationist, with the dominant culture enjoying supremacy over other cultures. Rectifying cultural status inequalities is often a matter of recognition rather than redistribution. The three main areas of cultural status policies relate to religious practices and observances, language and language recognition, and recognition of ethno-cultural practices.

Two competing frameworks can be used for managing diversity and ensuring political inclusivity at the central level of government: (i) reforms that seek to promote large majorities by encouraging vote pooling, ethnic integration and moderation, while also supporting adversarial politics;⁵⁴ and (ii) consociational or power-sharing arrangements that accommodate ethnic divisions.⁵⁵

The first type of reform (majoritarian) promotes plurality within party systems by encouraging political actors to seek votes outside of their ethnic strongholds if they are to gain the second, third or subsequent preferences of voters in the preference vote system that underpins this framework. The second type of reform – consociation or power-sharing – accepts ethnic-based parties as given and seeks to promote plurality, not within the contending parties, but at the governmental level itself. It is grounded in the voting system of proportional representation, which may encourage all key segments in society to be sharply defined so that groups that feel alienated from the political process may form their own

parties to gain some representation in parliament, the government and the civil service.

Evidence in multi-ethnic societies suggests that majoritarian policies and power-sharing arrangements do not always pull in opposite directions.⁵⁶ The majority of ethnically segmented countries, like their more homogenous counterparts, have majoritarian institutions. But ethnic problems have forced some of them to incorporate power-sharing elements. Formal consociational arrangements may not be relevant in ethnic settings where one group enjoys an overwhelming numerical majority, or in highly fragmented societies that lack a dominant group and where governments are bound to be ethnically inclusive under democratic conditions. On the other hand, they are usually unavoidable in societies where only two or three groups exist, or where two or three dominant groups coexist with smaller groups in a multi-ethnic setting, as well as in multi-polar settings with strong ethnic or regional clusters.⁵⁷ Even in these cases of ethnic polarization, parties may still be multi-ethnic, as in Switzerland,⁵⁸ rather than ethnic, as in Belgium.⁵⁹

The crafting of institutions that are sensitive to, but not trapped by, ethnic cleavages is a challenge for policy makers in pluralistic societies. It is always important to bear in mind that ethnicity is only one form of identification and that ethnic identities can be fluid. Countries should avoid reforms that make it difficult for individuals to express other identities. Institutional reforms should, therefore, be based on sound principles of universal citizenship where individuals are free to settle and take up employment anywhere in the national territory, and where a common set of citizenship rights applies to everyone. Efforts should also be made to promote institutions that are likely to cut across ethnic cleavages and defend national, as opposed to narrow ethnic, interests. Such institutions include trade unions, professional associations and other civic organizations. These initiatives are important in ensuring that ethnic politicians do not capture governance reforms that serve to play up ethnic cleavages, and that they are also sensitive to the wider goal of building a pluralistic state that can promote development and deliver services to all citizens without discrimination.

Notes

- 1 Stewart and Brown 2007.
- 2 Kanbur and Venables 2007.
- 3 Kanbur and Venables 2007:208.
- 4 Sahn and Stifel 2003.
- 5 Escobal and Torero 2005.
- 6 Kanbur and Venables 2007.
- 7 Kanbur and Zhang 2005.
- 8 Rodriguez-Pose and Sanchez-Reaza 2005; Garcia-Verdu 2005.
- 9 Kanbur and Zhang 2005.
- 10 Soto and Torche 2004.
- 11 Williamson 1965; Petrakos and Saratsis 2000; Terrasi 1999.
- 12 Ezcurra and Rapún 2006:355.
- 13 This was first suggested by Williamson (1965) and advocated also by Stewart et al. (2005). See Brown and Langer (2009) for a discussion of the methodology.
- 14 Figueroa et al. 1996.
- 15 Summarized from Stewart and Langer (2008).
- 16 Stewart and Langer 2008.
- 17 Bangura 2006.
- 18 Gyimah-Boadi and Asante 2006.
- 19 Songsore 2003.
- 20 Shepherd et al. 2005.
- 21 K. Ewusi 1976 (includes per capita energy consumption, employment in non-agricultural activities, literacy rates, earnings per worker and number of hospital beds per 1,000 persons).
- 22 See Brown and Langer (2009) for data.
- 23 Berthélemy and Bourguignon 1996; Den Tuinder 1978.
- 24 For details, see Brown and Langer (2009).
- 25 See data in Brown and Langer (2009); Glewwe (1988).
- 26 Based on World Bank data; Malaysian government data set it slightly lower.
- 27 Khoo Bhoo Teik 2008.
- 28 Khoo Bhoo Teik 2005.
- 29 Jomo 2004; Khoo Bhoo Teik 2004.
- 30 Khoo Khay Jin 2008.
- 31 Khoo Khay Jin 2008.
- 32 Khoo Khay Jin 2008.
- 33 Booth 2000:76.
- 34 See also Ravallion (1988); Booth (2000).
- 35 Tadjoeiddin et al. 2001:288.
- 36 Barraclough 1991.
- 37 Schmelzer 2005.
- 38 Silveira Neto and Azzoni 2010.
- 39 Silveira Neto and Azzoni 2010.
- 40 Bangura and Stavenhagen 2005.
- 41 Kogan 2007; Heath et al. 2008.
- 42 Wilson 1987; Danziger et al. 2005.
- 43 Stewart and Brown 2007.
- 44 Brown and Langer 2008.
- 45 Badgett and Hartmann 1995; Sowell 2004.
- 46 Acemoglu et al. 2007.
- 47 Stewart 2001.
- 48 Gomez 2009; Jayal 2006.
- 49 Acemoglu et al. 2007; Seekings and Natrass 2005.
- 50 Mustapha 2006; Bangura 2006.
- 51 Figueroa and Barron 2005; Stewart and Langer 2008.
- 52 Figueroa and Barron 2005.
- 53 Todd 2007.
- 54 Horowitz 1985.
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Gender Inequalities at Home and in the Market

Inequalities of income and wealth (vertical inequalities) may hide significant differences among social groups. One key dimension of such inequality is gender: women tend to be disadvantaged vis-à-vis men in most spheres, including the labour market. Like ethnic and racial inequalities (discussed in chapter 3), gender inequalities are complex. They are reflected in the political and economic structures of a country (including its labour markets), which generate specific types of exploitation and material deprivation. But they also reflect the way society is structured in terms of cultural values and social norms that are embedded across a wide spectrum of institutions in both private and public life. Inequalities in these areas can lead to the misrepresentation and devaluation of women, subjecting them to discrimination, exclusion and violence.¹

Over the past two to three decades, significant changes have occurred in the social and economic status of women that have helped reduce gender inequalities. Such changes in women's lives are associated with the social transformations that accompany economic development. But they are not simply a by-product of economic growth. Indicators of well-being across Indian states, including child sex ratios,² reveal a troubling and complex relationship between economic growth and gender inequality. In north Indian states that have seen dramatic agricultural growth, for example, indicators of gender equality are worsening. According to a number of recent studies, economic development and the associated accumulation of wealth seem to have lowered girls' life chances also in the southern state of Tamil Nadu, which has historically been more gender equal.³ Sex-ratio imbalances have also deepened in China, where the one-child policy has combined with strong son preference to diminish a female's chances of survival because of sex-selective abortions and post-birth neglect.⁴ China and India account for nearly 80 per cent of all "missing women"⁵ in the world. The fact that these two countries have also

produced some of the fastest rates of economic growth over the past decade or so only underscores the point that there is no guarantee that growth will enhance gender equality. In fact, some patterns of growth and structural change are premised on, and reinforce, gender inequalities.

Economic growth does not necessarily reduce gender gaps in earnings or enhance women's economic autonomy

As the 2005 UNRISD report, *Gender Equality*, argued,⁶ the positive outcomes of the past decade – in terms of girls' enrolment in primary and secondary education, women's representation in politics, and new legislation prohibiting violence and discrimination – must be qualified in the light of continuing gender inequalities and a less than favourable economic environment. The ambiguous nature of women's achievements is illustrated most strikingly in what has been termed the feminization of labour. Not only has women's access to paid work increased in most countries (with the exception of Eastern Europe and Central Asia), but at the same time, a deterioration has occurred in the terms and conditions of much of that work. The growth of informal work across the world (see chapter 1) has allowed employers to lower labour costs and sidestep social protection obligations and labour laws. For many workers, both female and male, the outcome has been increasing precariousness of jobs, and greater insecurity in their livelihoods.

Informal employment tends to be a greater source of employment for women than for men in most developing regions,⁷ with women often concentrated in the most casual and exploitative segments of informal work. In some contexts, earnings are so low that even the existence of multiple

earners is not sufficient to pull the household above the poverty line. Even though women tend to have far lower earnings than men, they are not always counted among the poor because poverty status is measured at the household level based on pooled income. However, even when women are able to escape material poverty by pooling income with other members of the household, especially male partners, this can leave them in a situation of dependence. This may, in turn, stifle their voice in domestic relations and close their exit options.⁸

The relationship between poverty and gender is complex because it is placed at the intersection of at least three sets of institutions: labour markets, which differentially structure and reward male and female labour; households, where decisions are made about the allocation and distribution of resources, including labour and earnings, and where labour itself is (re)produced; and states, which, through a constantly changing mix of regulatory and provisioning roles, shape the broader policy environment within which the other two institutions operate. As the evidence in this chapter will show, gender inequalities in labour markets are remarkably persistent and deeply embedded across diverse development paths.

Gender inequalities in labour markets are remarkably persistent and deeply embedded across diverse development paths

While households and families can play a crucial role in pooling resources, and sustaining and protecting their members, they also face major limitations. First, where the development trajectory is exclusionary and polarizing and where public provisioning is insufficient, kinship solidarity networks become exhausted. Second, unequal power relations within households mean that household resources are unequally distributed to meet individual needs and the costs of non-market work carried out in sustaining household members are unequally borne. In a monetized world,

those who primarily do such work are placed at a disadvantage. The fact that this work is almost exclusively performed by women has repercussions for their access to paid work: it tends to penalize women and weaken their position in terms of earnings and occupational status.⁹ Policy priorities therefore include the need not only for more and better work opportunities for women – the focus of this chapter – but also the provision of social services and infrastructure to ease the domestic and care burden, a fairer distribution of such work within the household, and the recognition of such work in social protection systems (as elaborated in chapter 7).

In essence, the chapter tells the story of women working harder, but under poorer conditions and with lower wages and fewer opportunities for advancement than men. The main conclusions are as follows.

- Economic growth does not necessarily reduce gender gaps in earnings or enhance women's economic autonomy. In fact, even in the world's richest countries, women's wages and the terms of their employment have failed to keep up with men's.
- In many developing countries, economic liberalization has fuelled a rise in informal employment, which has affected women disproportionately. Moreover, women's earning potential is often constrained by social norms and power imbalances with men.
- While sustained improvements in both the quantity and quality of paid work are important for enhancing women's economic security, they are not sufficient. Investment in social services, infrastructure and social protection that can help reduce the unpaid care work that is assumed by women is also critical, as are the social and legal changes that can enhance women's options.

Section 1 of the chapter explores how labour markets, states and households affect women's income in advanced industrialized countries.

Section 2 examines how gender inequalities are embedded or reproduced in labour markets. It draws its evidence from a range of developing countries clustered into three

groupings: the late industrializers of East Asia; a wider range of countries with stalled industrialization;¹⁰ and agrarian economies.

Section 3 looks at how household structures shape women's risk of being poor.

Section 4 turns to public policies and considers a range of interventions that address income poverty and gender inequality. Here the report underscores the importance of labour regulation and protection, which have been marginalized in the social policy agenda.

1. Women's Work and Income in Advanced Industrialized Economies

This section analyses how three institutions – labour markets, states and households – shape women's economic outcomes across a range of high-income countries that have largely followed the classic path of economic development (gradually moving from agriculture to manufacturing, then to services). Countries are grouped into five clusters (Anglophone, Continental, Eastern, Northern and Southern European) based on shared principles of social welfare entitlement and relatively homogeneous outcomes.¹¹ The evidence on high-income countries is useful for underlining the diversity of gender patterns of employment and the role of social policies in narrowing the gender gap in poverty.

Women's participation in the labour market is growing, but gender gaps in wages and work conditions persist

In most advanced industrialized countries, the gap between male and female labour force participation has narrowed significantly. However, while men's rates of participation are high everywhere, the variations in women's labour

market participation across regions are significant. Nordic and Anglophone countries show the highest participation rates by women, followed by Continental European countries. In Southern Europe, gender gaps of more than 20 percentage points are not uncommon. In Eastern European economies that have undergone economic liberalization, on the other hand, labour market participation has declined and unemployment has skyrocketed for both men and women. This has reduced and sometimes even reversed previously common features of these economies, such as the high presence of women in the labour market.

Significant gender inequalities remain beyond simple economic participation rates. For example, women are overrepresented in part-time employment vis-à-vis men in all countries studied. This shows continuity in the gender division of labour, with men still specializing in full-time paid employment and women doing the bulk of unpaid care work and adapting their labour market behaviour to the possibility of combining both.¹² Furthermore, significant gender wage gaps persist – caused by occupational segregation and associated wage penalties for “women's jobs” as well as discrimination.¹³ Across member countries of the Organisation for Economic Co-operation and Development (OECD), median wages for men are higher than those for women, even among full-time employees. In 2004, the average difference was 15 per cent; it exceeded 30 per cent in Japan and the Republic of Korea, and 20 per cent in Canada, Germany, Switzerland and the United States.¹⁴

State transfers help narrow the poverty gap between men and women

A large body of research has established that, in many developed economies, women are more likely to be poor than their male counterparts.¹⁵ Though the causes underlying women's higher risk of economic insecurity are complex and overlapping, weaker attachment to the labour market, in part attributed to the inaccessibility of public and/or private care services, largely accounts for women's lower income and higher relative poverty rates.

However, this is not the whole story. Significant differences across countries emerge in the extent to which social transfers (such as pensions and unemployment benefits) mitigate labour market outcomes across social classes. The poverty-reducing effect of such transfers is much stronger in the social democratic Northern European cluster than in the Anglophone and Southern European regime types (see also table 5.1 in chapter 5). State transfers also narrow the gender gap in poverty almost everywhere, but women are still slightly more likely to be poor than men in most countries. The Northern and some Eastern European countries whose transfer systems seem most progressive (both in terms of social class and gender) represent the exception to this rule.¹⁶

Because poverty is measured at the household level, there is little known about the distribution of income and women's access to personal income within households. The pooling of income from various household members is an important means to reducing gender gaps in market income. However, in such situations, women remain to a large extent dependent economically on their partners and families.

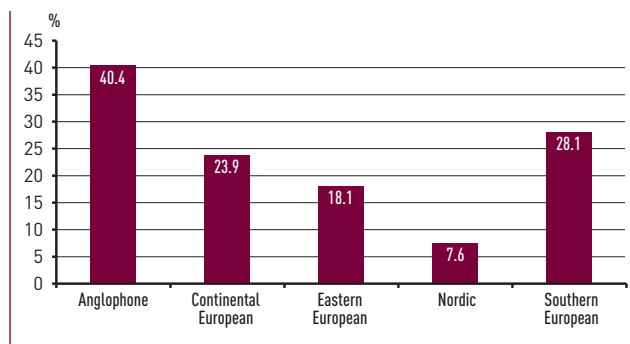
Again, patterns of dependence are substantially shaped by the dominant policy regime. Northern and Southern European countries represent two opposite scenarios, with women's reliance on a male breadwinner being low in the first group and extremely high in the second. Indeed, income pooling within the household does not seem to play a major role in providing poor women with income in the Nordic countries, where that role is largely assumed by the state's tax-and-transfer system.

State transfers narrow the gender gap in poverty, but women are still slightly more likely to be poor than men

Pooling income within households can ease women's poverty but create dependency

Single mothers who cannot count on the mitigating effect of a partner's market income remain economically vulnerable in many countries. In most countries for which poverty rates among single parents can be compared, single mothers are more likely to be poor than single fathers, and sometimes dramatically so. As figure 4.1 shows, Nordic countries are high performers in reducing the poverty of single mothers. Here, the combination of high levels of employment for single mothers and strong public services and transfers keeps poverty rates low. In contrast, Anglophone countries stand out with very high poverty rates. The experience of the United States suggests that this is due to the concentration of single mothers in poorly paid employment and the low level of public transfers.¹⁷ Southern European countries also show relatively high rates, reflecting low state support for lone mothers.

FIGURE 4.1: Poverty rates among single mothers, by regime cluster



Source: Gornick and Jantti 2008.

The dynamics of employment and poverty in advanced industrialized countries show that structural transformation of the economy can have very different implications for gender equality, depending on the interplay between labour markets, states and households. The following sections will explore the implications of these issues for a range of developing and transitional countries.

2. Poverty, Work and Gender in a Development Context

Given this report's concern with poverty, and the economic and social policies that are effective routes out of it, this chapter examines how gender as a social structure affects people's access to income when mediated through a number of key institutions, including labour markets.

Employment is usually defined as work in activities that produce goods and services that are valued and included in a system of national accounts – that is, those economic activities that are officially counted as part of an economy's gross domestic product (GDP). These market-based exchanges can take many different forms and are not confined to situations where individuals exchange their labour directly for a salary or a wage. Those who are self-employed – whether farming their own land, working in a family-run enterprise, or working as street vendors and waste-collectors – engage in other forms of market transaction to realize the value of their labour. The definition of employment and labour markets used in this report embraces all these forms of exchange, even though in practice they are not all consistently captured and counted in labour force surveys and calculations of GDP.

Access to employment in itself is not a guaranteed path out of income poverty, as the term working poor suggests. A large proportion of employed individuals worldwide do not earn enough to lift themselves and their dependants above the poverty threshold.¹⁸ The quality of employment matters, not simply the quantity of opportunities. As chapter 1 has shown, the quality gap between formal, regular employment and informal (or non-standard) employment represents one of the principal cleavages in the overall structure of employment today, particularly in developing countries but increasingly in high-income industrialized countries as well. The concept of informal employment captures employment relations that are not governed by formal economic regulations and/or basic legal and social protections.¹⁹

Women are disproportionately affected by the rise in informal employment

Research findings suggest that informal employment has been expanding as economies have undergone liberalization, both domestic and external, especially in the context of economic crises to which liberalized economies are prone. Moreover, though it is often assumed that informal work is linked to low rates of economic growth, the relationship between the two is more complicated. While there is an inverse relationship between the informalization of labour and economic growth (confirming the countercyclical nature of informal work), informal employment has been growing not only in contexts of low economic growth but also where rates of growth have been modest. The latter suggests that informal forms of paid work are not just lingering vestiges of backwardness or a by-product of economic stagnation. In fact, in some contexts, the very growth of global production networks made possible by the expansion of foreign direct investment (FDI) has generated informal production processes. Multinational firms have sought out “low-cost and ‘flexible’ labour relations in their production-level operations”,²⁰ where women tend to predominate.

Women are often overrepresented in the most casual and low-earning segments of the informal economy

Hence, the term informal employment captures very different kinds of work, some more akin to survival strategies with low returns that people resort to when economies stagnate. Other kinds of work (piece-rate, wage work) are integrated into and contribute to processes of accumulation on a national or global scale (as is the case with industrial outworkers, for example). Research has shown that workers in informal employment earn less, have more volatile incomes, lack access to basic public services and protections, and face higher risks of poverty compared to workers in formal employment.²¹ As described below, women are often overrepresented in the most casual and low-earning segments of the informal economy. In the absence of global datasets, special research was commissioned

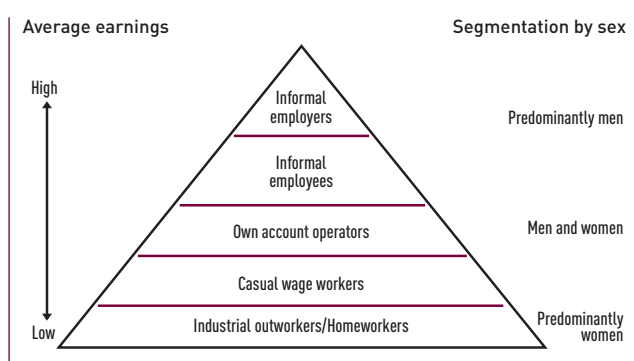
for this report to develop the statistical base for selected countries, drawing on the most recently available survey data.²²

The informal economy is stratified by gender and other social identities

Women and men, as noted for the advanced industrialized countries, tend to be grouped into different occupations (often referred to as horizontal segregation). Women are also more likely than men to be in occupations with lower pay, poorer working conditions and limited prospects for advancement (vertical segregation). Despite some improvements in the 1990s, levels of gender segregation in the labour market remain high throughout the world.²³ Hence, in the absence of effective state regulation, labour markets themselves tend to reproduce gender inequalities.

Similar segmentation occurs in the informal economy. Figure 4.2 illustrates the gender characteristics of the informal economy: men tend to be overrepresented in the top segment of the informal economy (among informal employers); women tend to be overrepresented in the bottom segment (among industrial outworkers); and the relative share of women and men in the intermediate segments tends to vary across sectors and countries.²⁴ Comparable stratifications based on caste, ethnicity and religion, not represented in figure 4.2, also mark the informal economy.²⁵

FIGURE 4.2: Segmentation of informal employment, by average earnings and sex



Source: Chen 2009.

Contrary to conventional wisdom, economic downturns affect the informal economy in similar ways as they do the formal economy

Workers in the informal economy have been particularly hard hit by the global economic crisis. Contrary to the conventional wisdom that the informal economy serves as a cushion for formal workers who lose their jobs, economic downturns affect the informal economy in similar ways as they do the formal economy. Unlike formal sector workers, however, informal workers have no cushion to fall back on.²⁶ In India, for example, informal wage workers in diamond polishing have already faced massive lay-offs, and employment contracts have become even more precarious. Similarly, women construction workers have suffered from a decline in working days and earnings. Other workers, such as self-employed waste-collectors, are finding it more difficult to survive as demand drops and prices fall.²⁷

As previous chapters have shown, growth paths differ in their ability to generate employment of sufficient quantity and quality. This, in turn, shapes women's (as well as men's) prospects of finding work that provides good terms and conditions. Yet women generally occupy a more precarious position in the labour force than men. Four factors conspire to push women into an unfavourable economic position in terms of their access to income from gainful employment.

- the gender gap in labour force participation (female participation rates are increasing, but are still consistently lower than those of men);
- employment segmentation (women are disproportionately employed in lower quality employment, including informal employment, with low returns to labour);
- the gender earnings gap (in general, women earn less for a given amount and type of work than do men, even within the same broad category of employment); and
- fewer hours of work (due to the competing demands of unpaid care work and non-market production).

All of these factors lower the total income earned by women.

Social norms and power relations affect women's access to paid work and control over earnings

Social norms and practices associated with kinship and family institutions place further constraints on women's ability to turn their labour power into a decent wage, and to retain control over that wage. For example, women's rates of economic activity have been historically low in the Middle East and North Africa region (MENA), as well as in parts of South Asia, and continue to be relatively low, despite some changes.²⁸ The cultural acceptability of paid work, especially when it takes place outside the home, the motivations (or pressures) that lead women to take on work, the kind of work they do, the varying effects of their life course, and the status of their households have all been shown to be important factors in shaping women's experience of paid work.²⁹ Evaluations of young unmarried women entering the paid workforce have tended, by and large, to be positive. However, the picture that emerges from micro-level research is more ambiguous and contradictory with respect to married women, who tend to report resistance from their husbands to their attempts to secure paid work. Sometimes this resistance is linked to fears about public disapproval, anxiety about their wives' sexual fidelity, concerns about neglect of domestic duties and their children's well-being, and the conviction that access to an independent income would destabilize male authority.³⁰

Women's responsibility for providing unpaid care work often limits the kind of paid work that can be undertaken to jobs with lower pay and more flexible hours – factors that very often translate into lower earnings and weaker claims to social protection. However, ethnographic research suggests that married women often make additional concessions in their private lives in return for permission to take up paid work. Sometimes this entails handing over their wages to their husbands to keep the male breadwinner role intact. At other times it may mean redefining motherhood to include the purchase of basic essentials or education for their children. It may also mean that men reduce their own contribution to the household budget, while women cover the deficit from their wages. Very often it involves women putting in long hours of unpaid work to ensure the fulfilment of their domestic responsibilities.³¹

The remainder of this section explores how different paths of structural change, along with other forces, have shaped labour markets in three clusters of countries or areas. Emphasis is placed on the gender inequalities that have been generated in terms of employment availability, informality, unemployment and earnings.

Gender inequality in labour markets is persistent across diverse development paths

Late industrializers in East Asia: Fuelling growth through women's low wages

Republic of Korea and Taiwan Province of China. A much-noted feature of the development strategies of these late industrializers was their ability to avoid the type of vertical inequalities that marked the early history of industrialization of pioneer countries, such as the United Kingdom. Yet as this section shows, the low levels of class inequality in the East Asian late industrializers went hand in hand with significant gender inequalities in the labour market during the heyday of their development, which continue into the current era.

Low levels of class inequality in East Asia have gone hand in hand with significant gender inequalities in the labour market

Despite important differences in their market structures – large businesses in the Republic of Korea versus small- and medium-sized enterprises in Taiwan Province of China – a key component of their strategy of catching up was to target investment in strategic sectors to help industries acquire the technology they needed to upgrade. It has been argued that low wages for women, roughly half those of men, were a stimulus to growth, since women's low wages kept the cost of exports down, financing the acquisition of technology.³² These low-cost exports were produced primarily by women, who faced job segregation in export industries (see box 4.1 for other examples).³³ Young, unmarried

women played a key role in the early, labour-intensive phase of industrialization between the early 1960s and 1973, with state policy deliberately mobilizing such labour.³⁴ The reliance on cheap female labour also bred social conflict and labour militancy. During the 1970s and early 1980s, women workers in the Republic of Korea actively sought to improve the terms and conditions of their work through sit-ins and demonstrations, despite the fact that strikes and other forms of social mobilization were illegal and often met with police violence.

High rates of economic growth and structural transformation guaranteed near-full employment, rising wage rates and some forms of corporate welfare (in the case of the Republic of Korea) for a significant share of the male workforce. Women workers, in contrast, remained in a relatively disadvantaged position throughout this period. To be sure, the number of economically active women grew continuously in the 1960s and 1970s, and women's share of total employment also increased. The sectoral composition of the female workforce also shifted during that period, from agriculture to manufacturing. From the 1980s onwards, post-industrial strategies in Taiwan Province of China and the Republic of Korea turned from the manufacturing of labour-intensive exports and diversified into capital- and skill-intensive products³⁵ in an attempt to "upgrade their economies technologically".³⁶

When industries upgrade technologically, it is the female workforce that is often displaced. So while export-led regimes of the 1960s resulted in the feminization of manufacturing labour in Taiwan Province of China, the simultaneous opening up to FDI and domestic capital mobility from the 1980s onwards has reversed into a "de-feminization of labour".³⁷ The displacement of female manufacturing employees was not matched with a significant absorption of female workers into other sectors.³⁸ A similar process of de-feminization has been documented in the Republic of Korea, where the demand for women's labour in manufacturing weakened by the early 1990s, and where the composition of the workforce in the electronics industry changed in favour of male workers as production in this sector shifted to more sophisticated communication and computer products.³⁹

How do women and men fare in terms of job security in these two Asian Tigers? After three decades of industrial development and high growth, only about 37.6 per cent of female workers in the Republic of Korea had regular full-time jobs in 1990 (compared to 64.5 per cent of male workers), while 62.4 per cent had temporary or daily work (compared to 35.5 per cent of male workers).⁴⁰ The bulk of employed women therefore faced considerable insecurity and instability in terms of employment and income. The general sectoral shift in Korean employment from manufacturing to services has been accompanied by greater labour market flexibility, which has resulted in increased use of non-regular or non-standard (temporary and daily) workers by companies, especially following the East Asian crisis of 1997.⁴¹ Based on a revised method of data collection, non-standard employment was estimated to account for 24.1 per cent of men's employment and 40.3 per cent of women's employment in 2005.⁴² Weekly hours of work are significantly lower in non-standard employment, compared to regular wage employment and to various forms of self-employment. Average hourly earnings are also significantly lower than those of regular paid employees. These factors place serious limitations on women's earning potential.

Moreover, rapid growth in wages does not eliminate gender gaps in wages. Despite rising pay scales in the Republic of Korea's manufacturing sector from 1980 to 1992, the gender wage gap was far from closed. The average all-industry (excluding agriculture) ratio of women's to men's wages was 42.9 per cent in 1980, rising to 53.4 per cent in 1990, indicating that women were earning only about half as much as men. Data for 2002 indicate that this ratio rose to 66 per cent for the Republic of Korea and 70 per cent for Taiwan Province of China. Contrary to neoclassical expectations, increasing exposure to import competition and rising trade shares over the period 1980–1999 in both places did not help reduce discrimination against women, nor did it increase employment opportunities for cheaper women workers.⁴³ Taiwanese employers transferred production to mainland China and Southeast Asia, where they could employ cheaper labour, while local male labour was retained in the newer technology-intensive industries. Earnings discrimination increased as women's employment declined.⁴⁴

BOX 4.1: Export-oriented manufacturing: Facilitating women's access to social rights?

In the context of trade liberalization, women have constituted an important share of the workforce employed in export-oriented manufacturing industries in a wide range of developing countries. However, this development has often differed from the production for export in the late industrializing economies of East Asia, where export manufacturing was actively promoted while also protecting domestic markets. Not only has foreign direct investment (FDI) played a more central role in many of these developing countries, but the industries have also been criticized for their enclave nature, given their weak linkages to the national economy.

There has been a curious absence of systematic analysis of social policies in the extensive literature exploring different facets of women's employment in these export-oriented industries. Economists have tended to focus on wages and gender-based wage gaps in the context of export-orientation. The more sociological strands in the literature explore the processes of gender subordination and women's agency in households, communities and factories where they live and work. The corporate social responsibility and activist literature by trade unions, NGOs and women's organizations concerned with working conditions comes closest to asking questions that relate to social policy. But little attempt has been made to link these findings to broader social policy trajectories.

A six-country study by UNRISD showed that women workers in export-oriented economies are for the most part disadvantaged in terms of social rights accessed via the employment contract. Hence formal employment does not seem to constitute a route for women to access social protection measures and a social wage. The countries included China, India, the Republic of Korea, Mauritius, Mexico and South Africa. In China and Mexico, in particular, export manufacturing has constituted an important engine of growth.

In China the rise of the private and foreign sector has led to a rapid growth of demand for women workers both in the export-oriented factories of the special economic zones (SEZs) in the coastal provinces of the eastern seaboard, as well as in the Town and Village Enterprises. This reflects the significant transformation in the structure of the labour market since China reoriented its economy to global markets. In the SEZs, there is a multifaceted labour hierarchy: most technical and managerial posts are held by foreigners and sometimes by middle-class Chinese men, while the semi-skilled workers are predominantly female. Most of the permanent workers are local inhabitants. But the majority of the workforce is recruited from rural areas, many of them released from agriculture as a result of decollectivization in the late 1970s. Estimates based on numerous surveys show female workforces comprise around 80 per cent. They have temporary status in their place of work and no access to social protection mechanisms or welfare benefits. They return home periodically, during spells of unemployment, when ill, or to give birth.

In Mexico most employment creation within manufacturing over the past 10–15 years has been concentrated in the *maquiladora* sector, a large part of it located in the northern states near the Mexican–US border. The fact that women make up about half of this workforce would seem to suggest that they are in a position to reap benefits from being contributors to the principal engine of national economic growth. Has this been the case? On the more positive side, there is some evidence to suggest that women workers in maquiladora cities, particularly in the north, have some access to social protection measures and greater employment stability than those in non-maquiladora cities in the interior. Female maquiladora workers, for example, have access to some basic legally mandatory benefits such as social security and paid leave. Yet they have little or no access to gender-specific non-wage benefits such as childcare provision or maternity leave – both essential for women workers and mandatory entitlements for formally employed women. Women's relative advantages have also been more than offset by the shifting location of low technology assembly plants – which offer lower pay and poorer access to protection and regulation – to the interior provinces where women outnumber men. Between 1975 and 1999 women's share of the blue-collar workforce went down from 67.3 to 45 per cent. It is widely believed that part of the reason for this decline has been due to the recruitment of men (rather than women) into the more technologically advanced industries and occupations.

Export success is clearly useful but not sufficient for promoting rapid growth of employment combined with rising real wages and meaningful access to social welfare. Moreover, where women have been confined to sectors that seek low-cost labour, as in apparel and textile production, there seems to be less scope for wage bargaining and welfare provisioning, as companies can threaten to exit to lower cost countries (see also chapter 9).

Sources: Brachet-Márquez and de Oliveira 2004; Davin 2004; Jomo 2003; Razavi et al. 2004.

As supply chains are faced with falling global demand, women in export sectors are often the first to be laid off

Stalled industrialization in dualist economies: Persistent gender and ethnic inequalities

In a number of middle-income countries, including Argentina, Brazil, Mexico and South Africa, structural change was well under way in the 1970s and 1980s. In contrast to the East Asian experience, skewed income distribution in favour of high-income groups encouraged skill- and capital-intensive forms of industrialization that limited the incorporation of marginalized groups into the development process. Today, access to employment in many of these countries is still characterized by sharp vertical and horizontal inequalities, including those based on gender and ethnicity.

Brazil and South Africa. Brazil and South Africa provide a case in point. In both countries, agriculture plays a relatively small role in terms of employment and household income, even though it is a more important source of employment for men than for women (see table 4.1). The feminization of agriculture⁴⁵ observed in other middle-income Latin American countries does not seem to be occurring in these two countries. Women's and, to a lesser extent, men's employment is thus concentrated in non-agricultural sectors.

The combination of lower labour force participation rates, employment segmentation, fewer hours of work and significant gender gaps in earnings lowers women's income from employment in both countries and puts them at a disadvantage in relation to men. However, two important differences arise between the South African and Brazilian cases, and both are heavily influenced by gender and ethnicity.

TABLE 4.1: Labour force indicators by sex, around 2005 (population aged 15 years or older)

	Brazil (2005)		India (2004)		Kenya (2005/2006)		South Africa (2004)	
	Male	Female	Male	Female	Male	Female	Male	Female
Labour force participation rate	82.0	59.1	86.0	43.4	74.5	66.2	59.4	43.4
Unemployment rate	7.7	13.6	2.1	2.6	9.4	8.8	23.2	30.5
Agricultural employment as % of total employment	23.1	15.6	50.5	73.9	56.3	69.7	12.1	7.2
Informal employment as % of total employment	63.0	65.9	91.0	95.2	82.6	92.1	30.7	39.0
Informal agricultural employment as % of total employment	20.5	8.4	50.1	73.7	53.6	67.5	5.9	5.5
Contributing family members in informal agricultural employment as % of total employment	2.7	5.4	10.0	37.4	20.9	26.7	n.a.	n.a.

Source: Heintz 2008.

First, the relative weight of informal employment is far more important in Brazil than it is in South Africa. Although Brazil has experienced growth in formal employment since the early 2000s, informal employment still accounted for around two-thirds of male and female employment in 2005 (see table 4.1). The relatively smaller size of the informal economy in South Africa has been attributed to apartheid policies, which placed restrictions on the economic engagement of Africans prior to 1994.

In both countries, women are particularly concentrated in informal wage work, reflecting the large numbers of domestic workers – a phenomenon closely tied to ethnic and income inequalities. In 2006, domestic service employment in Brazil accounted for 18.3 per cent of women's and 0.4 per cent of men's employment.⁴⁶ More than half of female domestic workers are of African descent.⁴⁷ In South Africa, domestic service employment accounted for 16 per cent of female and 2 per cent of male employment in 2007; again, the large majority of domestic workers (91 per cent) are from ethnically disadvantaged groups.⁴⁸

Second, while informal labour relations are less extensive, unemployment is much higher in South Africa than in Brazil (see table 4.1). In both countries, however, women are more affected than men. In Brazil, women are almost twice as likely as men to be unemployed, mirroring the situation of other Latin American countries, including Argentina, Chile, Costa Rica and Uruguay, where women are also overrepresented among the unemployed.⁴⁹ It is important to bear in mind that women's unemployment (as a general rule) is likely to be undercounted relative to men's, since it is more acceptable for a woman to declare that she is a homemaker (and thus outside the labour force) rather than looking for work (and thus technically unemployed), even though she may, in fact, be an unsuccessful work-seeker.

Within most categories of employment, women earn less than men. Hourly earnings are particularly low in informal employment. In Brazil, for example, domestic workers earn less than 50 per cent of average hourly earnings of all employed individuals. In South Africa, this share drops

to 30 per cent. Even when compared to female workers in other informal, non-agricultural occupations, differences are still substantial.

Differences in the hours worked by employed women and employed men are likely to further exacerbate women's lower access to income from gainful employment. In both countries, women's weekly hours of paid, market work are 80–90 per cent those of men. One of the principal explanations for the gender difference in the work week is that, on average, women are engaged in much more non-market, unpaid work in their households and their communities than are men (see chapter 7).

Ethnicity is a potentially important determinant of social and economic well-being in both South Africa and Brazil. This is not to ignore equally important divisions within other countries analysed in this chapter, such as those created by the caste system in India, for example, or experienced by immigrant and ethnic minorities in the Republic of Korea or distinct ethnic/linguistic groups in Kenya. However, Brazil and South Africa are useful case studies in terms of the impact of ethnicity, which clearly acts as a stratifier on the labour market and often intersects with gender, as in the case of domestic workers.

In South Africa, ethnic disadvantages in the labour market are the combined result of economic exclusion (high unemployment rates) and unfavourable inclusion (concentration in low-quality employment) – particularly for the African population (see table 4.2). There is also a significant ethnic earnings gap within each category of employment: earnings are lowest for Africans, somewhat higher for mixed ethnicity (known as Coloured in the administrative ethnic categorization of the apartheid era), higher still for Indians, and the highest overall for the white population.

In Brazil and South Africa, ethnicity clearly acts as a stratifier on the labour market and often intersects with gender

TABLE 4.2: Basic labour force indicators, by ethnic group, in South Africa and Brazil

South Africa				
	African	Coloured	Indian	White
% of working-age population	77.0	9.0	3.0	11.0
Labour force participation rate	48.3	59.2	56.9	62.2
Employment-population ratio	33.1	46.0	48.8	58.8
Unemployment rate	31.5	22.3	14.1	5.5
Informal employment as % of total	44.3	21.4	15.0	8.4
Brazil				
	Afro-descendants	Indigenous	White	Asian
% of working-age population	48.1	0.2	51.2	0.5
Labour force participation rate	71.1	71.0	69.1	69.3
Employment-population ratio	60.6	60.8	61.2	63.8
Unemployment rate	11.6	10.9	9.1	6.8
Informal employment as % of total	70.6	69.0	58.2	57.4

Source: Heintz 2008.

In Brazil, labour force participation and unemployment rates are rather similar across ethnic groups, and labour market disadvantages appear to manifest themselves more in terms of unfavourable inclusion. This means that informal employment accounts for a much larger share of employment among Afro-descendants⁵⁰ and indigenous populations as compared to whites and Asians (see table 4.2). In terms of average hourly earnings, Afro-descendants and indigenous workers systematically receive the lowest returns on their labour. Asian workers receive the highest average returns on their labour, followed by the white population.

Agrarian economies: Insecure livelihoods for both women and men

Over the past two decades, rural livelihoods have become less secure. States have cut back their support to domestic agriculture. At the same time, exposure to competition from large subsidized producers has increased and global commodity markets have become more volatile. Many observers note that a striking feature of agrarian change in contemporary developing country societies is the growing prevalence of

livelihood diversification (defined as “the process by which rural families construct a diverse portfolio of activities and social support capabilities in their struggle for survival and in order to improve their standard of living”⁵¹). For vast sections of the population, both female and male, this has meant a constant search for income through wage work and self-employment that is often thinly disguised wage work, in or away from the village. In developing countries with extensive informal economies, off-farm activities are for the most part informal, even if a small fraction of workers obtain jobs in the formal economy (as public sector employees, usually frontline service providers in rural clinics and schools).

India and Kenya. Although GDP growth rates in India accelerated sharply in the 1980s and 1990s, driven mainly by the service sector, employment is still dominated by agriculture (engaging 74 per cent of the country’s workforce). In Kenya, both the productive and employment structures are dominated by the primary sector (63 per cent), and it is also this sector that provides the high-value-added horticultural exports that are critical to Kenya’s trade balance.

While labour force participation rates among Kenyan women and men are relatively high and fairly similar, India exhibits a large gender gap (see table 4.1) – patterns that are fairly typical of the two respective regions. In general, employment is largely informal in both countries, far more than in dualist economies discussed in the previous section, and women are less likely than men to have access to scarce formal employment.

In both countries, agricultural employment accounts for a larger share of women's employment than men's – the reverse situation of Brazil and South Africa – and virtually all of this employment is informal (see table 4.1). In fact, women constitute the backbone of the agricultural sector as smallholders and casual wage earners in both countries. The share of women working as contributing family members in informal agricultural activities is particularly high.

In Kenya, agricultural production has been increasing in recent years and is now the leading source of growth. The rapid expansion of horticultural production initially spurred growth in production of smallholder farms as well as an increase in the number of workers on large commercial operations.⁵² Women in Kenya work as smallholders (either managing their own farms or working on the family farm) and as seasonal agricultural wage workers in high-value export production (particularly flowers) organized by larger commercial enterprises. However, the absolute numbers involved do not exceed 100,000.⁵³ Employment in the horticultural sector does appear to reduce poverty and raise living standards among households when compared to households that do not participate in the sector. Yet many of the jobs generated are casual and seasonal, and income is volatile.⁵⁴ Furthermore, the number of jobs generated by the sector in the near future is likely to be relatively small compared to the employment challenge Kenya currently faces.⁵⁵

In India, women comprise an increasingly important proportion of the casual labour force in rural areas, as men withdraw from agriculture into other occupations.⁵⁶ In contrast to Kenya, agricultural growth rates in India in the 1990s were sluggish (around 2 per cent per year), especially when compared to the strong growth record of the economy as a whole. Moreover, public investment in agriculture (in irrigation and flood

control) has been low and declining, putting real limitations on productivity and employment growth in this sector⁵⁷ – key challenges in the long-term quest for poverty reduction.

Services in India, as in many other developing countries, have expanded to include a broad range of activities – from domestic work (catering to the growing middle class) and street hawking to servicing a burgeoning information technology industry. Most of these occupations entail long hours of work and minimal or no social protection, and yield vastly different levels of income, skill, productivity and career prospects.⁵⁸ The employment share of services is low for the level of output it generates (less than 25 per cent of total employment, contributing 53 per cent of GDP).

The boom of information technology services and the offshoring of office work by multinational companies have opened up career opportunities in formal skill-intensive employment for educated, English-speaking women from the urban middle classes. While women make up a large share of the workforce in this emerging sector, segmentation and discrimination along the lines of gender, caste and class are widespread, and women tend to be concentrated in low-end occupations.⁵⁹ Furthermore, as chapter 1 has shown, the information technology sector employs less than one million people. Its potential for transforming aggregate employment patterns in the near future is thus rather low, and most working women in India are still to be found in either informal agricultural work or lower paid service activities of the more precarious kind (such as domestic work).

Gender gaps in weekly earnings are significant due to a combination of lower hourly wages and less time dedicated to paid work in both countries, but are wider in India than in Kenya. On average, women's weekly earnings amount to only half of those of men in India, and two-thirds of those of men in Kenya.⁶⁰ Weekly earnings are lowest in informal agricultural employment, where most working women are concentrated. In sum, while there is much variation in the extent, form and quality of women's employment across the three clusters of countries analysed in this section as well as between countries in each cluster, gender hierarchies are nevertheless pervasive and a powerful force in shaping labour markets.

3. Gender, Poverty and the Role of Household Structures

The findings in previous sections are important to understanding the relationship between employment and poverty outcomes for women. While women's weaker labour market attachment reduces their access to personal earnings, this is not always reflected in greater female poverty rates (measured at the household level). Section 1 of this chapter has shown, for instance, that despite relatively low labour market earnings in Southern European countries, women are not significantly poorer than men, largely due to income pooling within the household. Are women's labour market disadvantages and lower earnings in other countries also compensated for in this way? This section looks at the poverty rates of the working poor, assessing the likelihood that workers in particular types of employment will live in income-poor households.

Income pooling is not sufficient to close gender-based poverty gaps in the Republic of Korea

In the Republic of Korea, working poor poverty rates are equally low for men and women in regular employment. However, the estimated poverty rates among women working as temporary and daily (that is, non-regular) workers are

much higher than those of men in similar employment situations. This suggests that income pooling within the household is not sufficient to close gender-based poverty gaps. Women in temporary and daily employment in urban areas are almost three times as likely to live in poor households as are men in the same employment categories (see table 4.3). Gender gaps are slightly smaller in rural areas. This pattern may be related to the fact that a larger proportion of daily and temporary female workers are the only earners, or the primary earners, in their households (46.5 per cent of daily workers and 39.8 per cent of temporary workers, as opposed to 35 per cent of regular workers). Given the large gender gaps in wages, poverty rates for households in which women are the main or only breadwinners are higher than those of households in which men are the main or sole earners.

Income pooling effects in Brazil and South Africa vary according to household structures

In Brazil and South Africa, the poverty risk by employment category increases as people move from formal to informal employment (see table 4.4). Informal agricultural workers, contributing family workers and domestic workers have particularly high rates of poverty relative to other employed individuals. If poverty rates are disaggregated by gender, however, the figures show that employed women, at least in Brazil, often have a lower average poverty rate than employed men, particularly in specific categories of employment.

TABLE 4.3: Working poor poverty rates in the Republic of Korea, 2005

	Male (%)	Female (%)	Female to male (ratio)
Paid employment (urban)			
Regular worker	0.1	0.1	1.0
Temporary worker	2.6	7.0	2.7
Daily worker	13.1	37.6	2.9
Paid employment (rural)			
Regular worker	n.a.	0.3	n.a.
Temporary worker	6.8	9.1	1.3
Daily worker	15.6	36.3	2.3

Note: Poverty rates are based on employment earnings only, not total household income. Source: Heintz 2008.

TABLE 4.4: Working poor poverty rates by employment status, formality and sex, around 2005 (% , population aged 15 years or older)

	Brazil (2005)		India (2004)		Kenya (2005/2006)		South Africa (2004)	
	Male	Female	Male	Female	Male	Female	Male	Female
Formal employment								
Paid employee (non-agricultural)	11.0	5.9	1.5	2.2	17.3	9.9	23.1	30.4
Of which are in the private sector	11.6	5.6	n.a.	n.a.	16.5	11.9	24.7	32.7
Of which are in the public sector	8.2	6.5	n.a.	n.a.	18.5	8.0	18.0	20.2
Self-employed (non-agricultural)	3.5	5.8	n.a.	n.a.	11.6	13.3	28.7	36.3
Formal agricultural workers	27.2	22.9	4.0	n.a.	32.1	27.8	45.4	45.5
Informal, non-agricultural employment								
Paid employee	23.2	22.6	11.6	14.0	34.6	29.4	52.3	64.9
Of which are domestic workers ^a	31.0	30.1	n.a.	n.a.	n.a.	n.a.	60.6	65.4
Own-account workers	23.5	22.3	9.7	12.3	33.5	32.8	60.9	75.9
Employer	5.5	2.0	0.3	n.a.	18.9	20.5	42.1	57.6
Contributing family worker	35.7	29.5	9.4	15.5	30.5	35.2	n.a.	n.a.
Informal, agricultural employment								
Paid employee	47.5	41.9	30.7	30.5	41.1	50.1	65.6	70.2
Self-employed	45.5	47.2	13.4	10.2	45.2	54.0	95.1	94.2
Contributing family worker	65.3	57.6	15.6	16.4	36.3	45.1	n.a.	n.a.
Other employment								
Production for own use	45.1	50.3	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	24.0	21.2	14.6	18.4	30.5	30.5	35.6	47.1

Notes: National poverty lines are determined using different methodologies. Poverty rates are therefore not comparable across countries. However, patterns of the relative risk of poverty may be compared across countries. ^a Excludes formal private domestic workers. Formal domestic workers are included in the estimates for all formal paid employees – public and private. n.a. = not available. Source: Heintz 2008.

Why might employed women – who are disadvantaged in terms of employment opportunities and earnings – have lower poverty rates than men in similar categories of employment? This seemingly contradictory result emerges because aggregate household income, not an individual's position in the labour market, determines poverty status. Thus, employed women may have lower poverty rates on average than men in similar employment categories because their contribution to family income makes the difference

as to whether the household is considered poor or not – even when women's employment is of very low quality.

In South Africa, the picture is quite different. Here, poverty rates among employed women are almost always higher than those among employed men, suggesting that income pooling does not have the same effect as it does in Brazil. One possible explanation can be found in the combination of employment patterns with household structure. And in this

respect, one finds an important difference between Brazil and South Africa. First, dual-earner households (using the proxy of employed males and females) are much more common in Brazil than in South Africa. This means that a woman's lower average earnings are at least theoretically off-set by combining her earnings with that of other household members. Second, households in which women are the sole or dominant earner are more common in South Africa than in Brazil – either because men are absent or because they are unemployed or economically inactive. This increases women's risk of poverty since they have no male partner with whom to pool their income. The South African phenomenon of “absent men” may be influenced in part by the country's

historical growth path characterized by enclave economies (that is, with few linkages to national economy) and an extensive male migrant system, which has left an indelible imprint on household structures and gender relations.⁶¹

Interestingly, the fact that income pooling at the household level sometimes mitigates gender inequalities in earnings does not hold true in terms of ethnicity, another horizontal inequality. As described in the previous section, ethnicity acts as a powerful stratifier in dualist labour markets. Given ethnic disadvantages, one would expect to find them reflected in working poor poverty rates. Tables 4.5 and 4.6 generally confirm this expectation for South Africa and Brazil.

TABLE 4.5: Working poor poverty rates by employment and ethnic groups in South Africa, 2004 (%)

	African	White	Indian	Coloured
Formal employment				
Paid employee (non-agricultural)	26.5	24.1	17.4	30.1
Of which are in the private sector	28.2	25.3	20.3	30.8
Of which are in the public sector	18.3	20.7	5.8	24.2
Self-employed (non-agricultural)	25.6	34.1	18.8	33.7
Formal agricultural	53.2	25.3	10.7	43.0
Informal, non-agricultural employment				
Paid employee	61.4	32.7	18.2	49.3
Of which are domestic workers	71.1	74.8	100.0 ^a	60.2
Own-account workers	72.2	28.0	27.3 ^a	53.5
Employer	51.2	28.2	14.0 ^a	29.9 ^a
Informal, agricultural employment				
Paid employee	68.1	37.8 ^a	–	63.4 ^a
Self-employed	95.0	60.6 ^a	–	92.0 ^a
Total	45.9	26.4	17.8	36.4

Note: ^aSmall number of observations. Estimates should be treated with caution. Source: Heintz 2008.

TABLE 4.6: Working poor poverty rates by employment and ethnic groups in Brazil, 2005 (%)

	White	Afro-descendants	Asian	Indigenous
Formal employment				
Paid employee (non-agricultural)	5.9	13.4	3.7	12.0
Of which are in the private sector	6.5	14.1	4.5	11.2
Of which are in the public sector	4.4	11.4	1.5	14.2
Self-employed (non-agricultural)	2.8	10.6	2.1	0.0
Formal agricultural	15.5	35.2	–	–
Informal, non-agricultural employment				
Paid employee	14.8	30.3	10.5	26.0
Of which are domestic workers	22.5	35.3	26.8	39.2
Own-account worker	14.5	31.6	11.6	37.4
Employer	2.5	8.8	7.2	0.0
Contributing family worker	16.7	46.3	4.6	72.6
Informal, agricultural employment				
Paid employee	36.8	52.0	19.7	49.5
Self-employed	31.7	56.9	7.9	68.4
Contributing family worker	45.5	72.0	20.7	85.5
Other employment				
Production for own use	35.7	57.5	48.6	71.1
Total	13.9	32.4	8.0	33.7

Source: Heintz 2008.

When working poor poverty rates are analysed by gender, employed women sometimes have lower measured poverty rates than employed men, mainly due to income pooling. This is because women and men tend to live together in the same household and, in households where women are in paid employment, the overall risk of poverty will be lower.

Although inter-ethnic households certainly exist in Brazil and South Africa, it is common to find that all household members belong to the same ethnic group and face similar economic disadvantages. Therefore, working poor poverty rates often more closely track ethnicity-based labour market disadvantages than gender-based disadvantages in paid employment.

In India, women's employment is often induced by distress, in contrast to Kenya

In India and Kenya, the differences between women and men in terms of average earnings are also not necessarily reflected in a comparison of their poverty rates (see table 4.4). In India (as in South Africa), poverty rates among employed women are almost always higher than those among employed men. However, in Kenya (as in Brazil), the same generalization cannot be made, especially in formal employment and in informal non-agricultural wage labour. How can this difference be explained?

A number of factors seem to be at work here. First, female employment in India appears to have more of a distress character, especially in urban areas. In Indian cities, income-poor households exhibit a higher female employment rate (19.3 per cent) than the average employment rate for all urban women (16.6 per cent). Poverty can therefore be seen as a factor that pushes women into the paid workforce, and often into marginal forms of employment with very low pay. This does not hold true for men: in poor urban households, the male employment rate is actually lower than the average rate for all urban men (49.8 per cent and 54.9 per cent, respectively).

In Kenya, there is less evidence of women's employment having a strong distress character. Female participation in the workforce seems to be generally high and evenly spread across income strata. The labour force participation rate among poor women is actually somewhat lower than among non-poor women (63 per cent versus 69 per cent). If this pattern is combined with the significantly higher female labour force participation rates overall, this suggests that distress employment may account for a smaller share of women's total employment in Kenya as compared to India. Although a lot of factors are at work here, it also suggests that, in Kenya, women's employment may lower the risk of poverty (due to the income they earn), instead of poverty pushing women into very marginal forms of employment (which appears to be the case in India).

Two conclusions emerge from the analysis in this section. First, the poverty risk that different categories of workers face is determined by both labour market institutions and the structure of the household in which they live.

Second, even if by pooling income with other household members (usually partners or husbands) women can compensate for their own very low earnings and escape poverty, this reinforces their financial dependence on others who decide how resources are allocated, while restricting their exit options.

4. The Role of the State in Addressing Gender Inequality and Poverty: Implications for Policy

Development strategies can have a direct effect on the extent and severity of poverty by creating jobs and incomes. Conversely, generalized policies of macroeconomic contraction that operate through demand deflation are likely to have a negative effect on the conditions of poorer groups, as has been seen in many developing economies.

As this chapter has shown, gender inequalities are not necessarily reduced, and may even be reinforced, during the process of structural change. The East Asian scenarios clearly showed that success in employment generation does not necessarily reduce gender inequalities. Job creation can easily bypass women or, in the absence of labour market policies that counter gender discrimination, can include them on unfavourable terms. Yet neoliberal policy prescriptions have argued that deregulation, flexibility and the removal of market distortions can generate better and more work, a rise in real wages and a reduction in gender gaps. In practice, this has not happened. In many developing countries, as described in this report, the larger part of the economy operates beyond the regulatory reach of the state, and this has had a particularly detrimental impact on marginalized groups.⁶² Not only have governments curbed

recruitment into the public sector. They sometimes also violate their own regulatory framework through the segmentation of their employees into permanent, contract and voluntary workers, and it is among the latter that women predominate. The desirability of, and urgent need for, a set of clear public policy choices that create, expand and give “teeth” to the legal rights of workers – regardless of gender and caste/ethnicity, both at work and with respect to social protection – cannot be denied.⁶³

There is an urgent need for a set of clear policy choices that create, expand and give “teeth” to the legal rights of workers

Feminist mobilization at multiple levels has succeeded in articulating previously unheard views, has confronted established conventions, exposed previously unchallenged biases and, to some extent, rewritten political agendas. One area of remarkable policy convergence has been female education, valued for both intrinsic and instrumental reasons. The elimination of gender disparity in primary and secondary education is one of the targets of the third Millennium Development Goal (MDG). Girls’ enrolment in primary education has increased rapidly the world over, sharply reducing or closing and, in some cases, reversing the gender gap in school attendance; the secondary enrolment rate for girls has also grown, surpassing that of boys in three regions.⁶⁴

However, the distribution of jobs by gender can be only partially explained by different educational endowments. Women tend to be crowded into lower paying jobs, and the bulk of gender wage differentials are explained by factors other than human capital differences.⁶⁵ Labour market discrimination often means that women are in practice required to have higher levels of education than men to compete in the workforce on equal terms. Although highly educated women have advanced their careers despite the discriminatory forces that remain stubbornly in place,

most women are still trapped in informal and low-return economic activities.

Action in three areas is critical for enhancing women’s economic security:

- formalization of informal jobs through stronger employment regulation;
- improvement of protection mechanisms for people who have no access to formal employment; and
- increased access to other productive assets that facilitate income generation in the absence of formal employment opportunities.

Protect informal workers through state regulation

There is no single solution for the problem of labour informality, given the heterogeneity of informal work. The common policy prescription of formalizing the informal economy thus needs to be comprehensive in design but tailored to different forms of informality. To date, the formalization debate has focused primarily on the self-employed in informal enterprises and often, more specifically, on micro-entrepreneurs who hire others (hence, the emphasis on property rights, which is supposed to promote entrepreneurship and economic dynamism⁶⁶). At a minimum, this debate needs to distinguish between wage workers in informal jobs and the self-employed in informal enterprises.⁶⁷ As already demonstrated, the main attraction of the informal economy for employers is precisely the absence of labour regulation, allowing lower labour costs and greater exploitation of workers. This means that a fundamental policy issue is the absence of regulation and lack of protection for workers as well as workers’ lack of voice and political influence.⁶⁸ Hence the lack of rights at work needs to be much more forcefully addressed in policy agendas.

The case for greater regulation is particularly strong when it comes to wage employment. One area of typically female informal work that is receiving increasing attention from trade unions, governments and multilateral development agencies is paid domestic work (see box 4.2).

BOX 4.2: Reducing the poverty of domestic workers by promoting their rights

While domestic service employment is a significant and, in some contexts, growing source of jobs for women and girls in many developing countries, domestic workers often lack access to labour rights and social protection. In some countries, such as India, domestic employment is not even recognized as such. The earnings of domestic workers in that country tend to be among the lowest of all professions, and far from enough to keep their households out of poverty. In Brazil and South Africa, for example, 30 per cent and 65 per cent of domestic workers, respectively, live in poor households.^a

Several countries have attempted to improve the employment conditions and status of domestic workers. In Bolivia, for example, years of lobbying by domestic workers' organizations culminated in the formulation of a household worker law in 2003, stipulating a minimum wage, maximum working hours, holidays and a bonus of one year's pay after five years of work. Argentina, Chile, Peru and South Africa have also recently strengthened the protection of domestic workers. How were rights of domestic workers placed on the policy agenda in these countries? Comparative research on legal reforms in Latin America suggests that besides autonomous organizing on the part of domestic workers themselves, political alliances with labour, feminist and indigenous organizations, as well as progressive legislators, were key.^b

Of course, enshrining the rights of domestic workers to decent pay and working conditions is only a first – albeit necessary – step to greater social protection. Legal rights also need to be enforced and complied with. So what has been achieved? Evidence from South Africa suggests that labour market interventions can help improve wages and working conditions: the introduction of minimum wages is claimed to have raised hourly earnings by more than 20 per cent within one year, without apparent negative effects on employment. Other legal requirements, such as the right to a written contract, paid leave, severance pay, dismissal notice and access to unemployment insurance seem to have had similar positive effects: they raised the proportion of domestic workers with a written contract from 7 per cent in 2002 to 36 per cent in 2007 and the share reporting unemployment deductions from 3 per cent to 32 per cent.^c

The quest for domestic workers' rights is increasingly being pursued at the global level. For example, in March 2008, the governing body of the International Labour Organization (ILO) agreed to put decent work for domestic workers on the agenda of the 2010 International Labour Conference, with a view to adopting a convention and/or recommendation the following year.

Notes: ^a Heintz 2008. ^b Blofield 2009. ^c Hertz 2004; Lund and Budlender 2009.

Promote social protection, but not as a substitute for decent employment

In the context of greater labour market flexibility and deregulation, increasing emphasis has been placed on the expansion of social protection to informal workers or other vulnerable groups. While this is a timely and welcome development, there is also the danger of de-linking social protection from the operation of the labour market. Narrowly conceived social protection agendas cannot be a substitute for employment creation and decent work agendas.

In the Republic of Korea, for example, the state's response to the deregulation of the labour market has been to strengthen and extend the reach of key social welfare programmes, particularly social insurance. Thus, multiple health insurance funds were merged into a single integrated public scheme, National Health Insurance, in 2000.⁶⁹ Similarly, universal coverage for old-age security was achieved by the end of the 1990s through the National Pension Plan (see chapter 5). Despite the recent expansion in entitlements to insurance benefits, lack of compliance by employers, especially of non-regular workers, remains a key obstacle. This affects women more

than men, given their already noted overrepresentation among temporary and daily workers. In the case of the National Pension Plan, which has been gradually extended to all workers, including daily, temporary, self-employed and family workers, women make up less than a third of the total. The main reason is to be found in the low pension enrolment rate among women until recently, and the mandatory minimum 25-year maturity for pension benefits.⁷⁰

Dualist economies, such as Brazil and South Africa, have focused on social assistance as a means to combat poverty and economic insecurity. In Brazil, where contributory programmes cover less than half of the economically active population, cash transfers targeted at the poor have become central within the social protection system since the late 1990s. This includes non-means-tested rural pensions and the main conditional cash transfer programme, Bolsa Familia. South Africa has also gradually expanded non-contributory social assistance benefits financed out of tax revenues (see table 4.7). Cash grants (such as the Child Support Grant) are claimed to be highly redistributive and to have contributed to a reduction in poverty of about 2 per

cent in 2005.⁷¹ Similar to other cash transfer programmes, women predominate among the beneficiaries in both Brazil (93 per cent) and South Africa (85 per cent).⁷²

Although data are scant, it can be assumed that transfers have a positive effect on the resources poor women have at their disposal. There is some debate as to whether the targeting of cash transfers leads to net benefits for women beneficiaries themselves, especially in terms of their access to employment and economic security.⁷³ However, a regular and reliable source of income should be viewed positively, particularly in contexts where large numbers of women care for children and other dependants on their own. In some cases, cash transfers may facilitate women's job search and access to paid employment.⁷⁴ However, means testing has also been shown to be problematic: local officials sometimes add new tests of eligibility, such as proving that taxes have been paid and requiring letters to be certified by police officers.⁷⁵ Social assistance claimants may be perceived as dependants on government handouts, thereby justifying the discretionary handling of these benefits (see chapter 5).⁷⁶

TABLE 4.7: Distribution of different grants among men and women in South Africa, 2008

	Number receiving		%
	Male	Female	
Child Support Grant	83,652	4,852,514	98
Older Person's Grant	629,233	1,673,017	73
War Veteran's Grant	1,437	323	18
Disability Grant	618,540	765,349	55
Foster Child Grant	17,814	290,537	94
Combination of grants	180	6,544	97
Care-Dependency Grant	3,483	98,731	97
Total	1,354,659	7,687,408	85

Source: Department of Social Development, South Africa 2008.

Increase women's access to land, microcredit and other productive assets

A third area for policy intervention comprises measures that support women's income-earning activities through access to productive assets, including land and microcredit. Microcredit schemes, like cash transfer programmes, can be seen as a response to the failure of economic strategies to generate sufficient employment that provides decent wages. It is also often believed that self-employment generated through microcredit will help women reconcile the competing demands of income earning with their family responsibilities.⁷⁷

In India, the banking sector reforms in 1991 led to a decline in the bank credit given to rural areas,⁷⁸ and the government has sought to fill a part of this gap through a rapid expansion in the provision of microcredit through the formation of Self-Help Groups, especially of women. The Self-Help Group-linkage programme has grown from support to 500 such groups in 1992 to 500,000 in 2002, covering over 40 million poor people, 90 per cent of whom are women.⁷⁹ Such an enormous expansion of credit oriented to women in groups, rather than household production units, is potentially beneficial. However, since these programmes disburse small loans, this could also result in a two-tier system in which women have excellent credit access, but only to small amounts that have to be quickly repaid (and do not allow funds to go into income-bearing activities that have a long gestation period), while men access bank loans that are large enough for significant investments.⁸⁰

Access to decent jobs, vocational training and enabling social services are necessary to providing women with a sustainable route out of poverty and access to personal income

More importantly, though, is the fact that the provision of credit, while necessary, is far from sufficient for successful self-employment. Rather, it is the general economic context that plays a determinant role.⁸¹ Evidence of the impact of credit programmes on women's empowerment at the household level, in terms of gender relations, are contradictory, with some evidence of more frequent domestic violence, sometimes linked to pressure to repay debts, and increased work burdens, as well as greater financial autonomy.⁸² A final note of caution raised by village-level studies in India is that, with the decline in formal sector banking in the countryside, the exploitation of the rural poor has intensified as informal sources of credit (moneylenders, merchants, landlords) have rushed in to fill the gap. Microcredit schemes controlled by NGOs have not managed to achieve the spread and reach of the formal rural banking system, and can only be a supplement in a much more diverse system of rural credit.⁸³

Institute policies that support women's long-term economic security

Social assistance, social insurance and microcredit cannot resolve the problem of gender-based poverty and inequality unless they are underpinned by policies that promote women's long-term economic security. Access to decent jobs, vocational training, enabling social services and amenities are just as necessary to providing women with a sustainable route out of poverty and access to personal income.

Especially in countries where agriculture remains important to people's livelihoods, access to land is a crucial component of economic security. Gender analyses of land tenure institutions have exposed the complex of laws, customs, social norms, social relations and practices that conspire to exclude women from ownership and control of property in many regions (the situations in South Asia⁸⁴ and Latin America⁸⁵ have been most extensively researched). Some of this work has been taken up in certain policy and advocacy circles. The rather simplistic view has been constructed that rural women's poverty can be attributed to their lack of access to land and that land markets are the solution.⁸⁶

This raises two key issues. First, given the centrality of land markets and of market-based agrarian reform in the currently dominant neoliberal economic agenda, it is important to ask if market prescriptions are likely to accommodate women's land claims. Although the empirical base is far from comprehensive, a judicious reading of the existing evidence points to the severe limitations of land markets as a channel for women's inclusion, especially for the vast majority of women smallholders, landless agricultural labourers and those doing different kinds of informal work.⁸⁷

In countries where agriculture remains important to people's livelihoods, access to land is a crucial component of economic security

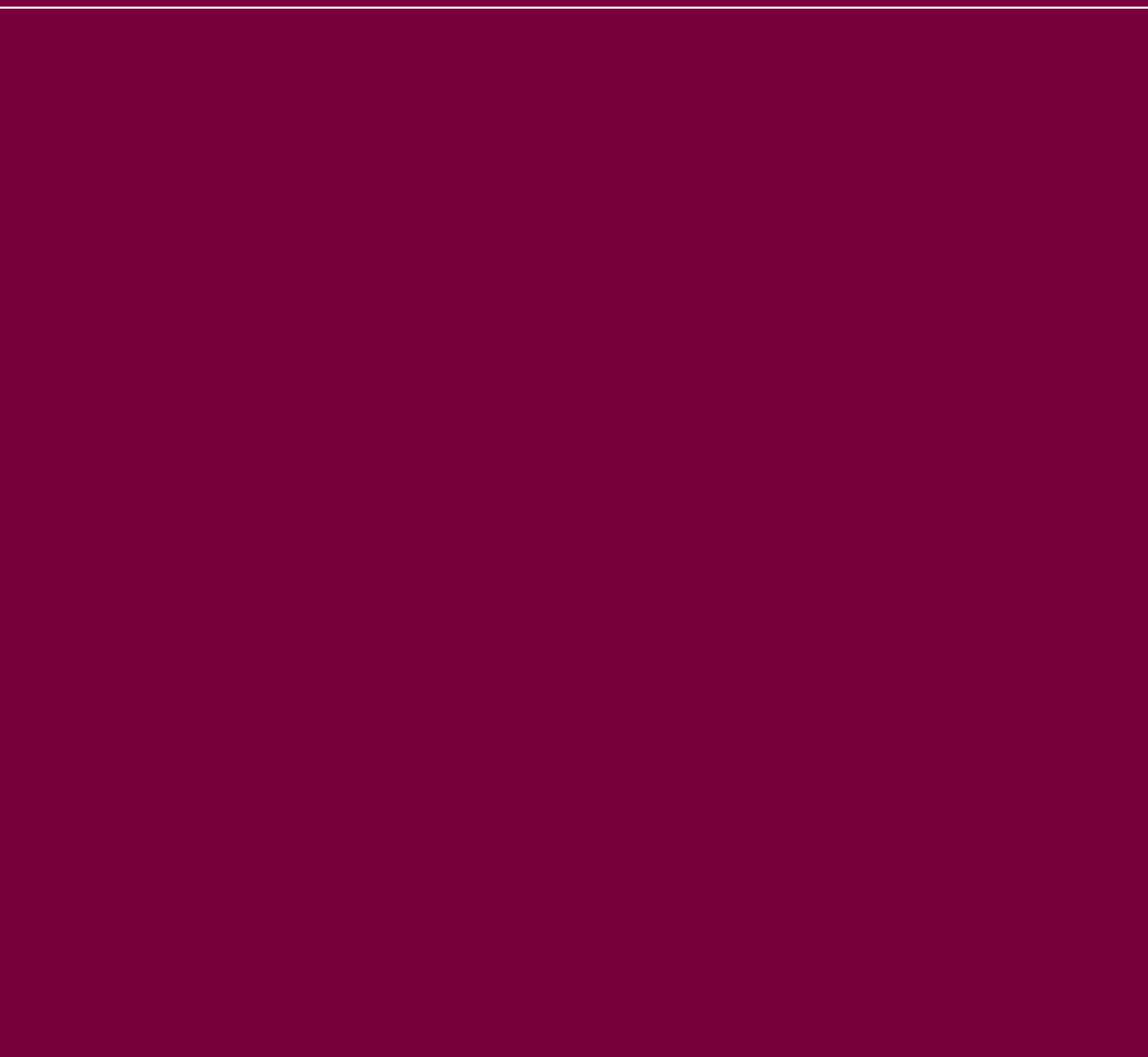
Second, a broader agenda is necessary to meet the needs of women farmers. In many parts of rural sub-Saharan Africa, for example, women's farming is often constrained not because they are prevented from accessing land, but because they lack capital or regular non-agricultural income to hire labour, purchase inputs and access marketing channels.⁸⁸ This calls for a more comprehensive set of policies to support smallholder agriculture (see chapter 1).

In situations where capital accumulation relies on the incorporation of women into paid work, whether agricultural or not, and is not matched by a reduction in the amount of unpaid care work that women and girls undertake to meet their social obligations, it is very likely to result in the extension of total work time, with negative implications for their well-being (see chapter 7).⁸⁹

Notes

- 1 Fraser 1997.
- 2 Child sex ratios are the number of girls to boys in the 0–4 year age bracket. The excess mortality of girls, reflected in sex ratios, is influenced by exposure to life-threatening treatment, and by the quantity and quality of resources allocated to them. Girls may routinely receive lower quantity and quality of food and of medical care. Further in some situations there may be selective and deliberate abortion of female fetuses or infanticide.
- 3 Nillesan and Harriss-White 2004; Jackson and Rao 2009.
- 4 Croll 2000; Klasen and Wink 2003. The one-child policy is not implemented in rural areas.
- 5 Sen 1990.
- 6 UNRISD 2005.
- 7 ILO 2002.
- 8 Hirschman 1970.
- 9 Elson 1999.
- 10 Heintz 2009.
- 11 Esping-Andersen 1999, 1990. Based on Gornick and Jäntti (2008), this section draws on evidence from five Anglophone countries (Australia, Canada, Ireland, United Kingdom, United States), seven Continental European countries (Austria, Belgium, France, Germany, Luxembourg, Netherlands, Switzerland), three Eastern European countries (Hungary, Poland, Slovenia), four Northern European countries (Denmark, Finland, Norway, Sweden) and three Southern European countries (Greece, Italy, Spain).
- 12 Orloff 2002.
- 13 OECD 2008b.
- 14 OECD 2005.
- 15 Wright 1993; Casper et al. 1994; Pressman 1995.
- 16 Gornick and Jäntti 2008.
- 17 Gornick 2004.
- 18 Kapsos 2004.
- 19 ILO 2002.
- 20 Heintz and Pollin 2003:4.
- 21 Chen et al. 2005.
- 22 Heintz 2008.
- 23 Anker et al. 2003.
- 24 Chen 2009.
- 25 Harriss-White 2003; Meagher 2007.
- 26 Horn 2009.
- 27 Horn 2009.
- 28 UNRISD 2005.
- 29 See Kabeer (2007) for a review of relevant case studies.
- 30 Kabeer 2000, 2007.
- 31 See references in Kabeer (2007).
- 32 Seguino 2000a.
- 33 Seguino (1997) on Republic of Korea, Cheng and Hsiung (1998) on Taiwan Province of China.
- 34 Greenhalgh 1985.
- 35 Berik 2009.
- 36 Seguino 2000b:438.
- 37 Seguino 2000b:438; Berik 2009.
- 38 Berik et al. 2004.
- 39 UNDESA 1999.
- 40 KNSO (Korean National Statistical Office), cited in Cho et al. 2004.
- 41 Grubb et al. 2007.
- 42 Hence the figures for regular/temporary/daily employment for the period before 2000 (cited above) are not comparable to those for the post-2000 period.
- 43 Berik 2009.
- 44 Berik 2009.
- 45 Deere 2005.
- 46 ECLAC 2008.
- 47 ILO 2007.
- 48 Lund and Budlender 2009.
- 49 ECLAC 2008.
- 50 The National Household Sample Survey (PNAD) classifies individuals into five ethnic groups: *brancos* (whites), *pretos* (blacks), *pardos* (brown or mixed descent), *amarelos* (Asians), and *indígena* (indigenous). Given the similarity in labour market standing for *pretos* and *pardos*, this discussion combines *pretos* and *pardos* into a single category: Afro-descendants.
- 51 Ellis 1998:4; Bryceson 1999; Breman 2009.
- 52 Heintz 2008.
- 53 Dolan and Sorby 2003.
- 54 Jenkins 2005.
- 55 Heintz 2008.
- 56 Gayathri 2005; Jackson and Rao 2009.
- 57 Ghosh 1998; Jackson and Rao 2009.
- 58 Palriwala and Neetha 2009b.
- 59 Ghosh 2009.

- 60 Heintz 2008.
- 61 Budlender and Lund 2009.
- 62 Breman 1996.
- 63 Harriss-White 2010.
- 64 UN 2008a.
- 65 Psacharopoulos and Tzannatos 1992; Horton 1996.
- 66 De Soto 2000.
- 67 Chen 2009.
- 68 Ghosh 2009.
- 69 Kwon and Tchoe 2005.
- 70 Peng 2009.
- 71 Lund 2009.
- 72 Lindert et al. 2007.
- 73 Molyneux 2007; Bradshaw 2008.
- 74 Veras Soares et al. 2007.
- 75 Goldblatt 2005.
- 76 Fraser and Gordon 1994.
- 77 Palriwala and Neetha 2009a.
- 78 Ramachandran and Swaminathan 2004.
- 79 NABARD (National Bank for Agriculture and Rural Development) 2007, cited in Jackson and Rao 2009.
- 80 Jackson and Rao 2009; Ramachandran and Swaminathan 2004.
- 81 Ghosh 1998.
- 82 Goetz and Gupta 1996; Hashemi et al. 1996; Kabeer 1998.
- 83 Ramachandran and Swaminathan 2004.
- 84 Agarwal 1994.
- 85 Deere and León 2001.
- 86 World Bank 2001a.
- 87 See Razavi (2007a) for a review of the existing evidence; Razavi 2003; UNRISD 2006b.
- 88 Whitehead 2001; O’Laughlin 2007.
- 89 Elson 2005.





TRANSFORMATIVE SOCIAL POLICY AND POVERTY REDUCTION

Section Two

If the 1980s were about separating the economic from the social, then the 1990s and beyond have signalled a rediscovery of the social. These changes have come in the wake of widespread realization that the neoliberal model has failed either to generate economic growth and dynamism or to reduce poverty. Despite an increased emphasis on the social dimensions of development, there is no consensus on an approach to social policy. Crucial issues include the appropriate interface between social and economic policies; the role of the state, not just as regulator but also as a provider of social welfare, and the degree of responsibility that markets and families should assume in providing services, including care; the scope, design and financing of social policies; and – fundamentally – the values that should underpin public policy, in particular core values of equality, solidarity and redistribution.

This section lays out an approach to social provisioning and protection rooted in universal values. It argues that the state must assume key responsibilities in terms of financing, administration and regulation. This contrasts with the orientation of social policy in many developing countries today, which emphasizes government programmes that target the poor as a supplement to private or market-led forms of provision and finance.

When a substantial proportion of a country's population lives in poverty, targeted interventions are unlikely to address the underlying causes of poverty or to achieve adequate levels of coverage. Narrowly targeted social policy interventions are costly, difficult to administer, politically vulnerable and produce segmented, uncoordinated welfare systems. Similarly, market-based approaches have a poor record, whether in terms of protection, coverage, redistribution and gender equity, or in contributing to economic development and stabilization. Furthermore, ostensibly cost-saving and efficiency-enhancing measures, such as user fees for social services, are inappropriate in developing country contexts where underutilization or lack of quality services constitute the greater public policy challenges.

This section makes the case for a comprehensive approach to social policy that combines universal basic social service provision with social protection programmes, both contributory and non-contributory, along with selective initiatives to reach the most excluded segments of the population. It examines not only conventional forms of social policy such as social assistance, insurance and services, but also the unequal burden of unpaid care work, and how this can be redistributed. It proposes financing structures that reinforce progressive redistribution and are sustainable in economic and political terms.

Such an approach places social policy at the centre of development strategies. It emphasizes the multiple tasks that social policy performs in relation to social protection, social reproduction, production and redistribution – tasks that are key to transformative social policy.

Towards Universal Social Protection

Protecting people from the vagaries of the market and life's changing circumstances is one of the main objectives of social policy. As a key component of social policy, social protection is concerned with preventing, managing and overcoming situations that adversely affect people's well-being. It helps individuals maintain their living standard when confronted by contingencies such as illness, maternity, disability or old age; market risks, such as unemployment; as well as economic crises or natural disasters.

In the developed world, social protection has traditionally been concerned with temporary or foreseeable income shortfalls and transitory experiences of poverty in otherwise relatively stable life trajectories and acceptable living conditions. In developing countries, by contrast, social protection has recently emerged as a policy framework for addressing poverty and vulnerability. In contexts where chronic poverty and persistent deprivation affect large sectors of the population, social protection programmes are evolving to include elements of promotion as well as protection, with the aim of tackling not only sharp declines in income but also persistently low incomes and their structural causes. In this sense, social protection is a key component of development policy that can support people in moving out of poverty and living more dignified and productive lives.

This chapter argues that universal social protection – that which covers the entire population with adequate benefits and is grounded in claimable entitlements, whether derived from rights or payments by institutions and individuals – can contribute to human security, reduce poverty and inequality, and build social solidarity. Universal social protection in developing countries can help protect living standards in general and provide basic levels of consumption to those living in, or at risk of falling into, poverty. Furthermore, it facilitates investment in human and other

productive assets that provide escape routes from persistent and intergenerational poverty and that strengthen the agency of the poor.

Universal social protection can contribute to human security, reduce poverty and inequality, and build social solidarity

Social protection instruments discussed in this chapter encompass social insurance, social assistance and labour market standards, with a focus on the first two, both of which are associated with some form of financial transfer or income support. Social insurance refers to employment-related programmes financed from contributions from employers and employees based on earnings. Social assistance provides transfers to those who are unable to work or excluded from gainful employment and who are deemed eligible, whether on the basis of their income, their vulnerability status or their rights as citizens. Income-generating interventions such as public employment programmes are also a form of social assistance. Social assistance is usually financed through general taxation and external resources (see chapter 8).

Whereas the instruments used for social protection have a long history, going back to the European welfare states and before, social protection as a policy approach in the field of development is relatively new, particularly in Asia and sub-Saharan Africa. It emerged from a context of economic crisis, structural adjustment and global integration, where the limitations of residual, ad hoc safety nets to address the social consequences of neoliberal policies became painfully apparent. Not surprisingly, this evolving approach to social

protection is contested. The very purpose and design of social protection interventions are being scrutinized; the appropriate division of responsibility among households, states and markets deliberated; and fundamental principles, such as universalism versus targeting or residualism, debated. Nonetheless, as an approach, social protection offers an unprecedented opportunity to integrate concerns with livelihood security and poverty reduction within a unified conceptual and policy framework.¹

Social protection offers an unprecedented opportunity to integrate concerns with livelihood security and poverty reduction within a unified conceptual and policy framework

As the case studies in this chapter show, a wide range of instruments and pathways can be used to achieve the goal of universal social protection. These include measures to extend the coverage of contributory programmes as well as to expand social assistance. As the social protection component with the strongest direct impact on poverty reduction, social assistance has become a focus of major innovation in recent years,² and is a core element of national strategies to achieve the Millennium Development Goals (MDGs). The evidence in this regard points to the following conclusion: countries that have successfully reduced income poverty and improved social conditions on a significant scale have established comprehensive social protection programmes integrated into broader strategies of social policy and social development. In contrast, countries that have adopted social protection approaches emphasizing market-oriented instruments and narrowly targeted interventions have tended to be less effective in reducing poverty.

The analysis in this chapter highlights the following lessons.

- Achieving universal social protection requires the state to assume key responsibilities in terms of financing, administering and regulating social protection programmes and institutions.
- Social assistance programmes are most effective when designed as an integral part of a long-term social protection strategy, avoiding complex mechanisms of targeting and conditionality.
- Increased coverage and equity of formal social insurance schemes can be pursued through various routes.
- Extending social protection must be an integral part of efforts to create sustainable and employment-intensive growth paths and to advance towards more equitable, cohesive and democratic societies (see chapter 1).

Section 1 of this chapter makes the case for a universal approach to social protection. It also summarizes evidence on the positive impact of social protection in reducing inequality and poverty.

Section 2 examines the changing patterns of social protection provision in developing countries since the mid-twentieth century, drawing on the experience of a number of countries grouped according to their development and growth paths. These examples illustrate how social protection policies have been forged and adjusted with different outcomes in contexts of rapid economic and social transformation.

Section 3 presents policy lessons and recommendations.

1. The Case for Universal Social Protection

Universal social protection is defined as a minimum level of income or consumption granted as a right by the state to all citizens and residents of a country, thus treating everyone with equal consideration and respect.³ Social policy grounded in universalism aims to guarantee a decent standard of living for all, making social services and a basic income accessible to the entire population. As a normative principle, universalism is concerned with solidarity and the notion of social citizenship, which includes social rights

alongside civil and political liberties, and emphasizes collective responsibility for individual well-being. Its achievement requires social policies that foster social cohesion and coalition building among classes, groups and generations, working against different types of divisions in society.

A key argument running throughout this report is that universalizing the provision of social protection and social services is essential to sustained improvements in well-being. To understand the potential and challenges involved, this chapter first looks at the evolution of social protection as a policy approach for development and poverty reduction.

Neoliberal approaches to social protection fail to deliver on several counts

In the context of crisis, stabilization and adjustment of the 1980s, social policies were conceived of primarily as residual interventions to address market failures or to assist those adversely affected by crisis or unable to benefit from growth. Within this dominant neoliberal policy agenda, social protection interventions focused largely on targeted safety nets for the poor and vulnerable in order to mitigate the adverse consequences of economic or other shocks.⁴ By extension, the role of the state was limited to being a provider of last resort, when individual, community or market responses were inefficient or insufficient. Whereas the state was responsible for a healthy macroeconomic environment and good governance in general, direct public support occurred only in the form of targeted social assistance for the neediest groups, alleviating the adverse impact of crises or catastrophic events. Non-income aspects of social protection, such as social inclusion and solidarity, were not considered key elements of a strategy to build people's ability to climb out of poverty. Rather, they were regarded as collateral outcomes of good social protection programmes.

The Asian financial crisis of 1997–1998 exposed the limits of such safety net responses, and a new discourse around social protection emerged that better integrated concerns with risk and vulnerability. The social risk management framework that evolved within the World Bank focused on

analysis of risks (such as economic and environmental) and a set of mechanisms (market and non-market) designed to reduce, mitigate or cope with risk.⁵ While this approach has extended the scope for better ex ante institutional arrangements, it remains primarily concerned with market mechanisms of provision, supplemented with narrowly targeted assistance for the most vulnerable.

The social risk management framework remains primarily concerned with market mechanisms of provision, supplemented with narrowly targeted assistance for the most vulnerable

In practice, the combination of privatization and targeted public provision against a background of crisis, recession and social sector retrenchment starting in the 1980s resulted in a lost decade of development in many parts of the world.⁶ Market-based approaches to reforming social protection, including the privatization of health and pension insurance and the introduction of user fees for health and educational services, have been pervasive in developing countries. These reforms were expected to contribute to development and well-being simultaneously by creating more efficient social systems, fewer market distortions and lower costs for the state. This agenda has failed to deliver, especially with regard to the extension of coverage, poverty reduction, broader risk-sharing and redistribution, and gender or other forms of equity.⁷

For example, funded schemes, such as individual savings accounts for retirement, sickness or unemployment, are generally unaffordable for low-income individuals. Moreover, certain categories of people, such as the chronically ill, may be required to pay more or may be rejected from private health plans when premiums are adjusted for risk. Since premiums and benefits are normally earnings-related and individualized (and therefore do not cover so-called dependants), they tend to accentuate existing labour market inequalities, such as wage differentials between women

and men. They also discriminate against those who do not participate in formal, paid employment (such as caregivers, voluntary workers, the disabled and children). For this reason, private insurance schemes neither pool certain risks nor redistribute resources across different sectors of the population. In many contexts, the proliferation of private insurance providers has provoked or intensified the fragmentation of social protection into multiple schemes with different eligibility rules, contributions and benefit levels. The result is limited or patchy coverage.

The benefits of narrowly targeting social assistance are questionable

In response to these widening gaps in coverage, targeted social protection schemes have expanded dramatically in recent years, largely through various cash transfer programmes financed out of general budget revenues and aid. Because they do not rely on formal labour relationships and previous contributions, social assistance programmes are especially important for low-income countries with large informal sectors. Such programmes can be used as a means to extend social protection to sectors of the population traditionally excluded from statutory contributory social insurance, either because of their informal employment status or low incomes. They are therefore an indispensable instrument in a context of permanently deteriorating labour market conditions and global crisis. Existing programmes differ widely in terms of objectives and design, scope and degree of institutionalization. They include conditional cash transfer or integrated social assistance schemes; income transfers conditional on work, such as public works or employment guarantee schemes; and pure income transfers, such as non-contributory social pensions or child benefits (see chapter 7).

The benefits and shortcomings of targeting specific groups in these types of programmes remain controversial.⁸ Targeting on the basis of income usually entails high administrative costs, significant errors of inclusion and exclusion, and substantial undercoverage, while potentially stigmatizing beneficiaries. It tends to foster the segmentation of social

protection programmes and the separation of the poor from other social classes, possibly leading to lower levels of political and budgetary support, and weaker accountability mechanisms. Income-based targeting can be especially challenging in contexts where informality and poverty are widespread, and where governance structures and technical and administrative competencies are weak. Furthermore, by de-linking access to social protection from rights of citizenship, targeted schemes enhance the discretionary power of authorities, especially at the local level, to assign benefits and may thus create incentives for undesirable behaviour such as corruption.

Targeting based on income entails high costs, stigma and fails to reach the poor

The lack of a recognized basis for entitlements can create the perception that recipients are receiving something for nothing,⁹ leading to the criticism of welfare dependency. This in turn is used to justify the discretionary handling of benefits by authorities as well as interventions to regulate the behaviour of recipients. While questionable from a rights-based perspective, such approaches have also led to the promotion of programme designs with contradictory effects on poverty and equality. For instance, the conditionalities or co-responsibilities attached to the provision of cash benefits may require beneficiaries to perform certain verifiable actions to secure even minimum investments in children's education and health. Such conditionalities may play a political role in securing broad-based support for these initiatives from some sectors of the population or external donors. However, they may also involve erroneous and troubling assumptions about the causes of poverty and the behavioural choices of individuals and families. The costs of compliance with conditionalities may be high, particularly for women, and, in the absence of an adequate supply of good quality social services, may not lead to the desired outcomes.¹⁰ In some contexts, improvements in basic education and health indicators might be better achieved by investing resources directly in the supply of these services (see chapter 6).

Universal social protection demands a strong state role

Achieving universal social protection requires the state to assume key responsibilities in providing, financing, administering and regulating programmes and institutions (see chapter 10). The experience of welfare regimes in advanced industrialized economies – in particular the conservative-corporatist (Germany and France) and social democratic types (the Nordic countries) – shows that public provision plays a central role in decreasing the dependence of citizens on market participation to secure livelihoods (decommodification) and in preventing them from falling into poverty. This has been accomplished largely through universal coverage of social protection and social services.¹¹

The role of the state becomes even more important in a development context. Here, countries often face problems of weak private markets, especially labour and insurance markets, thus diminishing the capacity of individuals and families to compensate for inexistent or insufficient incomes and social services in highly unequal societies. Some developing countries have established occupational insurance schemes for some formal labour market workers. However, in development contexts, social rights and entitlements are more often grounded within the informal domains of social relationships and cultural norms, with non-state actors – such as kin, religious organizations, charities, non-governmental organizations (NGOs) and philanthropy – generally assuming a prominent role in social provision.¹² Despite the important role played by such non-state and private actors in reducing vulnerability and destitution, as well as in advocating social rights, they cannot act as substitutes for public action by the state.

Countries where informal welfare mechanisms dominate have not been successful in achieving sustained poverty reduction, as the case studies in this chapter will show. The advantage of the state is that it can provide uniform standards and universal coverage of social protection, using different redistribution mechanisms among different groups depending on risks and vulnerabilities, income and class, gender and ethnicity, and other characteristics.

So while acknowledging the importance of non-state and informal activities, this chapter focuses on public action for social protection.

State interventions shape the conditions for the involvement of other actors, directly through regulations and subsidies or indirectly through the design and scope of public interventions. In turn, they may be shaped by other actors, either directly (for example, through donor influence on national social protection strategies) or indirectly (as when higher income groups opt out of public social insurance). In this sense, the specific welfare mix of any country – that is, the combination of policies and the roles of various actors (state, market, household, community, NGO and donor) in welfare provision – needs to be understood as part of the broader historical evolution of a country's development strategies and policies.

Universal programmes offer greater benefits

The more universal a programme becomes in terms of coverage, rules of access and membership, and adequacy of benefits, the greater the potential for redistribution, risk pooling, cross-subsidization, efficiency gains and quality control. The redistributive impact of universal programmes can be further enhanced through progressive financing mechanisms (see chapter 8).

The more universal a programme becomes, the greater the potential for redistribution, risk pooling, cross-subsidization, efficiency gains and quality control

In practice, in terms of the steps and instruments through which universal social protection can be achieved, the line between a universal and a targeted approach may become blurred.¹³ The ideal type of a universal social protection programme is a basic income grant for all citizens or

residents, financed out of general revenues and provided on an unconditional basis (see box 5.1). In practice, however, benefits that cover the working population (often including dependants), such as social insurance benefits, or groups, such as non-contributory cash transfers for the elderly, the disabled or children, are interpreted as group-based (categorical) universalism. Affirmative action is

deemed a necessary complement to universal programmes, since universalism strictly interpreted may ignore structural inequalities based on individual or collective characteristics (such as gender, age, disability or ethnicity; see chapters 3, 4 and 6). This could actually impede individuals or groups from benefiting adequately from a universal social protection programme.

BOX 5.1. Coping with the global economic crisis: Alternative approaches to social protection

Debate regarding social protection in the context of the global economic crisis has drawn attention to two alternative proposals, both grounded in a rights-based approach.

A basic income grant is income provided unconditionally to all citizens or residents on an individual basis, without means testing or a work requirement. Ideally, a basic income grant would replace all other forms of non-contributory social assistance available in a country, thus avoiding the costs and the stigma associated with means testing, targeting and conditionality. However, current proposals are focusing on partial schemes that would provide a low – and slowly increasing – basis to which other income, including remaining social security benefits and means-tested guaranteed income supplements, could be added. Alternatively, grants could be provided to certain categories first (children, the elderly) and then extended progressively to the whole population. Countries that have experimented with a partial basic income grant include Brazil, where the right to a basic minimum income for all nationals and residents was legislated in 2004, and Singapore, where, at the end of each fiscal year, the state redistributes any national budget surplus in cash to every citizen as a bonus of citizenship.

The social protection floor endorsed by the United Nations system in 2009, with the International Labour Organization (ILO) and the World Health Organization (WHO) designated as lead agencies for its promotion, consists of a guaranteed set of basic social transfers in cash or in kind to all. Countries may choose how to realize it. Transfers are granted to all residents as a right, and their financing is a collective responsibility, most likely to occur through general taxation. The ILO calculates the initial annual cost for a basic social protection package – including universal basic old-age and disability pensions, basic child benefits, universal access to essential care and social assistance/100 days employment scheme – in the range between 3.7 per cent and 10.6 per cent of gross domestic product (GDP) for a number of low-income countries in 2010. This approach has inspired the United Nations Chief Executives Board to adopt the social protection floor as one of its policies to cope with the global crisis.

Sources: BIEN 2009; ILO 2008d; UN System Chief Executives Board for Coordination 2009.

In general, benefits that are not based on means testing or conditionality and provide coverage across different income groups can be defined as universal measures.¹⁴ Social insurance and publicly funded group-based schemes can therefore be considered steps in the progressive realization of the right to universal social protection.

Universal social protection can enhance economic progress

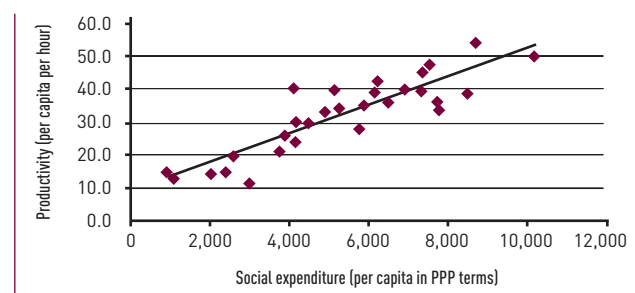
During the neoliberal adjustment era of the 1980s, mainstream economists criticized public social transfers financed through contributions and general taxes (or debt) for their rising costs and unsustainable fiscal burden, financial instability and inefficiency (due to adverse incentives on labour supply, savings and investment). The failure of their alternative residual approach to provide even minimal protection to the vulnerable in the event of crisis and over the lifecycle has since shifted the focus of attention towards ways in which social protection policies can favourably affect social and economic development.

The most prominent argument cites the positive impact of investments in education and health on human capital formation, and hence on labour productivity

The most prominent argument in contemporary debates cites the positive impact of investments in education and health on human capital formation, and hence on labour productivity (see figure 5.1 and chapter 6). Social protection instruments, such as income transfers paid by social health insurance or social assistance programmes, help poor people access these services and cover related costs such as transportation, school supplies or medicines. Social assistance further supports the productivity and health of a population if cash transfers are invested in nutrition and housing, for example.

Social insurance policies such as pension programmes provide incentives to both employees and employers to undertake long-term investments in skills, allowing firms to pursue a pattern of economic specialization based on the production of high-value-added goods, thus influencing the growth path of the economy.¹⁵ Social protection programmes also guarantee social reproduction (see chapter 7) in households that are affected by contingencies or poverty, potentially fostering local development through increased income security and diversification of assets and livelihoods.

FIGURE 5.1: Correlation between per hour productivity and social expenditure per capita in OECD countries, 2001



Note: $y = 0.0043x + 8.7845$; $R^2 = 0.7812$. Source: Reproduced from ILO, Social Security Department (2006). ILO calculations are based on data from the Organisation for Economic Co-operation and Development (OECD).

Equally important (and once again recognized in the context of the global crisis and the revival of Keynesian macro-policies) are the well-known effects of income replacement programmes (so-called automatic stabilizers) on macroeconomic stability. Such programmes, which are reinforced if accompanied by progressive funding mechanisms, help smooth economic cycles and avoid deflationary recessions by stabilizing demand and domestic markets. Income replacement programmes are not only a source of finance (for example, pension funds) and employment (for example, in the social service sector); they also have a beneficial effect on social cohesion, equity and political legitimacy, which are key ingredients for an investor-friendly environment with potentially positive effects on different types of investments such as foreign direct investment (FDI). They may also have a positive influence on individual and institutional behaviour,

in terms of risk taking, labour mobility, long-term planning, accountability and financial sector development. Finally, the prospect of participating in earnings-related social protection schemes can contribute to greater labour market formalization, with possible positive spin-off effects on income levels and state revenues.

Universal social protection reduces poverty and inequality

Social protection schemes can be designed to redistribute vertically (towards low-income groups) and horizontally (towards groups with specific risks and vulnerabilities, such as women with care responsibilities, the disabled and those who are ill). In combination with progressive funding mechanisms (for example, progressive income and wealth taxation, as described in chapter 8), these public tax-transfer schemes have an important redistributive function with regard to primary distribution resulting from market processes and individual conditions.

Evidence from OECD countries shows that income inequality and poverty rates were significantly reduced following the implementation of tax-transfer schemes, with social democratic welfare states (Denmark, Finland, Norway and Sweden) being the most successful in producing egalitarian societies with low poverty rates (see table 5.1). Under this model, a wide range of health, education and care services, as well as social protection benefits and transfers, are provided publicly and universally by the state on the basis of citizenship or residence, rather than employment status or means testing.¹⁶ Table 5.1 shows that poverty rates in social democratic welfare states were reduced by 78 per cent – from 19 per cent to 4 per cent of the working age population – following implementation of tax-transfer schemes. By contrast, poverty was reduced by only 40 per cent among working-age populations in liberal welfare states (Australia, Canada, Ireland, the United Kingdom and the United States). Moreover, the overall incidence of poverty post-tax and transfers in these countries was triple that of the social democratic welfare states. (See chapter 7, table 7.2 for poverty rates of children and chapter 4, figure 4.1 for poverty rates of single mothers in OECD countries.)

TABLE 5.1: Inequality and poverty by welfare state regimes

	Inequality among working-age population			Poverty among working-age population		
	Pre-tax and transfers Gini	Post-tax and transfers Gini	Reduction in Gini due to taxes and transfers (%)	Pre-tax and transfers (%)	Post-tax and transfers (%)	Reduction in poverty due to taxes and transfers (%)
Social democratic welfare states ^a	0.35	0.21	40.0	18.8	4.0	77.8
Christian-democratic welfare states ^b	0.35	0.26	26.0	15.6	7.0	51.6
Liberal welfare states ^c	0.42	0.32	24.4	20.5	12.0	39.5
Grand mean	0.37	0.26	30.1	18.3	7.7	56.3

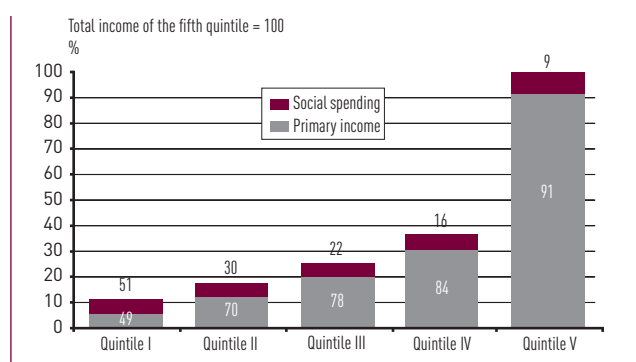
Notes: Mean values. ^a Data refer to 1995 for Sweden, Norway and Finland, and to 1992 for Denmark. ^b Data refer to 1992 for Belgium and Switzerland; 1994 for the Netherlands and France; 1989 for Germany. ^c Data refer to 1994 for Australia, Canada and the United States; 1995 for Ireland and the United Kingdom. Source: Adapted from Stephens (2007).

TABLE 5.2: Social transfers and old-age poverty in Latin America

	Poverty rate of adults aged 65 and older (%)		Reduction in poverty (%)
	Pre-transfers	Post-transfers	
Argentina	64.5	17.1	72.6
Brazil	67.8	16.9	75.1
Chile	52.8	15.0	71.6
Colombia	64.2	47.0	26.8
Costa Rica	52.7	28.7	45.5
Mexico	70.5	53.2	24.5
Uruguay	67.0	4.9	92.7
Average	62.8	26.1	58.4
Median	64.5	17.1	71.6

Note: Estimations are based on household surveys conducted in 1997, except for Chile and Brazil, where they refer to 1996. Source: UNRISD elaboration based on Tokman (2006), with data from Uthoff and Ruedi (2005).

Social protection programmes also have a clear positive impact on poverty reduction in developing countries, especially if de-linked from formal labour market participation. Old-age poverty in Latin America has been reduced by between 25 and 93 per cent through social transfers (see table 5.2). Figure 5.2 shows that social spending in Latin America accounts for more than half of the total income of the poorest income quintile and 30 per cent of the second quintile.

FIGURE 5.2: Redistributive impact of public social spending on income by quintiles of primary income in Latin America, 1997–2004

Note: Averages weighted according to the importance of spending in primary national income. Source: ECLAC 2007, based on national studies (18 countries).

However, the impact of social protection on equality is mixed, at least for those countries where data are available (see table 5.3 and figure 5.2). As can be seen in table 5.3, benefits from public social spending in Latin America, including social protection, are skewed towards higher income groups, with spending on tertiary education and on social security being the most regressive. This suggests that improved access by the poorest quintile to secondary and tertiary education and to social security programmes will require a more equal redistribution of resources between richer and poorer population groups. It also suggests that social expenditure needs to be redirected to non-contributory programmes that reach the poorest quintiles of the population and specific groups that remain excluded from social insurance mechanisms. This is different from concentrating expenditures solely on primary health and education services, which can lead to neglect of curative health and higher education (see chapter 6).

TABLE 5.3: Distribution of benefits from public social spending to the richest and poorest quintiles in Latin America (%)

	Poorest quintile	Richest quintile
Education	20.2	20.4
Primary	29.0	7.9
Secondary	13.2	18.3
Tertiary	1.9	52.1
Health	20.6	17.6
Social security	5.6	51.2
Total social spending	15.0	30.4

Notes: Numbers represent unweighted averages. Country coverage varies by category. For total spending, total education, health and social security spending, the number of countries covered is 8, 13, 14 and 9, respectively. Source: Clements et al. 2007.

The impact of social protection schemes on equality therefore depends on a variety of factors, such as the pre-existing level and the nature and sources of inequality, the nature and design of interventions and programmes, coverage of tax-transfer schemes and the volume of funds, and progressivity of revenue and expenditure policies. There is also evidence that highly unequal societies tend to reproduce inequalities through public policies and institutions due to existing power relations.¹⁷ Figure 5.2 shows that, in Latin America, income inequality remains high even after accounting for redistribution through public spending.

2. Changing Patterns of Social Protection

A number of developing and transition countries in Latin America and Eastern Europe have been implementing social protection programmes for over a century. The expansion of social policies accelerated in the post-war period in a context of greater formalization of employment, which facilitated extension of social protection to larger segments of the population. Such protection often included benefits for dependent spouses and children, but excluded other

household members engaged in unpaid care or domestic work or voluntary community service (see chapter 7).

The evolution of social protection programmes in these countries, however, in contrast to more developed nations, has been characterized by frequent disruptions and radical regime shifts, mostly as a result of global development trends over the past three decades. For the majority of the developing world (apart from the former socialist countries), the emergence of highly dualist labour market structures, marked by increasing informalization and high levels of unemployment, has also undermined the construction and financing of universal social protection measures.

These tendencies were reinforced during the recent period of globalization, especially following the first debt crisis of the early 1980s and the breakdown of the socialist bloc at the end of the decade. This period saw a decline in security even in countries with relatively more advanced social policy regimes, such as some Latin American or former socialist countries. As discussed earlier in this chapter, rising insecurity, highlighted particularly by the Asian financial crisis, focused attention on the dire consequences for human development and growth of inadequate protection mechanisms. As a result, a new social protection discourse emerged that emphasized the need for institutionalized and state-sponsored programmes on a larger scale.

TABLE 5.4: Coverage of social insurance programmes by employment status in the Republic of Korea, 2000–2003

	National pension scheme				Health insurance				Employment insurance			
	2000	2001	2002	2003	2000	2001	2002	2003	2000	2001	2002	2003
% of total wage earners	49.5	51.8	52.3	57.7	52.1	54.3	55.1	59.5	44.1	46.9	47.4	49.8
% of regular workers	88.0	92.7	92.2	96.6	90.7	94.8	94.6	97.6	74.2	80.0	79.1	79.5
% of non-regular workers	22.1	19.3	21.5	26.4	24.6	22.2	24.8	28.9	22.6	20.7	23.2	26.0

Note: Non-regular workers include part-time, temporary and daily employees. They represented 48.8 per cent of the labour force in 2004. Source: Kim Yeon-Myung 2006.

The remainder of this section examines how different social protection programmes have evolved across countries and areas, and over time, through the interplay of a variety of factors. These include the development model, labour market and social policies, and political variables, including prevailing ideas, institutions, interests and actors.¹⁸ The case studies will show the role social protection (along with other dimensions of social policy analysed in subsequent chapters) has played in these contexts to prevent and reduce poverty, as well as to contribute to equality and social inclusion.

Various routes to universal social protection exist

Social protection in the context of developmentalism and industrialization

The Republic of Korea and Taiwan Province of China are among the most advanced areas of East Asia, catching up successfully in recent decades through a manufacturing-led development path. The expansion of formal employment accompanied by steeply rising incomes has led to a reduction in poverty levels and improvements in social indicators (see chapter 1).¹⁹ The welfare regime in both places is organized around core social insurance programmes (related to health, old-age, disability, work accidents, unemployment, maternity and survivor benefits) which were gradu-

ally expanded in the late 1980s and 1990s. This East Asian social policy model has been labelled productivist or developmental, given its emphasis on the instrumental role of social policy for economic development, its focus on labour productivity (health and education) and support for workers in strategic sectors. Other aspects of social policy, such as income support schemes, have until recently been underdeveloped, with citizens relying principally on the family or private savings.²⁰

Republic of Korea. The country introduced earnings-related social insurance programmes in the 1960s under authoritarian rule. By the late 1990s, during the period of democratic transition, reforms in health, pension and unemployment insurance programmes, as well as the introduction of a Minimum Living Standard Guarantee, increased the coverage and equity of the social protection system (see table 5.4).

Driven by demands from labour unions and civil society organizations, multiple health insurance funds were merged into a single integrated public scheme at the end of the 1990s by the reformist government led by President Kim Dae-Jung. Health reform had beneficial effects both in terms of efficiency (administrative costs decreased from 11.4 per cent of total expenditures in 1997 to 4.7 per cent in 2003)²¹ and equity, since entitlement conditions were equalized

(though premiums remain different), benefiting previously disadvantaged rural workers and the self-employed.²² Despite the fact that contributory health insurance is now almost universal in terms of membership coverage, it still relies heavily on regressive out-of-pocket payments (accounting for an estimated 50 per cent of total national health expenditures)²³ and private service delivery.

The Minimum Living Standards Guarantee scheme and labour insurance reforms were introduced in the aftermath of the Asian financial crisis of 1997–1998. The former established a basic living standard as a civil right and adjusted benefits to a new poverty line, reaching 1.5 million people (3.19 per cent of the population) in 2007.²⁴ The latter provided cash benefits, job training and small loans to unemployed temporary workers.²⁵ Finally, universal coverage for old-age security (including farmers and the self-employed, but exempting the special regimes for civil servants, the military and private school teachers) was achieved after incorporating the large group of urban self-employed in 1999. There are not yet signs of fiscal pressures from the pension scheme, which is still in its build-up phase. However, they could arise in the future, since many temporary workers fail to pay their contributions (see table 5.4).²⁶

Taiwan Province of China. In line with the sequenced development of social insurance typical of corporatist welfare models, Taiwan Province of China started in the 1950s by providing social insurance to strategic groups, such as workers in state-owned enterprises, key private industries, the civil service, the military and teachers.²⁷ Coverage of social protection schemes remained incomplete until the 1990s. The first universal programme, National Health Insurance, was introduced in 1995: it covers the entire population, with the government contributing part of the funding, not only for public employees but also for the self-employed, informal workers and farmers.²⁸ As in the Republic of Korea, the push for social sector reform occurred in a context of industrial restructuring, rising unemployment rates and democratic transition. Faced with rising wages, Taiwanese firms increasingly relocated their businesses to mainland China. The province was less affected by the Asian financial crisis than the Republic of Korea. Nonetheless,

in response to rising unemployment, economic downturn and structural transformation after the crisis, the Employment Insurance Programme was introduced in 1999, offering temporary cash benefits and training programmes.

Challenges remain in the fragmented Taiwanese pension system. The main problems are a lack of annuity payments (lump-sum payments are the rule, except for civil servants, who receive life-long pensions) and non-compliance of private employers with regard to occupational pensions. This has resulted in low coverage levels, with 38 per cent of men and 69 per cent of women over age 65 relying on their children for support.²⁹ However, different types of tax-financed social pensions have been established for poor senior citizens, farmers and war veterans.

The examples of the Republic of Korea and Taiwan Province of China show that, in a context of sufficiently formalized labour markets, extension of formal social insurance is indeed possible and is also in line with a developmentalist orientation of social policy. Yet these achievements were initiated under authoritarian regimes, giving rise to debates about a possible trade-off between economic and social development versus human rights and democracy. It is worth noting, however, that the expansion of social protection was closely linked to labour mobilization and, ultimately, democratic transition. Indeed, new political and civil society actors have facilitated the expansion of non-contributory programmes for old-age, poverty and unemployment, moving these two Asian Tigers towards a more socially inclusive welfare model. Significantly, recent evidence suggests that such programmes have helped them become more resilient and responsive to affected citizens in the event of crisis.

The Republic of Korea and Taiwan Province of China show that, in a context of sufficiently formalized labour markets, extension of formal social insurance is possible

Social protection in dualist contexts

Argentina, Brazil and South Africa are middle-income countries and growth poles in their respective regions, although their development paths have been characterized as stalled industrialization,³⁰ and their human development achievements vary considerably. Argentina ranks high on the human development index (HDI), Brazil ranks high to middle, and South Africa has achieved only medium scores due to the legacy of apartheid and the AIDS epidemic. The inability of these countries to complete the process of industrial transformation and the adoption of neoliberal adjustment policies has resulted in dualist labour markets: formal sector workers enjoy protection for a variety of risks and generous benefits through social insurance, while informal workers are excluded and marginally covered by social assistance programmes. However, the three countries display major differences. Development in Argentina has been regressive since the era of neoliberal adjustment, moving from a comprehensive welfare state towards a model characterized by fragmentation, underfunding and increasing exclusion. Brazil appears to be moving towards a more inclusive welfare model in the process of democratic consolidation. South Africa, which has traditionally had low coverage in terms of contributory social insurance programmes, relies heavily on means-tested social assistance benefits to provide minimum protection to its poor.

Argentina. Argentina achieved high employment levels and quasi-universal coverage of public social services and social protection schemes in the late 1960s, with free health and education services at all levels provided and financed by the state. It subsequently experienced multiple economic and political crises, including a highly repressive military dictatorship during the 1970s and 1980s and hyperinflation by the end of the lost decade. The country underwent neoliberal shock therapy in the 1990s, ironically under a Peronist government – the political party traditionally associated with the working classes, whose founder, General Juan Perón, had spearheaded expansion of social policies as part of his authoritarian-populist developmental state in the 1940s and 1950s. The neo-Peronist government of Carlos Menem (1989–1999) combined Washington consensus reforms with a rigid monetary stabilization plan

(a currency board model based on parity of the Argentine peso with the dollar) in order to achieve rapid price and exchange rate stability and access to international capital markets. Since the new economic model could only work in a context of wage flexibility, balanced fiscal accounts and a strong financial sector, a range of social sector reforms were introduced with the aim of supporting these goals. These included the introduction of mandatory private pension funds, deregulation of the union-administered health insurance system, decentralization of public health and education facilities, privatization of social services such as water and sanitation, and reforms in labour market regulation and collective bargaining.³¹ These radical policy shifts had drastic consequences for equity and social protection.³² Coverage of the labour force in the pension system in 2004 declined by half (based on active contributors) to 25 per cent,³³ while health insurance coverage declined by 11 per cent over the period 1991 to 2001.³⁴

After the 2001 Argentine state bankruptcy – the largest sovereign default in history – a combination of public emergency programmes and self-help activism at the community level helped overcome a deep economic and social crisis. Argentina's main emergency programme, Programa Jefes y Jefas de Hogar Desocupados, was set up in 2002 to support people who had lost their jobs and savings. It served to control an explosive social and political situation and to secure the legitimacy of the appointed transition government in the face of massive street protests by organized groups of the unemployed.³⁵

Since its inception, the Jefas programme has been sponsored by the World Bank through concessional loans, and reached around 2 million applicants in its first year; by 2009, the number of beneficiaries had been reduced to about 620,000. The programme provides a payment of \$50 per month to the unemployed head of a household (not covered by other contributory social insurance schemes) with children under 18, disabled dependents of any age and/or a pregnant woman, in exchange for a minimum of four hours of daily work. Its objective is not only to promote school attendance and health care among a household's children, but to encourage beneficiaries to enrol in formal education

or take up training courses that will enable them to re-enter the labour market or to become involved in productive activities or community service. Despite the programme's visible impact on extreme poverty, which blunted the most negative effects of the crisis,³⁶ it has not been able to guarantee access to good quality, well-paid and stable employment. On the contrary, the relatively low level of benefits has forced beneficiaries to seek complementary incomes in the informal sector.³⁷ Once social and economic recovery were under way, new social assistance programmes were introduced to facilitate the social inclusion of vulnerable families receiving benefits under the Jefas programme. These included Plan Familias, a conditional cash transfer programme, and Seguro de Capacitación y Empleo, insurance for training and employment.

Brazil. Brazil is considered another pioneer in the introduction of public social insurance programmes in Latin America. It unified and centralized social protection programmes under a technocratic military dictatorship that took power in 1964 and expanded coverage to peasants, family workers and domestic workers in the 1970s. In the 1990s, it chose a different reform pathway from that of Argentina, reflecting the need to balance the competing pressures of democratization (after two decades of authoritarian rule) and economic liberalization.

Through a pragmatic path of gradual change, labelled “the political economy of the possible”,³⁸ Brazil has implemented market-oriented reforms, while simultaneously paying tribute to a previously neglected social agenda, emphasizing social justice and citizenship rights, as enshrined in the new democratic constitution of 1988. Whereas the two presidential terms of social democrat Fernando Henrique Cardoso were mainly associated with economic stabilization and structural reform, a broad electorate called for greater social inclusion and economic recovery when they voted in the founder of the Left-wing Workers' Party, Luiz Inacio Lula da Silva, as president in 2002. To the relief of investors, Lula combined orthodox economic policy with gradual social changes, such as reforming a regressive pension regime and expanding progressive social assistance programmes targeted to the poor. These include the conditional cash transfer

programme, Bolsa Familia, which provides a monthly transfer to poor households with children up to 15 years of age or pregnant women, and a monthly transfer to extremely poor households regardless of their composition (table 5.5). The two transfers can be combined when households fulfil requirements for both. In the first type of transfer, conditionalities include 85 per cent school attendance for school-age children, updated immunization cards for children up to six years of age and regular visits to health centres for breastfeeding or pregnant women. For the transfer targeted to the extreme poor, loosely enforced conditionalities involve participation in training programmes.

Brazil's current social agenda emphasizes social justice and citizenship rights

In 2006, Bolsa Familia reached more than 11 million households through cash transfers, benefiting some 40 million people. Despite its targeted approach and the failure to complement the initiative with more structural interventions to provide employment opportunities and long-term solutions to poverty, Bolsa Familia, along with Mexico's Oportunidades – the second largest conditional cash transfer programme in Latin America in terms of coverage – demonstrate that a large portion of the population can be reached through this type of social assistance, visibly affecting redistribution and poverty.³⁹ As table 5.5 shows, the financial investment in both of these programmes as a percentage of GDP is relatively small, though administrative costs for targeting and monitoring conditionalities can be substantial, especially when multiple benefits are provided to respond to different household needs, as in the case of the Mexican programme. Nevertheless, several other features of these programmes, including national ownership of their design, their long-term political commitment, their rigorous monitoring and evaluation of processes and outcomes, and the progressive involvement of beneficiaries in monitoring and governance mechanisms make Bolsa Familia and its Mexican counterpart the most promising examples among current conditional cash transfer programmes.

TABLE 5.5: Costs, benefits and number of households reached by conditional cash transfer programmes in Brazil and Mexico

	Per capita GDP in 2006 (PPP \$)	Population below national poverty line (%)	Poverty headcount ratio at PPP \$1.25 a day (% of population)	Budget (\$)	Coverage (households)	Monthly monetary benefits in 2008 (\$)	Administrative costs (% of programme budget)
Brazil: Bolsa Familia	8,949	21.5 (2003)	11 (in 2000) 5 (in 2007)	\$5 billion in 2005 (0.36% of GDP)	11.1 million (2006)	\$35 per extremely poor family \$11 (variable) per child, up to 3 children \$17 (variable) per adolescent, up to 2 adolescents	4
Mexico: Progreso/Oportunidades	12,176	17.6 (2004)	5 (in 2000) 2 (in 2007)	\$3.1 billion in 2006 (0.4% of GDP)	5 million (of which 3.5 million were rural)	Education: \$12–\$77 per child (variable by school level/gender); \$2 per child for school supplies Nutrition: \$18 per child Pension: \$25 per elderly Energy and food: \$16 per family Youth: \$3–\$27 per young person	9

Sources: UNRISD compilation based on data from ECLAC (2009), World Bank (2009a), United Nations Millennium Development Goals Indicators 2009.

In addition to conditional cash transfers, Brazil has basic pension programmes financed through tax revenues and some social security contributions.⁴⁰ The rural pension scheme, founded in 1963, provides some 7.3 million beneficiaries (the elderly, widows and invalids) with pensions at the minimum wage level without recourse to earnings or inactivity tests.⁴¹ Consequently, overall poverty rates and inequality have decreased, though the amount of spending on redistributive pension programmes is still very small if compared to the pension scheme for civil servants (Brazil spends 0.5 per cent of GDP on social pensions versus 3.8 per cent for civil servants).⁴²

Under Lula's government, some progress has been achieved in terms of poverty reduction and equality at

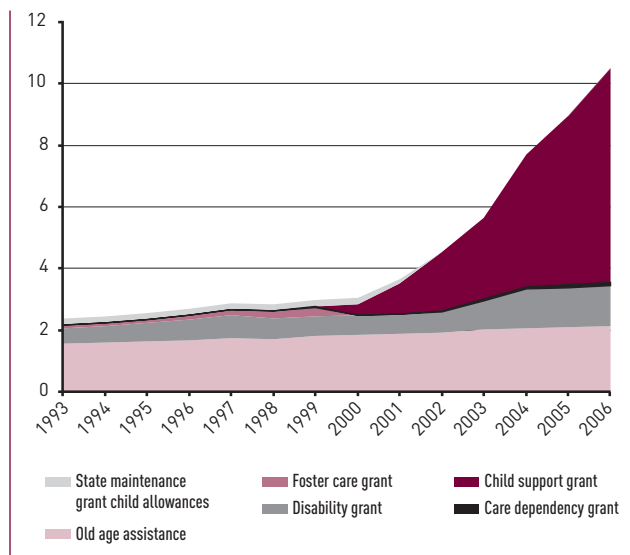
the same time that democracy is being consolidated.⁴³ The challenge ahead is to tackle the structural causes of inequality and poverty, which are deeply entrenched in the country's economic model and system of social stratification.

Brazil's Bolsa Familia programme and Mexico's Oportunidades are the most promising examples among current conditional cash transfer programmes

South Africa. Like Brazil, South Africa's approach to social policy must be situated in a context of political transition and economic adjustment. After coming to power, the government of the African National Congress (ANC) committed itself to poverty reduction, better income distribution, lower unemployment levels and increased social assistance.⁴⁴ As in Brazil, the commitment towards social justice and social inclusion is firmly anchored in the new constitution, which establishes the universal right to social security.⁴⁵ Social protection in South Africa is largely focused on social assistance programmes, whereas the role of contributory social insurance is much smaller than in the Latin American countries discussed above.

Expenditure on social assistance programmes is relatively high, accounting for 3.5 per cent of GDP in 2006. A quarter of the population received a monthly grant paid out of general taxation in 2006. This totalled 11 million benefits, divided among the child support grant, disability and care dependency grants and social pensions (figure 5.3). Old-age pensions accounted for 37 per cent of total expenditure on social assistance, child support grants 31 per cent and disability grants 25 per cent.⁴⁶ These programmes, especially the old-age pensions, have a substantial mitigating effect on poverty in South Africa, reducing both the poverty headcount and the poverty gap.⁴⁷ It is estimated that the share of social assistance going to the poorest income quintile was a steady 60 per cent between 1993 and 2000.⁴⁸ South Africa's means-tested social pensions, paid to men and women starting from the age of 60, have been found to reduce the country's overall poverty gap by 21 per cent, and by 54 per cent for households with older people.⁴⁹ They sustain consumption, provide resources to be invested in small-scale economic activities and support job searching by other members of the household. Evidence also shows that social pensions are frequently shared with family members and often invested in the next generation. This function becomes even more important in a country where the incidence of HIV/AIDS, especially among adults, is transforming the nature of the family and household into elder-headed units of grandparents and grandchildren.

FIGURE 5.3: Number of social assistance beneficiaries by programme in South Africa, 1993–2006 (millions)



Source: Seekings and Natrass 2008.

In South Africa, a quarter of the population received a monthly social assistance grant paid out of general taxation in 2006

On the other hand, South Africa has only a minimal formal social insurance programme. Mandatory contributions are limited to the Unemployment Insurance Fund, which covers formal sector workers, including agricultural and domestic workers. Beneficiaries of the fund account for only 5 per cent of the unemployed. Private sector pension and provident funds also exist, with 9 million active contributors. The biggest is the Government Employees Pension Fund. Concerns have been raised, however, about the semi-voluntary nature of pension schemes, the coverage gap (at least 40 per cent of formal sector workers are not covered, and an even smaller share of the unemployed and informal workers contribute),⁵⁰ the withdrawal of savings prior to retirement and the governance structures and investment policies of pension funds.⁵¹

In sum, South Africa's social policy is considered to be progressive and fairly effective in terms of poverty reduction. However, it has significant coverage gaps and low public involvement in social insurance programmes. Like its dualist counterparts in Latin America, South Africa shares the challenge of tackling persistent (though different) labour market problems as a precondition for extending contributory programmes. In South Africa, these problems relate to exclusion from labour markets and unemployment; in Argentina and Brazil, they encompass unfavourable inclusion (low wages and precarious conditions) and informality of labour. Heavy reliance on social assistance in South Africa and Brazil means that a considerable portion of the population survives at very low levels of income and is unable to reap the benefits of a growing economy, which is still reproducing entrenched patterns of inequality and social exclusion. As a possible alternative, basic income schemes grounded in citizenship are being discussed in all three countries. However, controversy surrounds the fiscal feasibility and general desirability of such an approach, and political commitment is weak (see box 5.1).⁵²

Social protection in agrarian-informal contexts

Though there are significant differences in the structure and size of their economies, India and the United Republic of Tanzania share similar challenges in terms of social development and social protection. In both countries, agricultural and informal employment are dominant, creating formidable obstacles to extending coverage of social insurance programmes, and public expenditures for social services and non-contributory programmes are low.

India. India's economy is characterized by a growth-intensive service sector offering few jobs, a small manufacturing sector characterized by jobless growth and a large informal agricultural sector, where the majority of the population works (see chapter 1). In India, work-based entitlements funded through statutory contributions by employers and employees were introduced in the early phase of industrialization. The goal was to promote the commitment of the workforce to industrial and urban life and the loyalty of employees against unionization. Today, such entitlements

are available only to a minority of the workforce who have a formal employment relationship, while public sector employees are fully covered by special schemes.⁵³ For instance, the Employees' Social Insurance scheme provides health care and cash benefits in cases of sickness, maternity, death or disability to around 8 per cent of the labour force.⁵⁴

For the rest of the workforce and citizens not in paid employment, protection is provided in the form of social assistance (though there are signs of growing emphasis on the expansion of social insurance). Social assistance is either through national programmes, such as the National Employment Guarantee Programme, or through a multiplicity of state programmes. Since 2004, India has implemented the National Rural Employment Guarantee Programme, a social assistance programme that aims to ensure basic income security for vulnerable households. Initially it was intended to provide a guarantee of 100 days of labour in the 200 most backward districts, for one adult per household prepared to do unskilled manual labour for the minimum wage. In 2006–2007, the programme generated 905 million person days of labour for 200 districts. The scheme was subsequently extended to 330 districts and produced 1.4 billion person days of work in 2007–2008. In fact, the number of people who completed 100 days of work rose from 2.1 million (10 per cent of all participating households) in 2006–2007 to 3.5 million (11 per cent of all households) in 2007–2008.⁵⁵

Some observers have questioned the process by which funds are allocated from central government to Indian states and have cited the dangers of petty corruption. They have also expressed doubts and concerns about the capacity of the programme to generate valuable public assets, low awareness of the programme in areas where it is being implemented, and cost.⁵⁶

Besides social assistance, India has made efforts to expand social insurance schemes for specific groups of informal workers living in households under the poverty line. These efforts came together in 2000 under the Janashree Bima Yojana (JBY) scheme. Households contribute a fraction of

the premium for disability and survivorship insurance and additional contributions come from state government and other agencies; the other 50 per cent is drawn from the central government's social security fund. A successful feature of this scheme is the provision of a scholarship for students in defined educational levels whose parents are covered by the JBY, without an additional premium. As of 2005–2006, around 6.5 million informal workers across India were incorporated. However, this represents just 1.7 per cent of the estimated total number of informal workers and coverage of risks is incomplete.

The multiplicity of programmes found in India to protect uncovered citizens demonstrates an effort to tackle the issue at both the central and local levels. However, it also reveals the lack of a consistent policy around a well-defined and uniform design for social security, capable of exploiting synergies among the different forms of social protection available. Against the backdrop of a relatively favourable

macroeconomic environment and fiscal accounts, scaling up efforts towards progressive extension and unification of insurance schemes in India to achieve a universal and more equitable system should not only be desirable, but also possible.

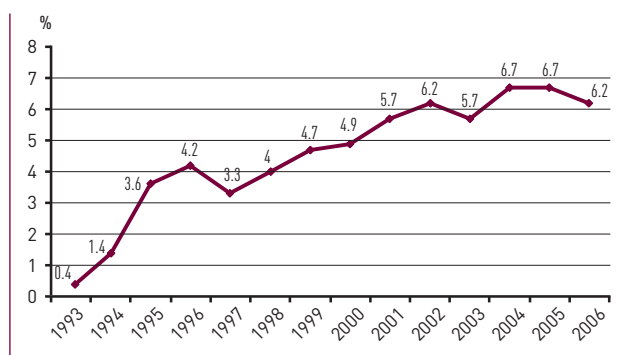
United Republic of Tanzania. The United Republic of Tanzania is a low-income country where high growth rates since the 1990s have failed so far to deliver sustained poverty reduction and social development (see figure 5.4). The shift from pro-poor economic policies implemented by the socialist party in the 1970s and 1980s to a market-driven economy in the late 1980s and 1990s did not have a significant impact on efforts to reduce poverty. Table 5.6 illustrates the low decline in poverty rates and the insufficient performance in non-income indicators compared to the goals set by the MDGs. Agriculture and agro-processing remain the largest economic sector, accounting for 45 per cent of GDP and 74.2 per cent of total employment.⁵⁷

TABLE 5.6: Selected social indicators in the United Republic of Tanzania, 1991–2007

	1991–1992	2000–2001	2006–2007	MDG target 2015
Gini coefficient	0.34	0.35	0.35	–
Food poverty rate	21.6	18.7	16.6	11
Basic needs poverty rate	38.6	35.7	33.6	19.5
Unemployment rate	3.6 ^a	5.1	11	–
Percentage of employed people living below PPP \$1 per day ^b	72.6	88.5	n.a.	–
Net enrolment for primary education	n.a.	66.1	90.8	100
Infant mortality rate (per 1,000 live births) ^c	115	99	68	38
Under-five mortality rate (per 1,000 live births) ^c	n.a.	147	112	64
Maternal mortality rate (per 100,000 live births) ^c	n.a.	529	578	133

Notes: n.a. = not available. – = not applicable. ^a Refers to year 1990/1991. ^b Source: UN Millennium Development Goals Indicators 2009. ^c United Republic of Tanzania Demographic and Health Survey 2004/2005. Figures refer to years 1999 and 2004/2005, respectively. Source: UNRISD elaboration with data from National Bureau of Statistics, United Republic of Tanzania (2009) and UN Millennium Development Goals Indicators 2009.

FIGURE 5.4: Real GDP growth rate in the United Republic of Tanzania, 1993–2006 (1992 constant prices)



Source: UNRISD elaboration, with data from United Republic of Tanzania (2007).

In the United Republic of Tanzania, high rates of informal employment (representing 94 per cent of the country's workforce in 2005–2006⁵⁸) pose significant challenges to the extension of social protection. Indeed, social security is characterized by limited coverage in terms of membership, scope and access to benefits, with less than 1 per cent of the entire population and about 6.5 per cent of the formal working population reached by social insurance schemes.⁵⁹ The majority of those employed in the informal economy have limited access to public health care services, and generally rely on traditional and informal intra-family or intra-community networks for income support during old age or upon becoming sick or disabled.

In the United Republic of Tanzania, high rates of informal employment pose significant challenges to the extension of social protection

Public social assistance is targeted to vulnerable groups (people with disabilities, the elderly and vulnerable children); in 2006/2007, it represented 1.7 per cent of

all government expenditure, with child benefits going to just under one million children.⁶⁰ With the state playing a residual role, the provision of cash transfers, in-kind assistance, services and capacity building by national and international NGOs with funding from international donors is significant, though largely undocumented and with low coverage rates since these efforts are mainly targeted at the community level.⁶¹

Free access to public health services is limited in the United Republic of Tanzania due to the introduction of user fees during the 1990s and inadequate coverage of social insurance funds. As a result, community and informal insurance mechanisms, such as community health funds and funeral associations, have proliferated. In community health funds, households or individuals contribute according to their capacity rather than a fee-for-service basis. Membership fees are matched by government subsidies encouraging people to join, ensuring the fund's sustainability. Less than 10 per cent of households have enrolled in this type of scheme, representing 2 per cent of government expenditure.⁶²

Such forms of collective and informal welfare can be effective in protecting their members against various contingencies. However, due to their fragmentation, limited resources, scale, coverage and risk pooling, they cannot provide comprehensive and sustainable solutions to the structural social needs of the population. Nor can they compensate for the inability of the state to deliver universal social rights.

The United Republic of Tanzania has a comparatively narrower fiscal space and a less favourable macroeconomic context than India. Yet recent studies have shown that a minimum package of social protection benefits, including targeted social assistance, universal old-age pensions and child benefits could be affordable, costing just over 1.8 per cent of GDP annually in the longer term.⁶³ However, given the country's current dependency on donor funding for its social expenditures (33 per cent of all budgeted revenue and 12 per cent of GDP), efforts to build a more comprehensive and inclusive social protection system will inevitably rely on the delivery of donor commitments.

Towards a universal social protection model

Costa Rica. Costa Rica has been labelled the social democratic model of Latin America. It has achieved high levels of development, social inclusion and democratization, ranking 54 among 182 countries in the 2009 HDI. Its performance in terms of social indicators is much higher than would be expected for its per capita income.⁶⁴ This is largely the result of universal social policies and resulting low levels of inequality and informality.

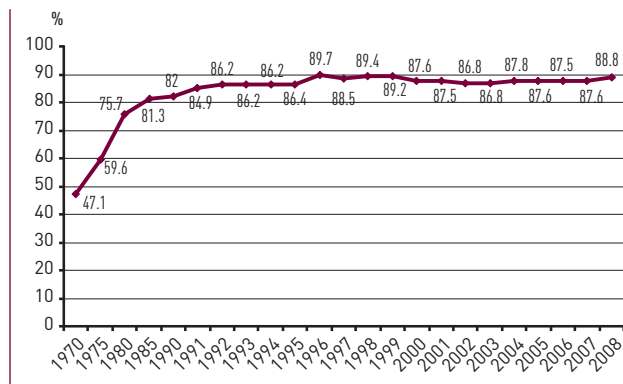
Initially, in the post-war era, Costa Rica pursued a development path led by agriculture and import-substituting industrialization policies. Following the economic crisis in the early 1980s, the country diversified its productive sector. New activities in the service sector, such as tourism and finance, as well as the expansion of export-processing zones, are responsible for recent positive growth and the creation of new employment opportunities. However, inequalities have risen and a high dependence on imports of intermediate and capital goods is resulting in persistent trade deficits.

The expansion of social policy from 1950 to 1980 was supported by domestically driven economic growth, in which the role for the state was prominent and connected to increasing salaries and the expansion of wage labour.⁶⁵ Costa Rica has also benefited from a democratic trajectory, which dates back to 1889, and the abolition of the country's military in 1949. State bureaucrats initially took the lead in promoting a central role of the state in welfare provision and social protection in particular. However, since the neo-liberal reforms and retrenchment of the 1980s, civil society and labour movements have gained significant leverage.

The main features of the Costa Rican social model – forged around the right to basic social citizenship – are a strong commitment to universal education and health care as well as efforts to constantly expand pension and health care coverage, reaching universality (see figure 5.5).⁶⁶ Extension of coverage is pursued by expanding the number of workers contributing to social insurance schemes, while securing protection for those unable to contribute through social assistance. Specifically, the Costa Rican system has constantly raised wage-ceilings for mandatory contributions of salaried

workers, introduced first voluntary and then mandatory affiliation for the self-employed, and established collective insurance for non-wage workers through cooperatives.⁶⁷

FIGURE 5.5: Coverage of health and maternity insurance in Costa Rica, 1970–2008 (% of total population)



Source: MIDEPLAN-SIDES 2009b.

Costa Rica has expanded social insurance coverage while securing protection through social assistance for those unable to contribute

Targeted social assistance was introduced in Costa Rica during the 1970s as a complement to universal services and insurance schemes. For more than 30 years, family allowances have been at the centre of social assistance, representing annual average spending of 0.4 per cent of GDP. This funds a number of programmes, including transfers for families and old-age social insurance, non-contributory health care and other services, such as school meals and nutrition centres. Total spending on social assistance as a proportion of GDP is very high (5.6 per cent of GDP in 2008, as shown in table 5.7), especially when compared to the other countries analysed in this chapter. In addition, funding for social assistance in Costa Rica relies on payroll taxes for more than two-thirds of its budget, which requires a strong element of solidarity and redistribution across workers and citizens in general.

TABLE 5.7: Public social spending as a percentage of GDP in Costa Rica, 1987–2008

	1987	1990	1995	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total	16.4	16.3	15.3	17.3	18.7	18.7	18.5	17.7	17.2	16.9	17.4	19.4
Education	3.7	3.9	3.8	4.7	5.2	5.5	5.5	5.4	5.3	5.0	5.2	5.8
Health	4.6	5.0	4.6	5.0	5.4	5.7	5.7	5.1	4.9	4.9	5.1	5.9
Social assistance	5.9	5.2	5.1	6.0	6.3	5.6	5.4	5.3	5.3	5.2	5.3	5.6
Housing	2.0	2.0	1.6	1.5	1.7	1.7	1.7	1.8	1.6	1.7	1.7	2.0
Other ^a	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.1	0.1	0.1	0.1	0.1

Note: ^aIncludes cultural, entertainment and religious services. Source: UNRISD elaboration, based on data from MIDEPLAN–SIDES 2009a.

The expansion of coverage increased more rapidly from the 1970s onwards and was maintained during the crisis of the 1980s. In contrast to the retrenchment trends experienced by the rest of Latin America, radical privatization of public social insurance was never considered an option. In terms of pensions, Costa Rica did not follow the Chilean model of privately managed savings accounts, but reformed its pension system in 2000 by introducing a compulsory second pillar based on private savings accounts (so-called fully funded pensions) in addition to the public pay-as-you-go (PAYG) scheme. Costa Rica avoided some of the pitfalls associated with multi-pillar pension reforms: since contributions remained unchanged in the public scheme and the funded pillar was financed by employers' contributions, no transition costs occurred. Meanwhile, the conservation of the public – earnings – related pension benefit plus social pensions prevented a decrease in coverage rates.⁶⁸

Labour market informality, reaching 39.9 per cent of total urban employment in 2005, is low compared to other Latin American countries such as Argentina and Brazil (with shares of 43.6 and 49.1 per cent, respectively).⁶⁹ Still, considerable efforts have been made to include groups typically

thought of as difficult to cover, such as the self-employed, domestic workers and peasants, into formal pension schemes. Affiliation is obligatory and the state subsidizes a portion of the contribution, leading to relatively high rates of coverage for these groups (24, 39 and 44 per cent, respectively).⁷⁰ In terms of covering low-income groups, 50 per cent of the poorest quintile in Costa Rica contributed to a pension scheme in 2004, while the figure ranges between 1 per cent and 25 per cent in other countries in the region.⁷¹

By 2007, retirement insurance covered 53.6 per cent of the economically active population, and health insurance reached 61.9 per cent of the same group.⁷² Income poverty decreased from an estimated 29 per cent of the population in 1987 to 20.2 per cent in 2006, with a decrease in extreme poverty from 9.1 per cent in 1987 to 5.3 per cent in 2006.⁷³ More recently, efforts to facilitate the participation of specific vulnerable and excluded groups (women, children and teenagers, indigenous communities, the elderly and the disabled) in the design and monitoring of public policies as well as the negotiation of social pacts show that bottom-up approaches to social reform are becoming more prominent.⁷⁴

In short, Costa Rica has been pursuing a heterodox development model entailing redistributive public investment and deliberate efforts to combine economic growth with social development and welfare. Improvements in living conditions within a favourable economic environment have allowed the country to become more socially and politically integrated, and have fostered social mobility.⁷⁵ Still, the country faces new sets of challenges, such as the expansion of unemployment and the informal economy, the persistence of fiscal deficits and growing trade deficits, the growing importance of out-of-pocket expenditures for health, and the increasing role of private actors in both the funding and delivery of health services.

3. Instituting Universal Social Protection: Implications for Policy

Social protection programmes are crucial instruments providing an income or access to other resources in times of need. They enhance people's well-being throughout their lives and enable them to cope with contingencies or shocks. Such programmes have the potential to reduce poverty in all its dimensions, contributing to more equal and socially inclusive societies. Social protection is particularly important for developing countries, since it has beneficial effects on productivity as well as economic and political stability, and can cushion the adverse social effects of rapid structural change, including those associated with migration, unemployment, rising inequalities and pandemics.

An analysis of social protection across selected countries shows that the extension of social insurance and social assistance can follow various paths. These depend on policy choices as well as the nature of existing institutions, the level of economic development and fiscal space, and features of social and economic transformation. One route to universality may be through top-down universalization with the expansion of public programmes. This is more likely to occur in countries that can build on a legacy of

comprehensive public social protection programmes, that are committed to expanding coverage and improving equity, and that have the political and fiscal resources to do so. The opposite route – bottom-up universalization – involves the integration and scaling-up of local programmes and is often discussed as a viable path for poorer countries characterized by multiple, fragmented and largely informal protection mechanisms. However, the fiscal and administrative challenges in terms of standardization, unification and institutionalization are steep.

Where poverty is widespread, social protection programmes should promote sustainable livelihoods and redistribution

In all of the case studies presented, recent expansion of social assistance programmes was aimed at overcoming obstacles to social protection imposed by persistent (or, in the case of East Asia, more recent) labour market problems. Non-contributory tax-financed protection schemes, including public works programmes and different types of cash transfer programmes for the poor and vulnerable, are especially important in contexts where the informal economy is widespread, where the majority of the population work in the agricultural sector, and where chronic poverty and persistent deprivation affect large sectors of the population. In these settings, social protection must include components that promote sustainable livelihoods, with the aim of enhancing people's living conditions on a more permanent basis.

In a development context, social protection goes beyond income maintenance and must also tackle persistently low incomes and their structural causes, therefore promoting human capabilities, sustainable livelihoods and redistribution. The provision of an income source to poor and vulnerable households through the social assistance programmes reviewed in this chapter is a step in the right direction. The case of South Africa shows that these transfers reduce poverty, sustain consumption, foster investment and encourage labour market participation by recipients and other household members. Social pensions are frequently shared

with other household members, often children, thereby improving intergenerational justice. As Brazil and Mexico demonstrate (see table 5.5), the impact of cash transfer programmes on the broader national poverty headcount and inequality indicators is likely to be stronger and sustained when their residual and targeted nature, aimed at the poorest individuals and households, is mitigated by extensive coverage and consistent long-term financial investment.

A rights-based approach to social protection should seek to limit conditionality and targeting

The evidence presented in this chapter supports the case for the provision of cash transfers or a basic income on a universal, stable and long-term basis. In addition, a social protection approach grounded in the recognition of basic human rights, and the understanding that individuals and households make rational decisions for themselves, should limit the use of conditionality whenever possible. Cash transfer programmes, such as child benefits (see chapter 7) and social old-age pensions, based on categorical targeting rather than means testing, seem to be promising instruments for the extension of social protection in developing countries. The rural pension scheme in Brazil is a good example, together with pension schemes based on citizenship, as in Bolivia (see chapter 8) and several sub-Saharan African countries.

Public works programmes in Argentina and India have proved to be good buffers in times of crisis. They are effective in reaching informal labourers with no access to other formal social programmes. However, they display a limited ability to provide sustainable and durable solutions to poverty and inequality. Work is provided for short periods of time and the wage rate is set at a value below equivalent market wages to attract only those in desperate need. This may entail ineffective targeting in those cases where only individuals who can access other sources of incomes are actually able to take up low-paid public works. However, the initiatives reviewed seem to indicate that some degree of policy learning is taking place, since the programmes

include new efforts to promote labour market mobility for unskilled workers through training. Yet where unemployment is structural, providing adequate skills for which unmet demand does exist will need to be combined with expenditure-side and regulatory policies to promote the demand for labour.

Social assistance should be complemented by policies that promote redistribution and decent work

Even a well-designed and well-performing social assistance programme – or sets of these – will have a limited impact on vulnerability, poverty and inequality unless complemented by broader interventions that address the structural conditions that affect an individual's ability to live a decent life. Such interventions include broader social policy efforts (described throughout this report), such as land reform, promotion of rural livelihoods, care services, active labour market policies and support to small- and medium-sized enterprises. Such policies aim to expand social and economic opportunities for the most disadvantaged and facilitate the pursuit of a sustained growth path to create a favourable environment for decent employment and income generation. Indeed, more people earning a living within conditions of decent work also allows the state to base social policies on sustainable funding mechanisms that promote solidarity and reduce financial and political dependence on external resources (see chapter 8).

Even a well-designed social assistance programme will have limited impact unless complemented by broader interventions that address structural conditions

Best practices in the extension of formal social insurance schemes are numerous, as the examples in this chapter have shown. They include specific measures for difficult-to-cover

groups, such as mandatory legal coverage, regulation and supervision of compliance with contribution payments (by employers, employees and the self-employed); subsidies for low-income groups; and special incentives to join insurance programmes, such as free additional benefits (for example, family allowances or scholarships) or coverage of dependants. Moreover, most countries not only aim to extend coverage, but to harmonize and unify fragmented systems in order to lower costs and increase equity.

Although social policy is implemented at the country level, global actors such as international organizations and donors play an important role. As this chapter shows, they shape global debates on social protection, the international normative framework and global funding for social protection initiatives. The international financial institutions in particular pushed for reform models to be adopted in the developing world, as in Latin America and sub-Saharan Africa, which have proved detrimental for social development and poverty reduction. International actors respecting countries' development strategies and supporting

democratic political institutions and policy frameworks are likely to have a stronger positive impact on social development and democratization.

The varieties of policy regimes examined demonstrate that, far from converging on a similar paradigm, citizens and their governments have the space to manoeuvre and make choices. To avoid unintended negative outcomes in political and economic terms, the right to social protection has to be realized in a context of reasonable economic and social stability. And, as demonstrated by the successful cases, the progressive realization of universal social protection needs to be grounded in a social contract and in economic conditions that are conducive to this objective. A policy regime most likely to confront these challenges in a way that enhances welfare is one that is characterized by a high degree of institutional complementarities, that develops synergies between economic and social policies, and that is based on a social contract grounded in the principles of universalism and solidarity.

Notes

- 1 Cook and Kabeer 2009.
- 2 Barrientos 2010.
- 3 Esping-Andersen 1990.
- 4 Mkandawire 2005.
- 5 World Bank 2001c.
- 6 Barrientos 2010.
- 7 Mesa-Lago 2008; Müller 2003; Bertranou 2001; Simms et al. 2001; Mackintosh and Koivusalo 2005; Huber and Stephens 2000.
- 8 Mkandawire 2005; Standing 2008.
- 9 Fraser and Gordon 1994.
- 10 Slater 2008.
- 11 Kannan 2004; Kangas and Palme 2005; Riesco 2007; Pierson 2004.
- 12 Wood and Gough 2006.
- 13 Von Oorschot 2002.
- 14 Townsend 2007.
- 15 Mares 2007.
- 16 Stephens 2007.
- 17 Ocampo 2008.
- 18 Gough, with Abu Sharkh 2009.
- 19 Kwon and Yi 2008.
- 20 Holliday 2005; Kwon 2005; Gough 2004; Goodman and White 1998.
- 21 Yang 2005.
- 22 Wong 2005b.
- 23 Matthews and Jung 2006.
- 24 Lee 2009.
- 25 Yi and Lee 2005.
- 26 Van Ginneken 2003.
- 27 Lue 2008.
- 28 Kwon 2007.
- 29 Chen 2005.
- 30 Heintz 2009.
- 31 Lo Vuolo and Barbeito 1998; Alonso 2000.
- 32 Barbeito and Goldberg 2007.
- 33 Mesa-Lago 2008.
- 34 Bertranou and Bonari 2005.
- 35 Golbert 2004.
- 36 Tabbush 2009.
- 37 Galasso and Ravallion 2003.
- 38 Santiso 2006.
- 39 Melo 2008.
- 40 Schwarzer and Querino 2002.
- 41 Ministerio da Previdencia Social do Brazil 2007.
- 42 Caetano 2008.
- 43 Draibe 2007.
- 44 Pauw and Mncube 2007a.
- 45 Seekings and Natrass 2008.
- 46 According to figures for 2008/9, expenditure on social assistance increased to 5.5 per cent of GDP. Other percentages remained steady (SASSA 2009).
- 47 Seekings and Natrass 2008.
- 48 Seekings and Natrass 2008.
- 49 Samson and Kaniki 2008.
- 50 Seekings and Natrass 2008.
- 51 Hendricks 2008.
- 52 Lo Vuolo 2008; Standing 2008; Seekings and Natrass 2008; Lavinias 2001.
- 53 Sen and Rajasekhar 2009.
- 54 Labour Bureau of the Government of India 2007.
- 55 Jha et al. 2009.
- 56 Standing 2008.
- 57 Meena 2008.
- 58 ILO 2008e.
- 59 ILO 2008e.
- 60 ILO 2008e.
- 61 ILO 2008e.
- 62 ILO 2008e.
- 63 ILO 2008d.
- 64 UNDP 2009.
- 65 Martínez Franzoni 2007.
- 66 Filgueira 2005.
- 67 Martínez Franzoni 2007.
- 68 Titelman et al. 2009.
- 69 ILO 2006.
- 70 Mesa-Lago 2008.
- 71 Arza 2008.
- 72 CCSS 2008.

73 Estimates are based on the number of households with a known income, surveyed by the Encuesta de Hogares de Propósitos Múltiples and elaborated by the Instituto Nacional de Estadística y Censos (INEC), Costa Rica (MIDEPLAN-SIDES 2009a). In 1987, 76.8 per cent of households knew their income and could declare it, while in 2006, 91 per cent of households could declare a range within which their income fell.

74 Barahona et al. 2005.

75 Barahona et al. 2005.

Universal Provision of Social Services

Social services – in areas such as health, education, care, water and sanitation – can enhance individual well-being, raise productivity and contribute to overall quality of life. Such services enable families to care for and sustain their members and reduce both the costs and time involved in work and other daily activities. They increase the chances that individuals and their families can lift themselves out of poverty and live dignified and productive lives. The kinds, quantity and quality of services individuals enjoy provide a good measure of their well-being: indeed, poverty can be perceived as a failure to achieve certain basic capabilities arising in part from the absence of social services.¹

The instrumental value of services, particularly education and health care, in promoting growth and alleviating poverty and inequality is now widely acknowledged in policy circles. Evidence clearly demonstrates the complementarities among different services (health, education, water, sanitation and nutrition, for example), as well as between social service provision and other economic policy goals. Moreover, access to certain social services, specifically education and health care, is considered a right enshrined in numerous United Nations declarations. It is a key goal of rights-based approaches to development and an essential element in the achievement of most Millennium Development Goals (MDGs).

This chapter argues that a universal approach to the provision of social services is essential to realizing their full potential as a component of transformative social policy. Achieving broad-based and inclusive coverage can contribute not only to improved well-being, but also to enhanced productivity and earnings.

In addition, it can reduce inequalities across income, class, gender, ethnicity and location. The challenge of extending effective provision to populations often marginalized

or excluded as a result of these inequalities lies at the heart of efforts to reduce poverty and reach the MDG targets. As argued throughout this report, narrowly targeted interventions may make inroads into particular aspects of poverty among specific population groups. However, without broad-based coverage that aims to redress inequalities and generate solidarity around development goals, these gains may not be sustainable.

Narrowly targeted interventions may make inroads into aspects of poverty among specific groups; however these gains may not be sustainable

Drawing on evidence principally from the health and education sectors, this chapter highlights the following key points.

- Integrated systems of social service provision that are grounded in universal principles can be redistributive, act as powerful drivers of solidarity and social inclusion, and improve the capabilities of the poor.
- By contrast, systems that are fragmented – with multiple providers, programmes and financing mechanisms aimed at different population groups – have limited potential for redistribution, and generally result in high costs, poor quality and limited access for the poor.
- Dominant policy trends since the 1980s, in a context of crisis, liberalization and public sector retrenchment, have moved towards the commercialization of social services, undermining previous progress towards universal access in many countries, raising out-of-pocket costs, particularly for the poor, and intensifying inequality and exclusion.

This chapter draws on the experiences of countries that have pursued different paths in the provision of social services at varying levels of income. The evidence shows that it is possible to institute social service regimes that lean towards universalism at relatively low income levels. It demonstrates the importance of substantial public involvement, whether in direct provision or in the financing or effective regulation of services. Public interventions are essential to ensure that services reach rural and remote areas, urban slums and marginalized groups, and thus that their productivity-enhancing and distributional benefits are obtained.

A number of countries show that it is possible to institute social service regimes that lean towards universalism at relatively low income levels

Section 1 of the chapter discusses the case for a universal approach to the provision of social services, how this can be achieved and the barriers to extension.

Section 2 provides an overview of trends in service provision in developing countries.

Section 3 elaborates on these points with a discussion of the effects of commercialization on provision and outcomes.

Section 4 analyses patterns of social service provision in a select number of countries classified as leaning towards universalism, leaning towards universalism in the context of dualistic economies, and fragmented and exclusionary systems.

Section 5 draws conclusions that have implications for policy makers.

1. The Case for Universal and Public Provision

Social services improve the quality of life by creating, protecting and sustaining human capabilities. Despite a lack of consensus in defining the range of basic capabilities, good health, adequate education and nutrition feature prominently on most lists.² The centrality of basic services to improvements in people's lives has driven various international initiatives, including the Universal Declaration of Human Rights and the MDGs, to promote the goal of universal coverage. As chapter 5 has shown, universalism is grounded in the principles of solidarity and citizenship; it can foster social cohesion and build coalitions across classes, groups and generations.³ If the poor are provided with access to the same kinds of services enjoyed by the rich, universalism may also act as an instrument for redistribution and social mobility.

Universal access to social services promotes growth and social development

The widely acknowledged instrumental value of education and health for economic growth and development⁴ further underscores the importance of universal provision. This is particularly true in poor countries where the quality of human capital necessary for development is limited. An educated and healthy workforce contributes to economic growth and poverty reduction through improved skills and labour productivity, and thus improved incomes and life chances. The economy as a whole benefits from the expansion of human capital and the acquisition and upgrading of skills through education.⁵ Health care likewise contributes to better learning and productivity over the long term; conversely, poor health or nutrition undermines learning at school, impairs cognitive development and reduces future productivity and earnings.

Important complementarities or multiplier effects exist among different social services.⁶ Universal access to health care, for example, enhances investment in education by

ensuring that school enrolment and outcomes are not constrained by illness. Similarly, universal access to education enhances investment in health by increasing access to information about health practices, hygiene, nutrition and sanitation. The use of reproductive health care facilities, for example, tends to increase with education.

Health and education provision interact positively with other social policy interventions, with particular implications for women (see chapter 7). Improved health and education services may reduce the burden of caring for children and the sick. Early childhood care programmes can improve child health and education outcomes. Such provisions may reduce the need for social protection or assistance if episodes of illness, and thus loss of employment and income, are reduced. Social protection mechanisms such as cash transfers may in turn relax financial constraints that impede access to social services (see chapter 5). Finally, investments in basic infrastructure such as water, sanitation and transportation can improve health outcomes, reduce the time (often of women and children) spent collecting water or travelling, and facilitate access to other services.

The state plays a critical role in social provision

While the justification for universalizing service provision is clear both on equity and efficiency grounds, how, by whom, and under what circumstances barriers to extension can be overcome remain critical questions. A variety of actors and institutions, including states, markets, households, communities, non-governmental organizations (NGOs) and external donors provide or finance social services. As discussed in section 4 below, the precise mix of actors and institutions depends on a country's development strategy and policy choices, and its historical and institutional legacy. However, the potential benefits of integrated systems of provision may not be realized when market providers and other non-state actors are dominant. Given that many services require significant investments in infrastructure, they will tend to be underprovided by market actors. This is exacerbated where populations are remote or scattered, and thus unit costs are high. Active state involvement is

therefore essential – whether in direct provision or financing; in coordinating among different providers and services; or in regulating and providing incentives to non-state service providers to ensure coverage of neglected locations or population groups, in order to maintain quality and to ensure affordability.⁷ Countries that have achieved widespread access to basic social services have done so through substantial public sector involvement.⁸ In all such cases, the belief that the benefits from income growth trickle down to the poor was rejected. Instead, deliberate actions were taken to provide social services, recognizing the links between economic and social policy objectives.

Countries that have achieved widespread access to basic social services have done so through substantial public sector involvement

Achieving universal provision, however, requires overcoming a number of barriers. Structural inequalities based on individual or collective characteristics (such as gender, disability or ethnicity) may prevent individuals or groups from accessing or paying for services. As chapter 5 has argued, some degree of affirmative action or targeted initiatives may be necessary to resolve this problem. Investments in infrastructure in poor areas (rural and urban) or improvements in transportation can reduce physical distance and the cost of access. School feeding and subsidized medicine and transport programmes, along with free textbooks, can increase attendance at schools or clinics. India's school enrolment rate, for example, rose substantially with the introduction of a mid-day meal programme aimed at increasing enrolment and retention and improving nutrition among primary school children. Since 2002, the programme has been universal in all government and government-aided schools.

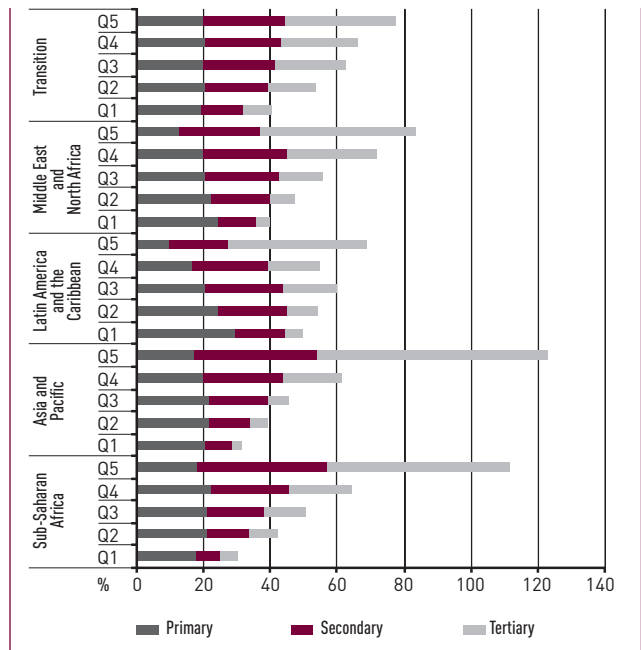
Other barriers include the nature and quality of services. In education, the content of the curriculum and language of instruction, teacher-pupil ratios, and the quality of teachers and facilities, for example, affect attendance, learning

outcomes and subsequent employment opportunities. The school curriculum is often irrelevant to the needs of poor and marginalized sections of society,⁹ while gender stereotyping in content often denies girls access to the same subject choices as boys.¹⁰ In multi-ethnic or multi-linguistic environments, the designation of a national language on grounds of creating ethnic or linguistic unity or shared cultural values often provokes resistance and places minority groups at an even greater disadvantage in accessing education.¹¹

Recent policy trends have weakened universalist principles

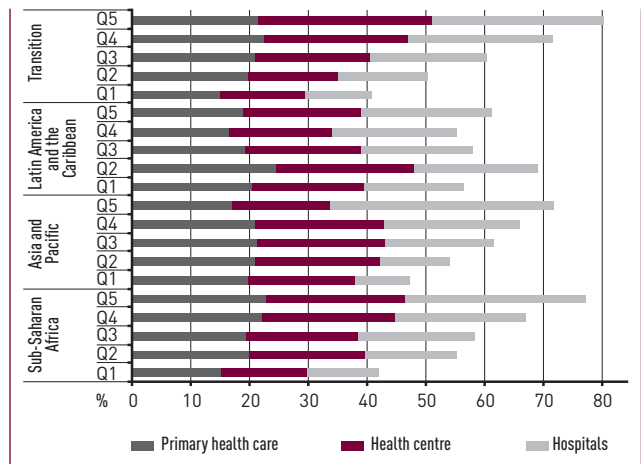
As the rest of this chapter shows, the policy trends affecting mechanisms of delivery and financing of social services in recent decades have generally weakened universalist principles and outcomes. Even where policy objectives are pro-poor and aimed at broadening coverage and reducing exclusions, the strategies may still be at odds with the principles of universalism. Benefit incidence analyses, for example, highlight the skewed distribution of the benefits of public expenditures on education and health towards higher income groups (see figures 6.1 and 6.2). The poor benefit relatively more from investments in primary health and education, while investments in basic services also demonstrate higher rates of return. Such findings have been used to justify the concentration of public spending in these sectors. However, without complementary investments in post-primary education or curative care the quality of primary services and the availability of qualified personnel declines, or does not keep up with the expansion in demand. A study in India shows how a policy prioritizing primary schooling, driven by an analysis of the rate of return, resulted in the neglect of the secondary sector, the rise of for-profit schooling at all levels of education and a fragmented formal primary education system.¹² Similarly, neglect of curative health care has the greatest impact on the poor who are also susceptible to non-infectious diseases but are unlikely to have access to private sector treatment. In addition, the separation between the public and private sectors that results from an orientation towards public spending on primary services undermines the redistributive benefits that a unified system can provide.

FIGURE 6.1: Benefit incidence of public spending on education in the 1990s as a percentage of total spending, by income quintiles (unweighted average)



Note: The quintiles may not add up to 100. Some countries have missing observations for the middle quintiles. Q1 refers to the poorest quintile while Q5 refers to the richest quintile. Source: Davoodi et al. 2003.

FIGURE 6.2: Benefit incidence of public spending on health in the 1990s as a percentage of total spending, by income quintiles (unweighted average)



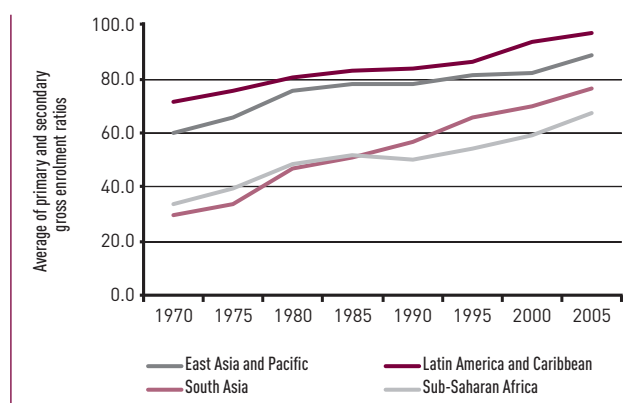
Note: The quintiles may not add up to 100. Some countries have missing observations for the middle quintiles. Q1 refers to the poorest quintile while Q5 refers to the richest quintile. Primary health care refers to one of the following categories: clinics, child health and preventive care. Source: Davoodi et al. 2003.

2. Social Services in Developing Countries: Trends and Outcomes

Social service policies have shifted dramatically over the last half century

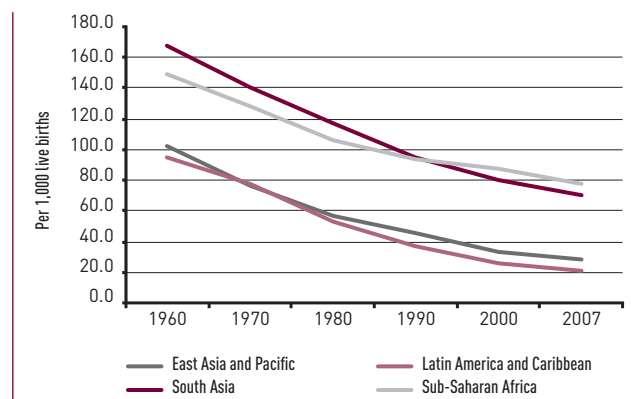
During the 1960s and 1970s, public expenditure on social services grew rapidly in many developing countries, with social policies treated as integral to development objectives of creating a modern economy, national identity and social cohesion.¹³ Looking at the long-term trends, progress is visible: overall health and education outcomes have improved considerably over the last 50 years, as illustrated by increased primary and secondary school enrolment and a decline in infant mortality across all regions (see figures 6.3 and 6.4). The most significant expansion in provision took place prior to the 1980s. During this period, in Latin America, public schools, universities and health care networks expanded rapidly although coverage remained low and, until the 1980s, was concentrated in urban areas.¹⁴ Sub-Saharan Africa also expanded public provision of education and primary health care services.¹⁵

FIGURE 6.3: Combined primary and secondary enrolment by region, 1970–2005



Source: UNESCO 2009b.

FIGURE 6.4: Infant mortality rate by region, 1960–2007



Source: World Development Indicators 2009.

For many countries, the crises and trends towards market liberalization from the 1980s led to severe cuts in social sector spending, with varying effects on social policies and outcomes. The international financial institutions (IFIs), notably the World Bank and the International Monetary Fund (IMF), played a major role in determining the nature of policy change during this period. Stabilization and structural adjustment programmes (SAPs) created substantial pressure for neoliberal reforms particularly in crisis-hit countries that were heavily aid dependent or indebted. In Latin America as a whole, an already moderate share of public expenditure on social services decreased further after 1982.¹⁶ In sub-Saharan Africa, stabilization and adjustment programmes led to the “utter neglect” of public services, largely shifting the financing burden to consumers through user fees.¹⁷ While experiences within each region varied significantly, in many countries in both sub-Saharan Africa and Latin America progress in health and education stagnated or reversed during the lost decade.

Growing evidence of the high social costs of adjustment policies¹⁸ eventually led to their modification, with increased investment in the neglected social sectors alongside support for country-led development strategies.¹⁹ An explicit focus on poverty reduction returned to the development

agenda of the IFIs, and was implemented through Poverty Reduction Strategy Papers (PRSPs), which had at least an implicit social policy emphasis and paid more attention to basic services.²⁰ By 2000, for example, the World Bank had adopted a “no blanket” policy on user fees,²¹ while under the Highly Indebted Poor Countries (HIPC) initiative countries were expected to use the resources gained from debt relief for health and education purposes.

With the mobilization of the international community around the MDGs in 2000, the poverty focus of development assistance has strengthened

With the mobilization of the international community around the MDGs in 2000, the poverty focus of development assistance has strengthened and, with it, the emphasis on basic services. The MDGs contain a number of commitments in the areas of health and education and others that rely on the availability and accessibility of quality services for their achievement. They have mobilized resources and efforts around certain goals, and progress – particularly in basic education and infant mortality – has been significant, at least prior to the global economic crisis.²² Net primary school enrolment in developing regions reached 89 per cent in 2008, with major advances in sub-Saharan Africa and South Asia, the regions that lag farthest behind; gender parity in primary education has been achieved in 60 countries. In health, deaths of children under five have declined steadily worldwide, although with slower progress in sub-Saharan Africa and South Asia. Since 1990, the percentage of births attended by skilled personnel has improved overall, from 53 per cent in 1990 to 63 per cent in 2008, although in South Asia and sub-Saharan Africa over half of all births are still unattended. The least progress was achieved in

reducing infant mortality, which only declined marginally. Increased access to antiretroviral drugs and improved knowledge about preventing the spread of HIV has meant that, worldwide, the numbers of new HIV infections and AIDS deaths have peaked; there has also been a dramatic increase in the use of bed nets to protect people from malaria.

Despite positive trends, major challenges remain and have been further exacerbated by the global economic crisis. Underpinning the constraints to further progress in many cases is the lack of an integrated and universal approach to social service provision. As the discussion on commercialization below illustrates, approaches to address the needs of the poor through targeted measures in a context of inadequate public funding, supply and regulation lead to fragmented systems where certain groups are likely to be excluded or receive poor quality services. These exclusions exacerbate existing inequalities, based, for example, on gender, ethnicity, wealth or disability, and present major obstacles to universal access.

Public policies designed to reach the poorest and most disadvantaged groups, such as abolishing fees, constructing facilities in underserved areas and boosting the recruitment of teachers, can be effective.²³ But these need to be part of a broader approach. Narrowly focusing on primary education and health care in order to meet specific time-bound targets risks neglecting investment at the tertiary levels; the result is a lack of qualified personnel that, in turn, constrains quality as quantity expands. In South Asia and sub-Saharan Africa, expanded coverage without commensurate investment means overcrowded classrooms with untrained teachers.²⁴ Similarly, overburdened public health facilities and the poor quality of services may worsen inequality as higher income groups opt for private services, hiring tutors or buying the necessary materials or medicines that are not provided through the public systems. The poor either lack this option or face severe trade-offs over expenditure choices.²⁵ Effective delivery of the MDGs thus requires a holistic, sector-wide and integrated approach to the provision and financing of social services.²⁶

Neoliberal shifts since the 1980s have produced a trend towards commercialization

One of the most significant trends emerging as a consequence of neoliberal policy shifts since the 1980s, which persists despite increased public investment over the past decade, has been the commercialization of social service provision. Driven by inadequate public funding and pressures to liberalize markets, commercialization processes took various forms (see box 6.1). These have included direct private-sector involvement in the financing and provision of services, the contracting-out of social service management to private providers, and the introduction of cost-recovery measures such as user fees for public services – thus increasing reliance on private insurance or out-of-pocket payments.²⁷ These trends compound existing problems of access to reliable and quality services by the poor, while also contributing to the fragmentation of provision.

Increasing evidence, including research undertaken by UNRISD,²⁸ points to ways in which commercialization

can undermine effective social service provision. In many cases, accessibility, affordability and the quality of services – particularly those available to low-income or marginalized groups – has fallen, while systems of provision and financing have become fragmented among multiple providers. Often, commercialization has eroded public commitment to service provision for all, in the interests of private actors and profit. Public and community systems that charge fees in conditions of widespread poverty, for example, tend to lose their public service vocation and become semi-commercial facilities, changing the incentives and behaviours of providers. In this process, both the effectiveness and redistributive potential of the system are constrained. Where commercialization involves a mix of private services for those who can pay and public provision for the poor, the redistributive mechanisms – rather than being integral to the system – are separated out and made visible through the targeting of particular services to specific groups. This, in turn, may further fragment and weaken the system of provision.²⁹ These trends and consequences of privatization are illustrated by experience in the water sector (see box 6.2).

BOX 6.1: Commercializing health and education services: Four paths

There are four widely observed paths of commercialization in health and education services. First, in predominantly middle-income countries, the trend is towards privatization of public services or public-private arrangements to promote choice and competition and therefore improve efficiency. This is carried out through the corporatization of hospitals, the introduction of voucher schemes or by contracting management to private organizations that receive public subsidies. The second trend is towards commercial behaviour and cost-recovery in public services, for example, through user fees. The third trend, in low-income countries such as those in sub-Saharan Africa and South Asia, is a growing tendency towards small-scale private and largely unregulated provision. This tends to occur by default and in response to the underperformance or failure of public provision.^a Such services are used of necessity by the poor and payments are largely out-of-pocket. Finally, commercialization (particularly in the health sector) is also driven by the globalization in input and labour markets, due to a combination of the operations of multinational companies and trade and industrial policies. Multinational companies operate in increasingly integrated markets and have played a key role in norm setting on trade in goods and intellectual property rights. In addition, international agreements, such as the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), introduce product patents, increase the power of transnational firms and restrict access to generic drugs in poor countries.^b

Notes: ^a UNESCO 2009a. ^b Mackintosh and Koivusalo 2005.

BOX 6.2: Policy challenges in the provision of clean drinking water

The provision of safe drinking water can yield dramatic improvements in health and well-being. When combined with other interventions, the benefits are multiplied. Water is a basic necessity, and ready access to it can save household members several hours a day – time that could be used for education or income-generating activities. Yet in spite of these enormous benefits, 1.1 billion people worldwide still lack access to safe sources of water. One result is that 3,900 children die each day from water-related diseases.^a The MDGs aim to halve, by 2015, the proportion of the population without sustainable access to safe drinking water. The world is on track to meet the target, although many countries still face steep challenges. Of people who lack access to clean water, 84 per cent live in rural areas.^b

Since the 1990s, private sector participation in the water sector has increased, albeit erratically, in response to rising public sector deficits and problems of infrastructure maintenance as coverage expanded. A key message of the World Bank's *World Development Report 1994* was that the private sector should be involved in the management, financing and ownership of infrastructure. Reforms were intended to reduce deficits, improve coverage, increase efficiency and reduce political influence. Consequently, between 1990 and 2005, 55 countries introduced some form of private sector participation in the water sector.

In analysing this trend, research conducted by UNRISD^c and others reveals a number of problems, particularly in terms of access and affordability. The private sector has not necessarily invested more than the public sector, and improved efficiency (where it exists) has not resulted in lower tariffs (as shown in studies from countries including Burkina Faso, Colombia and France). In addition, the poor have been disproportionately affected by private sector provision, as they tend to have less access to services and to spend a larger share of their income on water. The pace of privatization has been slow and, since 2002, multinational companies have begun to withdraw from developing countries. Consequently, the World Bank has recognized the difficulty of getting “the private sector to focus on the alleviation of poverty and to design tariffs in a way that does not discriminate against the poor”.^d It has acknowledged that public funding will continue to be important and shifted its policy stance from reliance on the private sector to encouragement of public-private partnerships.

The UNRISD research suggests that social policies and public sector investment have been instrumental in ensuring access to the majority. The policies employed include income support linked to welfare systems; tariff adjustment; a fund for rural supply; and policies to ensure that households are not disconnected due to non-payment. For example, increasing block tariffs, where water rates adjust according to usage, are popular in many developing countries. Subsidy schemes to the poorest households are used in many Latin American countries and even France has provided subsidies to rural areas. The state's role in mobilizing investments has also been significant. Although initial construction is often largely initiated by the private sector, public investment is necessary to secure improved supplies, particularly to the poor.

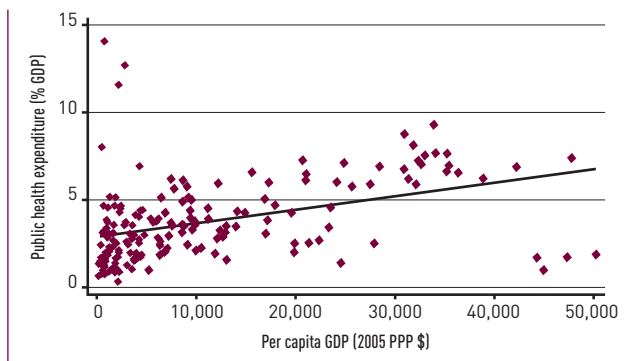
Notes: ^a WHO and UNICEF 2004; WHO 2007. ^b United Nations 2009. ^c Prasad 2008. ^d Prasad (2008:16), citing *Implementing the World Bank Group Infrastructure Action Plan*, 13 September 2003:25.

Underfunding and commercialization can have negative consequences for health and education

Consequences for health

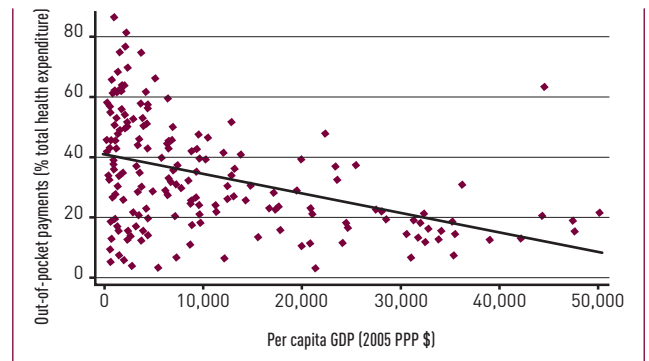
The commercialization of health services has been more prevalent in lower than higher income countries, where it is clearly associated with worse access and inferior outcomes.³⁰ Overall, public spending on health as a percentage of both total health expenditure and gross domestic product (GDP) are positively correlated with per capita income. Socialized medicine, that is, health care that is free at the point of use and financed by general taxation or social insurance, is more commonly found in wealthier countries (see figure 6.5). Conversely, private spending, as a percentage of total health expenditure, is higher in low-income countries and among lower income groups. Low-income populations are most likely to face the most poverty-inducing form of health financing: out-of-pocket payments (see figure 6.6). For 5.6 billion people in low- and middle-income countries, over half of health care spending is through out-of-pocket payments, and over 100 million people are pushed into poverty each year because of catastrophic health expenditures.³¹

FIGURE 6.5: Public expenditure on health as a percentage of GDP and per capita GDP, 2005–2006



Source: World Development Indicators 2009.

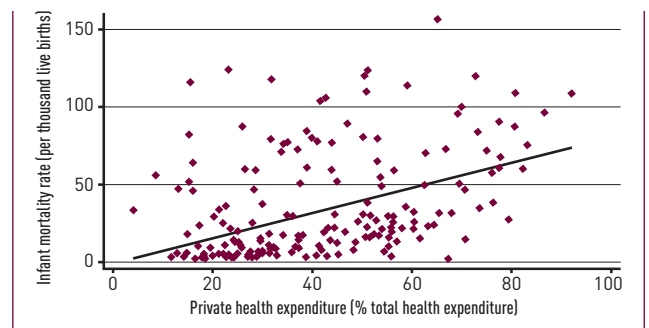
FIGURE 6.6: Out-of-pocket health expenditure as a percentage of total health expenditure and per capita GDP, 2005–2006



Source: World Development Indicators 2009.

Countries with lower levels of commercialization and higher public expenditures or social insurance demonstrate better health outcomes. Infant mortality rates tend to be lower and life expectancy higher in countries with lower ratios of private to public health expenditure (see figure 6.7). Similarly, countries that spend more of their GDP on health through public expenditures or social insurance have significantly better health outcomes and better care at birth (as measured by life expectancy, infant mortality and births attended by skilled personnel).

FIGURE 6.7: Infant mortality rate and private expenditure on health as a percentage of total health spending, 2005–2006



Source: World Development Indicators 2009.

The proportion of hospital beds and use of ambulatory care in the public and private sectors in developing countries suggest that primary care provision (even if nominally public) is highly commercialized, while hospital and in-patient care is not.³² As a result, the poor are in fact more likely than the better-off to depend on private (that is, often informal, small-scale and low quality) providers that charge modest fees and lack government support and regulation.³³ In terms of insurance, however, UNRISD research³⁴ shows that higher levels of commercialization of primary health care and private insurers are associated with greater inequality in treatment among income quintiles and greater exclusion of children from treatment when ill. In almost all 44 developing countries with data analysed, more than half of children treated for acute respiratory infection or diarrhoea were treated privately.

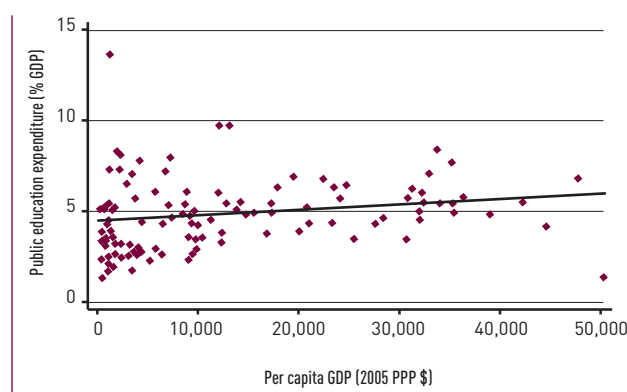
The motivations behind the introduction of fees and charges, and thus the push towards commercialization of services, included cost-recovery, revenue raising, greater efficiency through competition among providers, and instilling in recipients a greater sense of value for services obtained. In general there has been a failure to achieve these aims due to flawed assumptions about how markets work. Nor have complementary targeted forms of assistance or exemption mechanisms, designed to improve the access of marginalized groups to services in a context of commercialized provision, been effective in increasing coverage due to supply constraints, inadequate resources, high administrative costs, leakages and stigma (see chapter 5). Overall, in the health sector, the commercialization of services can thus be viewed as “an affliction of the poor”.³⁵

Consequences for education

In terms of education, there is greater consensus that the government has a responsibility to provide all children with quality education free of charge, at least at the primary level.³⁶ In most countries, public expenditures continue to dominate educational provision and financing, although many instances exist of public-private partnerships. However, user fees and other charges also persist, affecting the accessibility and affordability of education. The correlation between per capita income and public spending

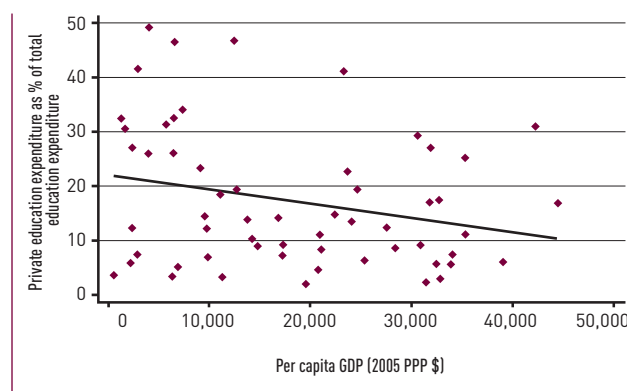
on education as a percentage of GDP is positive but weak (see figure 6.8). However, as in health, commercialization of education afflicts the poor, with a higher share of private expenditure in countries with lower incomes (see figure 6.9). The average share of private financing in education is much lower than in health: 18 per cent in education versus 42 per cent in health. In the majority of countries, private financing in education is less than 15 per cent of the total, and only five countries (Chile, the Dominican Republic, Guatemala, the Philippines and the Republic of Korea) have levels above 40 per cent.³⁷

FIGURE 6.8: Public expenditure on education as a percentage of GDP and per capita GDP, 2005–2006



Source: World Development Indicators 2009.

FIGURE 6.9: Private expenditure on education as a percentage of total education spending and per capita GDP, 2005–2006



Source: World Development Indicators 2009.

As in health, commercialization of education afflicts the poor, with a higher share of private expenditure in countries with lower incomes

The provision of private education, measured by the percentage of the population enrolled in private institutions, displays a large variation among countries, though it is not related to income level. As an average of primary and secondary enrolment, almost half of all countries have a percentage of private enrolment of less than 10 per cent. However, this figure is over 50 per cent in 13 countries, including Chile, Fiji and Zimbabwe. On average, private financing, as a percentage of GDP, is slightly higher in secondary than in primary education, and private provision is more extensive in secondary education.³⁸ Combined gross enrolment is slightly higher in countries with less private education financing and with higher levels of public spending. However, the relationship between public spending and student performance is, at best, weak, since poor learning outcomes and high levels of inequality are possible at low, medium and high levels of public spending.³⁹

As in health, mixed public-private provision and financing often results in high-cost social service systems that are socially polarizing. Although mixed approaches can improve educational quality through choice and competition under certain conditions, they also have the potential to reinforce inequality. Choice is often constrained by a lack of purchasing power, limited access to information and, in many instances, by a lack of provision. Where schools are able to select students based on ability, disadvantages arising from characteristics such as income or ethnicity may be magnified. In Chile, which operates a voucher programme, student composition differs between public and private sectors with voucher schools outperforming

public schools.⁴⁰ In other words, the system channels public resources to private schools that are able to select the most competent and well-off students. Comparably, in the health sector, private insurers are able to cherry-pick, insuring only the lowest risks and leaving higher cost patients to the public sector.

Commercial activity by public education institutions, such as cost-recovery and user fees, remains prevalent in many developing countries, driven by underfunding and poor regulation. Charges may include fees for uniforms, books, materials, medicines and parental contributions, as well as compulsory in-kind contributions, including for school construction and repairs. As in health, such fees were introduced under erroneous assumptions about the nature of the market for such services: that cost-recovery would limit “frivolous use”,⁴¹ raise revenues and improve equity, efficiency and quality. Evidence from sub-Saharan Africa illustrates, on the contrary, that pre-existing barriers to access resulted in serious underuse of services, with user fees only adding to these barriers.⁴²

These trends arising from commercialization and underfunding in both the education and health sectors serve to worsen pre-existing disparities in quality as public services are further overburdened. Trained personnel, who are attracted by better pay and working conditions, tend to move from the public to the private sector, thereby reinforcing the trends towards commercialization and further reducing the quality of public sector provision.

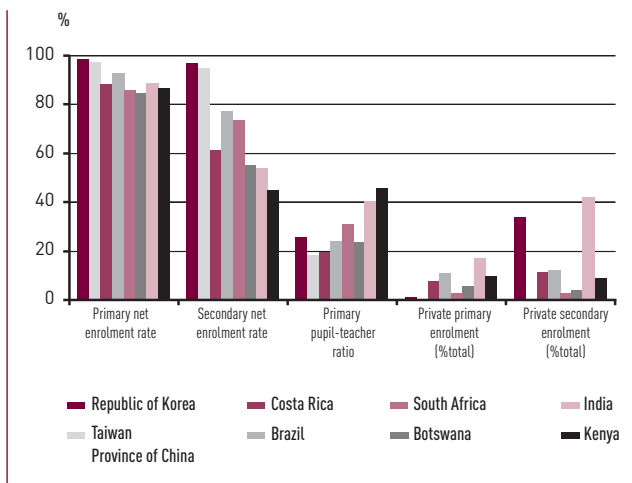
In both health and education, commercialization and underfunding worsen pre-existing disparities in quality as public services are further overburdened

3. Social Service Provision in Different Development Contexts

Countries vary widely in their systems of social service provision

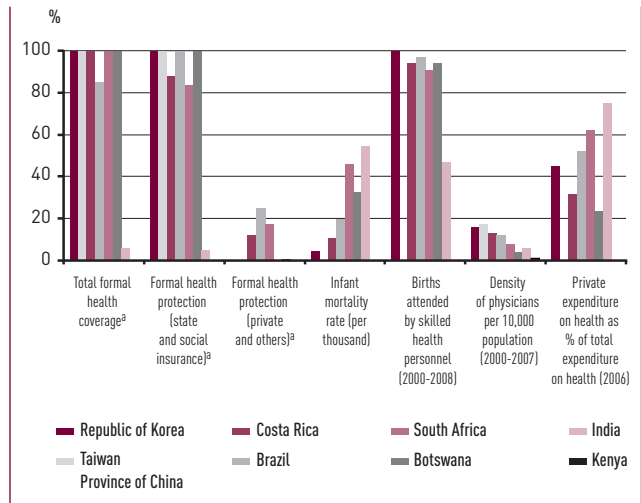
As argued above, underfunding and commercialization are serious obstacles to the universalization of social services. Nonetheless, countries and areas exhibit considerable variation in their systems of provision. This section highlights three broad approaches based on case studies commissioned for this report. Countries and areas are grouped in terms of health coverage, educational enrolment, educational quality and the roles of different actors in provision (see figures 6.10 and 6.11). Along these dimensions, Costa Rica, the Republic of Korea and Taiwan Province of China lean strongly towards universalism; Botswana, Brazil and South Africa are also oriented towards universalism, but entrenched economic dualism produces what can be described as fragmented universalism; and Kenya and India display high levels of fragmentation and exclusion, despite some commitment towards universalism.

FIGURE 6.10: Educational system and outcomes in eight case study countries/areas



Note: Latest year (since 2000); Costa Rica (net attendance ratio between 2000 and 2007). Source: UNESCO 2009b; Directorate General of Budget, Accounting and Statistics, Executive Yuan, Taiwan Province of China 2007.

FIGURE 6.11: Health systems and outcomes in eight case study countries



Note: Formal health coverage includes state, social, private and mutual health insurance schemes; Taiwan Province of China data from 2006. ^a From 2000 to 2007. Source: Directorate General of Budget, Accounting and Statistics, Executive Yuan, Taiwan Province of China 2007; ILO 2008c; WHO 2009b.

Leaning towards universalism

The Republic of Korea, Taiwan Province of China and Costa Rica show significant variation in terms of the public-private mix in financing and providing social services. However, in all three cases, the state plays a significant role in ensuring universal provision. Notably, social policies are well supported by other economic policies that reinforce social investments. These countries and areas progressively expanded coverage alongside the introduction of complementary policies to ensure that marginalized groups were able to benefit from a universal approach.

Republic of Korea and Taiwan Province of China

The provision of education and health care in the Republic of Korea and Taiwan Province of China is based on a strong state regulatory role and bureaucratic capacity, under a mixed public-private system of financing and provision. Interventions in health and education are enhanced by complementary policies: for example, in the Republic of Korea, relatively low levels of income inequality have reduced income constraints among the poor, thereby contributing to equal access to primary and secondary education.

In addition, the early establishment of sectoral occupational welfare programmes, such as health insurance and pensions for personnel in both public and private schools, reduced the incentive for skilled staff to move to the private sector and thus maintained quality in public education.

Education has been a particular priority in both these cases, receiving significant public investment as a contribution to economic growth. In the early stage of industrialization, investments to improve productivity in labour-intensive sectors pushed up enrolment and completion rates in both primary and secondary education; with the shift to higher value added sectors in the 1970s and 1980s, these gains were also secured in tertiary education. The high enrolment ratios for the Republic of Korea can be seen in figure 6.10, with levels well above 90 per cent in primary and secondary education. Primary education is almost exclusively provided by the public sector (only 1.3 per cent of students are enrolled privately); secondary and tertiary levels are characterized by a higher share of private provision (33.5 per cent in secondary education). Since the 1970s, the Korean government has subsidized private schools.⁴³ Private financing is, however, substantial, accounting for 40 per cent of total expenditures on education.⁴⁴ The strong quest for education among the country's population, along with government subsidies, has allowed a profitable private education business to flourish and tended to equalize the quality of education in both public and private institutions. In Taiwan Province of China, public schools dominate both primary and secondary education. Although private institutions account for about half of the total senior high schools and universities, the government's tight control on tuition fees has contributed to keeping education affordable.

The delivery of health care in the Republic of Korea and Taiwan Province of China is highly commercialized.⁴⁵ In 2007, the private sector accounted for more than 93 per cent and 97 per cent of medical facilities in the Republic of Korea and Taiwan Province of China, respectively,⁴⁶ with hospitals and clinics largely privately owned. Significant government involvement and bureaucratic capacity resulted in the introduction of health insurance schemes

in both places in the late 1980s and early 1990s, coinciding with democratization and increased concerns with equity. In the Republic of Korea, health insurance schemes were established in 1977. Initially they included only formal sector employees, but coverage was progressively expanded. In 1987, the new democratic government announced its intention to establish universal national health insurance, and within two years coverage had increased from less than 51 per cent of the population to over 94 per cent.⁴⁷ Separate health insurance schemes were integrated and coverage increased, thereby enabling cross-subsidization and redistribution. However, in spite of universal social health insurance coverage, out-of-pocket payments remain substantial, accounting for around 50 per cent of total health expenditures (see chapter 5), with implications for equity. Similarly, Taiwan Province of China established a universal national health insurance programme in 1995, just a few years after the democratic government declared its intention to do so.⁴⁸

Costa Rica. Costa Rica has achieved impressive outcomes in health and education, particularly primary education. The state took responsibility for financing and delivering social services, achieving increased coverage and a significant distributional impact. This was complemented by programmes to improve income distribution, including increasing real wages and providing universal social protection (see chapter 5).

In Costa Rica, the state took responsibility for financing and delivering social services, and it has achieved impressive outcomes in health and education

The process of universalizing education in Costa Rica started early. Beginning in the 1940s, public education was conceived as an integrated system from preschool to university with free primary and secondary education. Coverage, especially of secondary education, was progressively expanded

with particular efforts focused on rural areas and marginalized groups in order to reduce disparities. Economic crisis in the 1980s halted and even reversed the gains, especially in rural areas, as public spending on education was cut by 44 per cent between 1980 and 1985.⁴⁹ Educational quality also diminished, since wages and investment in infrastructure were cut and school duration reduced. Subsequently, spending levels were restored and efficiency improved, leading to a revival of coverage gains. Disparities in education among various income groups persist, however, and are more significant than gender disparities or those between rural and urban areas. A number of policies have been introduced to address this: a programme targeting urban schools aims to improve educational quality for low-income families, and a universal school lunch programme was introduced to encourage school attendance. Due to limited resources, geographic targeting of the school lunch programme was introduced in the 1980s; data on coverage show that it is successfully reaching poor children.⁵⁰

In the health sector, the Costa Rican Social Security Fund (CCSS) was established in 1941 to provide health insurance (with tripartite funding from employees, employers and the state), initially for employees in urban centres. It gradually expanded to cover family members, independent workers and lower income groups. In 1961 the constitution was amended to achieve universal health care within 10 years. The range of services provided by the CCSS and contribution ceilings were expanded, and private providers were replaced by services provided directly by the CCSS through professional staff graduating from the School of Medicine at the University of Costa Rica, founded in 1960. Primary health care programmes, such as malaria eradication and rural health care, achieved an impressive level of coverage, leading to dramatic improvements in health. By the 1970s, health indicators were similar to those of developed countries, demonstrating the success of public health policies and of low-cost, efficient technologies. The improvements in health indicators were most pronounced among low-income populations.⁵¹

The crisis of the 1980s led to decreased resources, but halted rather than reversed achievements in health in

Costa Rica. The state maintained a dominant role: in 1986, the private sector accounted for only 2 per cent of hospital beds and 3 per cent of discharges.⁵² From the 1990s, the Ministry of Health took on more of a supervisory role, with delivery increasingly the responsibility of the CCSS. Increasing labour market informality (though lower than in other Latin American countries, as discussed in chapter 5) led to decreases in health care coverage. However, the government introduced voluntary insurance that, in 2006, became mandatory for the self-employed. Partly as a result of these policies, the level of health care coverage reached 89 per cent in 2008.⁵³

Fragmented universalism

Countries that exhibit fragmented universalism are typically characterized by a dualist economic structure, with a large share of the population excluded from the formal labour market and thus formal social provisions. In states such as Brazil and South Africa, government policies aimed at expanding access to social services, particularly in rural areas, have often been successful in achieving near universal coverage with impressive gains in basic health and education. However, trends towards commercialization in the context of high income inequalities and a large informal sector have resulted in polarized service provision segmented between a high-cost private sector and lower quality public services. With the policy shift of the 1980s and 1990s towards privatization, public funding shifted to targeted subsidies or social assistance to the poor, further contributing to the underfunding of public facilities.

Brazil. In Brazil, education and health systems have different historical trajectories. The education system, which owes its origin to the first Republican Constitution of 1891, is nationally regulated and highly decentralized in terms of funding and provision. A national education policy of eight years of free basic education became institutionalized after the revolution of 1930 that centralized state power and propelled the country towards rapid modernization and industrialization. However, the health system remained fragmented and unregulated until the late 1980s, when a national health system was created. Overall, the democratic constitutional reforms of the 1980s

pushed the country towards more universal provision of health and education services.

For much of the post-war period, Brazil's health sector was characterized by a dualist structure that largely benefited formal sector urban employees. The institutional structure for health provision was segmented, with a limited public health system, some medical assistance for formal sector employees, and extensive private provision. Medical assistance coverage was extended to rural workers, domestic workers and those in the formal sector in the 1970s, paving the way for a universal health service in the 1980s.

A unified health system that is highly decentralized was introduced following democratization in 1985. The universal health policy was driven by a national coalition of expert activists with roots in social movements. Under the new system, the public sector can contract private health care providers for certain services, and individuals and enterprises can have their own private health insurance plans.⁵⁴ The publicly financed system pays for public health services, as well as reimbursing services provided privately in cases where no public services are available.⁵⁵ The target population totals approximately 140 million, with 40 million of those covered by the private sector. A second wave of reforms in the 1990s sought to improve the financial base and redistributive impact of the public system as well as strengthen regulation of private provision. Observers note improvements in health indicators, such as in infant and maternal health.⁵⁶ The number of births attended by skilled personnel is approaching 100 per cent and the infant mortality rate is fairly low at 20 per 1,000 live births in 2007 (figure 6.11). Surveys comparing São Paulo (one of the richest regions) and the northeast (the poorest) suggest that although the number of people claiming to have regular health services has improved for all income quintiles in both São Paulo and the northeast, the two regions are still very unequal.⁵⁷

Despite the provision of free public education for the first eight years of schooling before the transition to democracy, more than 50 per cent of those enrolled in the first grade were obliged to repeat and many dropped out of school after

the second grade. Almost 50 per cent dropped out before completing all eight grades. Since democratic reforms, Brazil's education sector has also expanded coverage. Near-universal access to primary education was achieved in the second half of the 1990s, largely as a result of successful reforms of primary education funding.⁵⁸ Tertiary enrolment was promoted by substantial subsidies in the 1980s (the highest in the world) that largely benefited the rich. In spite of considerable progress, educational opportunities were concentrated in industrialized regions of the country, while the northern and northeastern regions faced a lack of schools and resources. Education reforms in the last two decades have focused on reducing inefficiencies, resulting in impressive improvements in public education.⁵⁹ Net primary enrolment is approaching 100 per cent and net secondary education is nearing 80 per cent (figure 6.10).

In Brazil, education reforms over the last two decades have focused on reducing inefficiencies, resulting in impressive improvements in public education

Public financing for education in Brazil comes from two sources – general taxation and an education salary fund raised through contributions by businesses as a percentage of wages. Educational provision is mostly public at the pre-school, primary and secondary levels (accounting for 73 per cent, 91 per cent and 86 per cent, respectively, of schools), while higher education is largely private (67 per cent).⁶⁰ The Fund for the Development of Primary Education and Teacher Development (FUNDEF) was created in 1996 to reduce large regional inequalities in per student funding by redistributing resources from richer to poorer areas. Despite considerable improvements, inequalities remain a challenge. The average number of years spent in school for 25-year-old Brazilians varies significantly by income group – from 4.3 years in the poorest income quintile to 10.3 years for the richest quintile. Inequality becomes more significant beyond basic education. The relatively poor region

of Alagoas had a gross enrolment rate of 95.9 per cent for the 7–14 year age group, and 76 per cent for the 15–17 year age group, whereas São Paulo had rates of 98 per cent and 87 per cent, respectively, in 2008.⁶¹

The social policy innovations in Brazil have been impressive in both their number and coverage, and include Bolsa Familia, as well as the National Fund for the Maintenance and the Development of Basic Education (FUNDEB) and the Family Health Programme. In particular, the increasing centrality of conditional cash transfers has received international acclaim. However, research suggests that there is not much difference in school attendance between beneficiaries and non-beneficiaries of Bolsa Familia.⁶² Bolsa Familia is more successful in improving incomes than in expanding educational enrolment.

South Africa. In South Africa, the 1994 post-apartheid state inherited an education system that was characterized by significant inequalities in quality and attainment – the result of the highly unequal allocation of resources. Education was one of the major concerns of the African National Congress, and it immediately sought to tackle inequalities by integrating regionally segregated education departments into one national system. It also made education compulsory until grade nine and reallocated funding from formerly white schools to formerly African schools. The result was an equalization of funding: the share of funding for African pupils increased from 58 per cent in 1993 to 79 per cent in 1997.

South Africa is characterized by fairly high levels of public spending on education, with over 5 per cent of the country's GDP allocated to that sector, financed from general taxation. Net enrolment exceeds 80 per cent at the primary level and 70 per cent at the secondary level (see figure 6.10). Differences in attendance among groups are marginal, but large inequalities in educational quality and outcomes persist, leading to the continued correlation between ethnicity and attainment.

These inequalities can be attributed to a legacy of skewed resource allocation during the apartheid era, in combination

with cost-recovery arrangements, which enable schools in richer neighbourhoods to charge fees, which are not regulated, and use the funds to appoint additional teachers and improve facilities. The government has made efforts to target the poor, for example through fee-free schools, which account for 40 per cent of all schools, and the National Schools Nutrition Programme, which fed 1.6 million primary school children in 2007. However, such schemes have not been able to resolve imbalances in the quality of education. Deeply entrenched social and economic inequalities lock many children from black, poor and rural households, who attend badly equipped public schools in poor neighbourhoods, into an underclass in post-apartheid South Africa.⁶³

In post-apartheid South Africa, deeply entrenched social and economic inequalities lock many children from black, poor and rural households into an underclass

Health care reform in the late 1980s led to a shift from a regionally and racially segregated system to a public-private dual system, with access dependent on ability to pay. South Africa has an impressive public health system. The majority of the population has access to basic health care through public facilities that charge user fees varying by region.⁶⁴ The minority (17 per cent) are covered by high-quality, expensive, private insurance funded through various medical schemes for mainly formal sector workers. Levels of immunization and births attended by skilled personnel are high (see figure 6.11).

While access to health care is not significantly affected by income, the quality of provision is, with the poor overwhelmingly using under-resourced public services, whereas the rich opt for private ones. Regional inequalities also exist, since provincial legislatures determine health budgets: public health expenditures per capita have declined in some regions.⁶⁵ Despite the fact that the high burden of

disease in South Africa – particularly of AIDS – requires more inputs than in countries with a similar income, the initial neglect of the problem by the government exacerbated the health crisis, leading to severe criticism and protest from civil society and affected communities. This policy neglect is now being addressed and important steps are being taken to combat the disease. In addition, a new national health insurance programme, funded by general taxation and a dedicated payroll tax for the formal sector, is expected to be operational by 2010. It is estimated that the programme will increase the total health budget by 40 per cent and address the lack of funds for the public sector.

Botswana. Botswana has achieved impressive outcomes in health and education. Not surprisingly, the country has one of the most developed social service systems in Africa, largely as a result of successful resource mobilization from mineral rents. The government spends slightly more than 9 per cent of its GDP on education and more than 40 per cent of its total current government spending on social services. Since independence, the government has been the main provider of education and health services, with only limited community or private sector involvement. Botswana has also introduced a social pension, which directly benefits education, since a strikingly high percentage of household income is spent on schooling expenses.⁶⁶ However, since the 1980s, there has been a shift towards privatization and decentralization, with the government playing the role of facilitating community and private sector efforts to provide social services and the introduction of cost-recovery measures in health.

In education, substantial government investment and policies to remove barriers to access have dramatically improved outcomes. In the 1980s, primary and secondary school fees were abolished, with subsequent improvements in enrolment. Other schemes, such as school feeding and rural development programmes, were introduced to improve access by marginalized groups. Consequently, net primary and secondary enrolment have reached about 80 per cent and 60 per cent, respectively, and literacy is around 80 per cent (see figure 6.10). However, inequalities based on geographic location persist, partly as a result of a lack

of trained teachers in rural areas. User fees, which were reintroduced in 2006, and a growing tendency towards private education are likely to further disadvantage poorer groups. Schools where the language of instruction is the native Tswana tend to be of poor quality compared to schools with English as the medium of instruction, which target higher income groups.⁶⁷

Botswana has one of the most developed social service systems in Africa, largely as a result of successful resource mobilization from mineral rents

In the health sector, a state-led and -financed policy from the 1960s succeeded in achieving virtually universal access to primary health care. The percentage of births attended by skilled personnel is over 90 per cent, and substantial improvements have been made in the infant mortality rate, which stood at around 30 per 1,000 live births in 2007 (see figure 6.11). A network of health facilities was established and run by the government with significant public investment. The initial emphasis was on creating a clinic or health post in every village. Consequently, by the mid-1980s, more than 85 per cent of the population were within 15 kilometres of a health facility.

In the 1980s and 1990s, the private sector played an increasingly important role in broadening the choice of facilities and reducing the burden on government services. User fees were introduced, with exemption mechanisms for low-income groups. In spite of the shift to increased private-sector participation, the share of private health care in total health expenditure is only 23 per cent. Thus, health and education provision in Botswana is less fragmented than in Brazil and South Africa. Formal sector employees are able to access higher quality private care, largely in urban areas, with shorter waiting times than overcrowded government hospitals. The AIDS epidemic poses considerable challenges in Botswana, and in the 1990s and 2000s has

resulted in a reversal of previous gains in health. However, the government provided free treatment to those living with HIV or AIDS, irrespective of social and economic status, ethnicity or gender.

Fragmented and exclusionary systems

In a large number of countries, social service provision is fragmented and exclusionary. This is often the case in low-income agrarian economies, where a large share of the population may lack access to public services. Many of these countries are aid dependent, and consequently have come under donor pressure to reduce social expenditures and shift the burden to consumers, largely through cost-recovery measures. Reduced public spending has tended to diminish availability of services, particularly in rural areas. Insufficient investment in personnel, infrastructure and materials has led to a decline in quality, exacerbated as trained staff move to the private sector or abroad, where working conditions are better. Although the state remains the main provider, social services have been increasingly commercialized, with the emergence of informal, small-scale providers in response to demand from both rich and poor for better availability or quality of public services.⁶⁸ A dual system of health and education provision has thus developed, consisting of “an underresourced and neglected public sector, and a private sector”⁶⁹ that is unregulated and may also be of poor quality. Payments for health care are largely out of pocket and user fees or other informal charges in education increase barriers to access and raise inequality.

Kenya. In Kenya, SAPs led to the introduction of cost-sharing measures and constrained spending on social services. Real expenditure on basic services as a proportion of government spending fell from 20 per cent in 1980 to 12.4 per cent in 1997.⁷⁰ As a result, low-income populations tend to have access only to poor services that they can often ill afford, whether through the public or private sector.

In the early post-independence period, the Kenyan government aimed to improve both coverage and access through free health services. Progress was tremendous, with life

expectancy rising from 44 years in 1962 to 60 in 1993, and infant mortality falling by one-third between 1963 and 1987.⁷¹ Although public spending was reduced and user fees introduced between 1989 and 2004, the state has remained the main funder of the health sector, contributing over 50 per cent. However, the government has commercialized the operation of some of its facilities, which has led to disparities of access and problems of affordability for the poor. Trained staff move to the private sector or run private clinics within, or in parallel to, public facilities, sometimes siphoning off public resources for private practice.⁷² Health expenditure has largely been skewed against poor rural areas: 80 per cent of the population receives only 20 per cent of health expenditures.⁷³ Although subsidized health programmes have been introduced, even these are unaffordable for many households.

In a large number of countries, often low-income agrarian economies, social service provision is fragmented and exclusionary

Kenya’s PRSP for 2001–2004 prioritized rural and preventive health to address inequalities. However, in addition to poor distribution, the health sector still receives insufficient funding to achieve international commitments, including the MDGs: public health expenditures in 2006 were 2.2 per cent of GDP. This translates into per capita spending of \$6.40 – far short of the World Health Organization (WHO) target of \$34.

Kenya places a high premium on education, particularly higher education. This need was particularly pronounced in the immediate post-independence years, as the country struggled to fill a large skills gap.⁷⁴ School enrolment increased dramatically from 1970: primary gross enrolment increased from 61.7 per cent to 105.9 per cent in 2006; similarly, secondary gross enrolment rose from 9 per cent to 50.3 per cent in this period.⁷⁵ Gender equality also improved. Although public spending on education initially

increased substantially, the SAPs of the 1980s reduced funding and brought in cost sharing. The government met the costs of salaries, administration and some financing of infrastructure, while parents were required to pay tuition fees and textbooks, and communities contributed to school infrastructure and maintenance.

Many households were unable to meet education costs, and there was a subsequent decline in primary and secondary enrolment in the early 1990s, as well as very high drop-out rates.⁷⁶ In addition, the quality of education declined and facilities proved to be inadequate. The target pupil-teacher ratio of 40:1 is yet to be attained and varies by region, from 35:1 to 70:1. Moreover, less than 50 per cent of pupils enrolled in primary education complete their schooling, although the situation has been improving. Government commitment to full primary education has been a positive development, but there has been no programme for ensuring continuation into high school, which affects the poor most severely. Targeted programmes to improve educational access have been introduced, such as school feeding programmes that focus on poverty-stricken regions as well as the provision of textbooks and scholarship funds. However, these schemes serve less than a quarter of those in need and the poor often cannot afford even subsidized services.⁷⁷

India. India's recent growth acceleration has not translated into substantial improvements in the provision of basic social services.⁷⁸ The levels of public expenditure on health (about 1 per cent of GDP) and education (about 3.5 per cent of GDP) are very low for the country's per capita income. Low public funding, preference for higher education and curative medicine over primary education and public health, and an extensive and largely unregulated private sector have produced a highly segmented regime of social service provision.

At independence, the Indian nationalist movement, through the Bhore Committee report, had committed itself to building a welfare state that would provide health services to all citizens irrespective of ability to pay.⁷⁹ However, private provision, including private practice

by government doctors, was widespread even before independence and proved difficult to control. Studies suggest that private sector provision of health is among the highest in the world.⁸⁰ The share of private provision in primary care rose from 74.5 per cent to 78 per cent in rural areas between 1986/1987 and 2004, and from 73 per cent to 81 per cent in urban areas over the same period;⁸¹ private hospital care rose from 40 per cent to 58 per cent in rural areas and from 40 per cent to 62 per cent in urban areas over the same period. Primary health care accounts for less than 0.5 per cent of total public health spending. Out-of-pocket payments account for over 85 per cent of all health expenditures.

The current health system is unable to deliver standard services to the vast majority of citizens, and is characterized by problems of underinvestment, poor maintenance, poor equipment, low-quality personnel and considerable distance to facilities for much of the population.⁸² The under-five mortality rate (87 per 1,000 live births) and infant mortality rate (63 per 1,000 live births) are higher than the world average, and the country's percentage of underweight children is also high for its level of per capita income. The proportion of births that are attended by skilled personnel is only 47 per cent, and 35.6 per cent of villages have no health centre within five kilometres.

A National Rural Health Mission (NRHM) scheme was launched in 2005 to reduce the rates of infant and maternal mortality, universalize access to public health services and promote indigenous systems of medicine by the year 2012. The NRHM focused on 18 states with weak public health indicators. Although it is too early to evaluate the impact of the programme, reports from the field and the Ministry of Health's own evaluations show that its most important achievements are the institutionalization of deliveries and the expansion of immunization coverage. The programme seems to have had limited impact on other aspects of care, such as full antenatal care. While institutional deliveries have gone up substantially in all major states in which the programme is operating, full antenatal coverage has not improved in most of them and immunization coverage has improved in only five.

In the field of education, universalization of primary education has been one of the important goals of India's development objectives.⁸³ Unlike health, education (especially primary education) is still largely publicly provided. Eighty-five per cent of primary schools are managed by central (43 per cent), state and local (42 per cent) governments. However, the private sector accounts for 40 per cent of secondary school enrolment. The National Education Policy Statement of 1968 emphasized free and compulsory education for all at the primary level, better status and emoluments for teachers, equalization of educational opportunities, support for vocational education, and allocation of 6 per cent of GDP to education. This policy of universalism was reinforced in the New Education Policy of 1986, which called for a reduction of inequalities in educational opportunities for women and disadvantaged castes.

However, improvements in educational indicators have been less spectacular than shifts in policy. Public expenditure on education steadily rose from 0.5 per cent of GDP in 1950–1951 to 2 per cent by 1970 and to 3 per cent to 4 per cent at present, which is still well below the 6 per cent target. Net primary enrolment is reported to be over 80 per cent, and net secondary enrolment is around 50 per cent, although studies indicate that national data may be overestimated and regular attendance levels may be lower.⁸⁴ Data for 2005 suggest that 29 per cent of pupils in grade one through eight drop out of school.⁸⁵

Health and education expenditures and outcomes vary considerably across Indian states. States in which governmental power rests on a broad political base and that have embraced a redistributive agenda tend to perform well. The state of Kerala, for example, which is well known for high standards in the social sector, spends 40 per cent of its budget on social services, whereas the all-India average is 32 per cent. Kerala has a long history of literacy and education movements. In addition, political and social activism have been employed on occasion to keep health centres open, and elections have been won on the basis of a candidate's support for public social services.⁸⁶

4. Providing Universal Social Services: Implications for Policy

Comprehensive provision of health care and education enhance well-being, improve productivity and income-earning potential, and reduce poverty and inequality. Underfunding, cuts in social sector expenditures and commercialization lead to segmentation, inequality and exclusion in service provision. High-quality private provision for better-off groups may coexist with low-quality services for the poor, undermining the effectiveness and redistributive outcomes of an integrated system. In addition, focusing public spending exclusively on basic social services can exacerbate inequalities: the resulting deterioration in secondary and tertiary education may lead to a decline in the number of trained personnel to staff schools and hospitals. This concluding section highlights the importance of publicly financed provision and public regulation of commercialization to achieve universal, equitable and quality outcomes.

Publicly financed systems can be affordable

Lessons from countries leaning towards universalism demonstrate the importance of substantial public involvement in ensuring that the majority have access to social services. They also show that public financing of social service provision is affordable. Domestic public financing instruments are best suited to minimize exclusion of certain groups from access, to promote the redistributive role of social service provision through progressive funding arrangements, and to strengthen links that promote democracy and social solidarity. However, as chapter 8 will show, external resources, such as aid and remittances, can complement domestic public financing, especially in low-income countries.

Problems of equity in public spending, highlighted by benefit-incidence analysis, should be dealt with through a wider distribution of social services, encompassing rural and disadvantaged urban areas. In conjunction,

policies should be introduced to alleviate the structural constraints that may impede access to universal provision. Examples of such policies include school meal programmes, subsidized transport and free medicines, either as targeted initiatives to complement universal provision or as universally provided schemes. In addition, in the case of health insurance, initiatives should ensure the coverage of the informal sector through mandatory, voluntary, free or subsidized programmes.

Lessons from countries leaning towards universalism demonstrate the importance of substantial public involvement in ensuring that the majority have access to social services

In countries that have achieved high levels of success in the provision of social services, faith in trickle-down benefits from income growth was rejected and deliberate policies were adopted to support comprehensive coverage. Effective state intervention is required to maximize the synergies and complementarities among services and their links to other parts of the political economy, and to promote equity, improve coverage and avoid coordination failure. The synergies within social policy interventions can be enhanced through comprehensive social protection – grounded in claimable entitlements – covering the majority of the population, along with effective care policies. Social service provision should also be embedded in and support a broader macroeconomic policy, based on productive investment and employment that alleviate inequality and poverty.

In highly unequal societies that are leaning towards universalism, such as Botswana, Brazil and South Africa, there have been impressive levels of coverage, especially of basic health and education. However, the systems tend to be fragmented and have not eliminated inequalities based on geographic location or income level. In Brazil and South

Africa, universal provision has largely been achieved due to social service reforms and commitment to ensuring accessibility in education and health in recent years, which should form the basis for further policy reform in the social sector. Additional efforts should aim to incorporate the poor into better quality social services by increasing and improving the distribution of financing and by improving the distribution and quality of social services in rural and disadvantaged urban areas.

Cost-recovery schemes that result in unequal financing of schools and health services and uneven quality should be removed. Financing should be balanced out through public expenditures based on tax revenues or social health insurance. Adequate public funding should minimize private sector involvement, which should also be regulated to ensure that premiums do not restrict access. In terms of health, insurance should be extended to hard-to-reach groups, such as informal and subsistence workers, through voluntary, mandatory or subsidized insurance schemes,⁸⁷ as was successfully done in Costa Rica and the Republic of Korea. These efforts should be supported by comprehensive social protection in order to enhance income and access to social services.

In countries with fragmented and exclusionary systems, such as India and Kenya, public spending should be increased and directed to rural and disadvantaged urban areas. Fees, which create barriers to access, should be removed, and complementary policies, such as school feeding programmes, should be introduced or expanded to encourage enrolment and attendance.

Effective commercialization requires regulation

Commercialization of health care and education is both a market-driven process and one that responds to policy decisions. The experience of the Republic of Korea demonstrates that, even with high levels of commercialization, access to health and education can be widened. In the case of health, this has occurred when financing is via social – not individual private – insurance and is

increasingly extended to the whole population. In the case of privatized secondary and tertiary education, access has widened when schools are subsidized and fees are regulated by the state.

Effective commercialization therefore requires effective regulation. However, commercialized health and education systems in developing countries are largely unregulated, and formal regulation is not only hard to achieve in liberalized markets, but also costly, as experiences in developed countries show. A more effective policy framework would focus on defining and enforcing the form and limits of commercialization appropriate to health and education objectives at different levels of development and in diverse political contexts. Key policy tools for this purpose include national financing mechanisms that promote solidarity, along with public provision. Rebuilding public sector provision reshapes the market and competitive framework for the private sector. It also means establishing the rights of

the poor to make claims on the public sector that match the rights of the socially and privately insured to health care, and then rebuilding public sector provision to respond to those claims.

In the past, macroeconomic policies focused primarily on containing public debt and inflation, liberalizing markets, privatizing state assets and liberalizing external trade and capital flows. Protecting livelihoods, incomes and social services was not a priority. Instead, poverty reduction was perceived as an outcome of growth, which was expected to occur following stabilization and liberalization. Yet as described in various chapters of this report, growth performance and poverty reduction in many countries have been unsatisfactory. While progress has been made in meeting the MDGs in the areas of health and education, more remains to be done to tackle inequalities in provision, transcend the focus on primary health and education, and improve quality.

Notes

- 1 Sen 1999; Stewart et al. 2007.
- 2 Nussbaum 2001; Gough and McGregor 2007; Stewart et al. 2007.
- 3 Swain 2005.
- 4 Barro 1991; Mankiw et al. 1992; Sala-I-Martin et al. 2004.
- 5 Esping-Andersen 2005.
- 6 Mehrotra and Delamonica 2007.
- 7 Mehrotra and Delamonica 2007.
- 8 Mehrotra 2000; Ghai 2000.
- 9 Mehrotra 2000; Ghai 2000.
- 10 Jha and Subrahmanian 2006.
- 11 Swain 2005.
- 12 Jha and Subrahmanian 2006.
- 13 UNRISD 2000.
- 14 Draibe and Riesco 2007.
- 15 Adésínà 2007.
- 16 Urrutia 1987.
- 17 Adésínà 2007:15.
- 18 Cornia et al. 1987; UNRISD 2000.
- 19 King 2006.
- 20 Mkandawire 2001a.
- 21 World Bank 2004b; see Hutton (2004) for a critical review.
- 22 United Nations 2009a.
- 23 United Nations 2009a.
- 24 Adésínà 2007.
- 25 UNESCO 2009a.
- 26 King 2006.
- 27 UNRISD 2007.
- 28 Mackintosh and Koivusalo 2005.
- 29 Mackintosh and Tibandebage 2005.
- 30 UNRISD 2007.
- 31 WHO 2009a.
- 32 Mackintosh and Koivusalo 2005.
- 33 Mackintosh and Koivusalo 2005.
- 34 Mackintosh and Koivusalo 2005.
- 35 Mackintosh and Koivusalo 2005:8.
- 36 UNESCO Institute of Statistics 2007; Bayliss and Kesler 2006.
- 37 Hypher 2009.
- 38 UNESCO Institute of Statistics 2007.
- 39 UNESCO 2009a.
- 40 Barrera-Osorio et al. 2009; UNESCO 2009a.
- 41 Adésínà 2007:25.
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- 43 Kim Gwang-Jo 2002.
- 44 UNESCO 2007.
- 45 Kwon and Tchoe 2005.
- 46 Ministry for Health, Welfare and Family Affairs [Republic of Korea] 2008; The Government Information Office 2009.
- 47 Kwon and Tchoe 2005.
- 48 Carrin and James 2005.
- 49 Trejos 2008.
- 50 Trejos 2008.
- 51 Trejos 2008.
- 52 Trejos 2008.
- 53 Mesa-Lago 2008; MIDEPLAN-SIDES 2009b (see also figure 5.5 in chapter 5).
- 54 Draibe 2007.
- 55 Jasso-Aguilar et al. 2005.
- 56 Medici 2002; Arretche 2004.
- 57 Silva and Dachs 2008.
- 58 Draibe 2007.
- 59 World Bank 2001d.
- 60 World Bank 2001d.
- 61 Instituto Brasileiro de Geografia e Estatística 2008.
- 62 Schwartzman 2009; Draibe 2010.
- 63 Seekings and Natrass 2005.
- 64 ILO 2008c.
- 65 McIntyre et al. 1998.
- 66 Devereux 2001.
- 67 Nthomang 2009.
- 68 Mackintosh and Koivusalo 2005.
- 69 Adésínà 2007:35.
- 70 Mitullah 2008.
- 71 Mitullah 2008.
- 72 Mitullah 2008.
- 73 Atieno and Shem 2007.
- 74 Chachage 2007.
- 75 World Bank 2009c.
- 76 Mitullah 2008.
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- 79 Baru 2005.
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- 86 Ghosh 2005; Mackintosh and Koivusola 2005.
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Care and Well-Being in a Development Context

As previous chapters in Section two of the report have shown, conditions of poverty and well-being are affected not only by incomes and wages, but also by social services and social protection. This chapter argues that another important – but often invisible – contribution to livelihood and well-being is the unpaid care work that goes into sustaining families, households and societies on a daily and generational basis. This constitutes a central part of social reproduction, which is a key element of transformative social policy (see overview).

Unpaid care work includes housework (meal preparation and cleaning) and care of persons (bathing a child or watching over a frail elderly person, for example) carried out in homes and communities. Such work contributes to well-being and fuels economic growth through the reproduction of a labour force that is fit, productive and capable of learning and creativity. Women perform the bulk of unpaid care work across all economies and cultures. It is estimated that if such work were assigned a monetary value, it would constitute between 10 and 39 per cent of a country's gross domestic product (GDP).¹

If unpaid care work were assigned a monetary value, it would constitute between 10 and 39 per cent of a country's GDP

Despite its considerable economic value, unpaid care work is not included in labour force surveys. Nor is it brought into the calculation of a country's GDP. It is therefore not reflected in economic indicators that inform policy making. Similarly, despite its importance in meeting many of the Millennium Development Goals (MDGs) (such as

reducing child and maternal mortality, achieving universal primary education and combating HIV/AIDS), unpaid care work is not explicitly mentioned in the MDGs.

Paid care services, such as childcare, elder care, nursing and teaching, also constitute a growing part of the economy and of employment in many countries. In the United States, for example, professional and domestic care services have grown from employing 13.3 per cent of the workforce in 1900 to 22.6 per cent in 1998 (representing almost as many workers as are in the manufacturing sector).² In India, the number of domestic workers has increased significantly over the last decade of economic liberalization. When care work is decently paid and protected, it can meet the interests of both workers and the users of those services. But this is rarely the case.

Why should development policy be concerned about care? Some would emphasize its importance to economic growth, whether in terms of its contribution to human capital formation or as a component of social investment. Others see care more broadly, as part of the social fabric and integral to social development. How societies address care also has far-reaching implications for gender relations and inequality.

The need to address care through public policy is now more urgent than ever. Women's massive entry into the paid workforce – a near-global trend – has squeezed the time available for unpaid care of family and friends. Ageing populations in some countries, and major health crises (especially HIV and AIDS) in others, have intensified the need for care services. Meanwhile, as public provisioning of infrastructure and welfare services falls short of need and demand, especially in times of crisis, care responsibilities are shifted back onto families, with women and girls often acting as the ultimate safety net.³ There are, however, serious limits to how far burdens can be unloaded onto the unpaid care economy without damaging human capabilities

and weakening the social fabric. In recent years, perhaps in recognition of these risks, care has begun to be seen, at least in part, as a public responsibility.

This chapter challenges the view that only more developed countries can afford specialized care provision by the state and market, and that poorer countries, by necessity, must rely on unpaid family and community solutions. In fact, many developing country governments are experimenting with new ways of responding to care needs in their societies. The variations across countries in how social and care policies are taking shape hold important policy lessons.

The evidence provided in this chapter points to four main conclusions.

- Unpaid caregiving is the bedrock of social provisioning and underpins economic growth and social development. However, it is largely invisible and undervalued.
- Women carry out the bulk of care work.
- Policies that are good for care are not a luxury that only rich countries can afford.
- Explicit care policies may be inadequate in many developing countries. But policies in other areas, which affect access to income, infrastructure and technology, and social services, can be important sources of support for unpaid caregivers.

Section 1 of this chapter sets out the key concepts and framework for the analysis of care and policy responses to it.

Section 2 focuses on one significant component of care provisioning: the extensive scope of unpaid care work carried out in families, households and communities in both advanced industrialized and developing countries. It also looks at the gender characteristics of such care, using data available through time use surveys.

Section 3 explores the institutional configurations, policies and inputs that affect caregiving in a range of countries. The section takes a brief look at the commonalities and differences in care policy in advanced industrialized countries. It then focuses on three other clusters of countries or areas that have not been as extensively researched: East

Asian developmental states; middle-income countries in Latin America and sub-Saharan Africa; and lower income agrarian economies where the policy challenges are most severe.

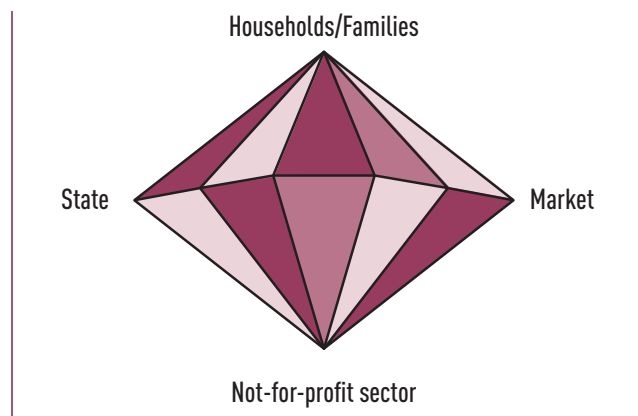
Section 4 sets out key principles that need to inform policy and policy priorities for developing countries.

1. Care in Context: Institutional Arrangements and Enabling Policies

Diverse institutions have a hand in caregiving

Four main institutions are involved in the design, funding and delivery of care: households and families; markets; the state; and the not-for-profit sector. These institutions can be represented as a care diamond (figure 7.1).⁴ In addition, evidence from many low- and lower-middle-income countries, outlined in section 3, suggests that multilateral, bilateral and non-governmental international organizations also fund and shape many care-related policies and programmes in aid-dependent countries.⁵

FIGURE 7.1: The care diamond



These institutions interact in complex ways, and the boundaries between them are neither clear-cut nor static.

For example, the state often funds care services that are delivered through non-profit organizations.⁶ Furthermore, the role of the state is qualitatively different from that of other institutions of the care diamond, because it is not just a provider of public care services, but also a significant decision maker when it comes to the rights and responsibilities of the other institutions. Whether and how the state makes use of its role is fundamental in defining who has access to quality care and who bears the costs of its provision. The effective creation, regulation and funding of care services can increase the access, affordability and quality of care and reduce time burdens placed on unpaid caregivers. Similarly, parental leave or family/child allowances can be financed through taxes or social insurance programmes, thereby socializing some of the costs assumed by unpaid caregivers.

When the state lacks the capacity (or political will) to adequately provide, fund and regulate care, families and households inevitably take on a greater share of its provision. Excessive reliance on the unpaid work of family members is not limited to developing countries. In countries as diverse as Italy, Japan, Spain and Switzerland, most families are left to make their own arrangements for care provision, sometimes by hiring informally employed migrant workers.⁷

Care diamonds also vary across income groups. High-income households, for example, are often in a better position to choose among different options (such as public or fee-based private services or hiring of domestic workers), while low-income households have more limited choices (for example, public childcare facilities with long waiting lists or unpaid care by family members).

An enabling environment can ease the burden of care

Good care requires a variety of resources, including time and material resources.⁸ Time is a key input into care in both developing and developed country contexts (see section 3 below). However, the question of time cannot be considered without the material dimension. It is one thing to be time-poor and income-rich (middle-class profession-

als), another to be time-poor and income-poor (women wage labourers in rural India), and quite another still to be time-rich and income-poor by being forced into idleness because of very high rates of structural unemployment (as in South Africa). There are, therefore, three preconditions for caregiving, including the availability of:

- paid work (or, in its absence, social transfers) to ensure sufficient income with which to purchase the necessary inputs into direct caregiving (such as nutritious food or transportation to reach the nearest health centre);
- appropriate infrastructure and technology (including water and sanitation and time-saving domestic technology), to increase the efficiency and lessen the burden of unpaid domestic work; and
- enabling social services (such as health care and primary education) to complement unpaid caregiving.

None of these preconditions can be taken for granted in developing countries.⁹ In addition to this broader enabling environment, ensuring adequate care also requires specific policies that have a direct bearing on care provision.

Specific care policies can also lighten the load

Specific care-related policies can be broadly categorized into three areas: time-related measures (such as parental leave), financial resources (such as child and family allowances or pension credits) and services (childcare services, for example). Such policies cannot substitute each other, however. They are complementary, ensuring that the rights and needs of caregivers and care recipients are met in an appropriate way.

Paid care leave (such as parental leave) provides caregivers with time and resources with which to care for dependants. However, paid leave is rarely offered to workers who are informally employed. Paid leave can also reinforce the notion of caregiving as women's work if it is restricted to female workers.

Cash transfers can assist families with the cost of bringing up children. However, when transfers are targeted to mothers and made conditional (on children undergoing regular health checks, for example, or mothers attending

workshops on nutrition), they can add to the already heavy workloads of poor women and lack any incentive for sharing work between women and men.

Accessible and affordable care services can give unpaid caregivers the option of engaging in other activities, including income earning, while ensuring a level of care and safety for their dependants. If done properly, investment in preschool and childcare services can generate new employment opportunities, free up women’s time for participation in the paid economy and yield future returns in terms of child development.

Economic development can squeeze women’s caregiving time

What happens to caregiving and well-being in the process of development? Does capital accumulation – a necessity for developing countries – facilitate caregiving and enhance human well-being? Or does it come at their expense? As this report explains, the process of structural change often entails an increase in agricultural productivity and diversification of the productive base through manufacturing, typically by increasing the output of items produced for pay by women (see chapter 4). There is a good deal of evidence to suggest that growth and poverty reduction strategies that rely on increases in women’s paid work are not always matched by a reduction in their unpaid care work. In such situations, the result is often an extension of the total time spent by women on paid and unpaid work, as well as a reduction in the quality of the output produced by unpaid work, especially through a squeeze on time for care.¹⁰

2. Unpaid Care in Households, Families and Communities

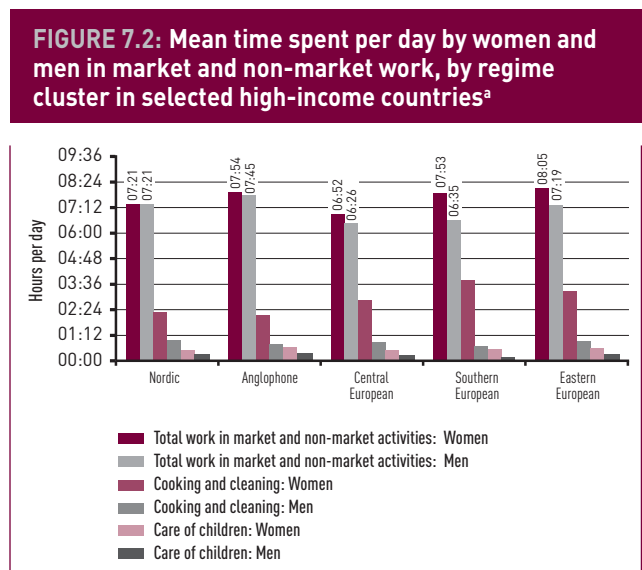
How much care families and households provide can be quantified using the metric of time. The main sources of data are time use surveys. These differ from standard labour force surveys in that they typically ask respondents to report

on all activities carried out over a specified period, including the time spent on:

- non-productive activities: sleep, leisure, study and self-care;
- employment-related work, which in developing countries includes both market work and subsistence activities, such as subsistence agriculture and gathering fuel and water (also called SNA work); and
- unpaid care work (also called extended-SNA), which includes unpaid housework and person-care.¹¹

Women’s time spent on unpaid care is higher than men’s everywhere

To highlight the significance of unpaid care work in terms of the amount of time that is allocated to it, figure 7.2 provides estimates of time use for women and men across selected high-income country clusters.¹²

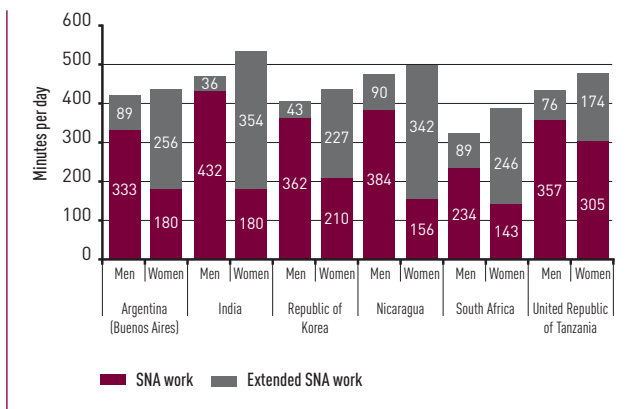


Note: ^a The following countries are included in each cluster: Nordic (Finland, Norway, Sweden); Anglophone (Canada, United Kingdom, United States); Central European (Belgium, France, Germany); Southern European (Italy, Portugal, Spain); Eastern European (Hungary, Poland, Slovenia). Source: Based on UNDP 2008b.

Figure 7.3 gives a similar picture for six developing countries: Argentina (Buenos Aires), India, Nicaragua, the Republic of Korea, South Africa and the United Republic of Tanzania.¹³ For a number of reasons, including variation

in the instruments and methodologies used in the collection of data in different countries, the results are not strictly comparable but they reveal a general trend.¹⁴

FIGURE 7.3: Mean time spent per day on SNA work and extended SNA work, by country and sex for full sample population



Notes: The SNA distinguishes production that is included in calculations of GDP and that which is not. SNA work includes the production of all goods (whether or not they are sold on the market) and services that are sold on the market. Extended SNA – or unpaid care work – refers to work that is excluded from the calculation of GDP, such as housework in one's own home and unpaid care for children, the elderly, and people who are ill or disabled. In contrast to the mean actor time, the calculations for the full sample population include those who spend no time on caring. Source: Budlender 2008a.

It is evident from these two figures that, despite the well-known difficulties of capturing unpaid care work through time use surveys,¹⁵ the volume of such work provided by women and men is significant. Also remarkable is the large quantity of unpaid care work in high-income countries. While non-market work remains important within the advanced economies, its composition seems to shift in the course of economic development, with a decline in the relative share of time devoted to housework and an increase in the relative share of time devoted to the care of children and other dependants.¹⁶

Women spend more time on paid and unpaid care combined than men

To say that a large part of care work in all societies is provided on an unpaid basis does not mean that unpaid care carries no costs. In fact, it imposes substantial costs on those who

provide it in the form of financial obligations, lost opportunities and foregone earnings – which is not to deny that it also generates intrinsic rewards, stronger family and social ties, and good quality services for dependants.¹⁷ The costs, however, are unequally borne. Women in general tend to bear a disproportionate share of the work, while many of the benefits go to society more broadly, as children grow up and join the workforce and pay taxes. The cost is also unequally borne across social classes, given the generally higher rates of fertility among lower income households.

It should not come as a surprise that, in all countries, women's hours of paid work (or SNA work) are fewer than men's, while men contribute less time to unpaid care work. Among the six countries in figure 7.3, the mean time spent by women on unpaid care work is more than twice the mean time spent by men. The gender gap is most marked in India, where women spend nearly 10 times as much time on unpaid care work as men. Men in India and the Republic of Korea tend to do noticeably less unpaid care work than men in the other countries.

If paid and unpaid work are combined, women in all six countries allocate more time to work than men – which means less time for leisure, education, political participation and self-care. A similar pattern is found among most high-income countries (with the exception of the Nordic cluster), as shown in figure 7.2. In general, therefore, it is fair to say that time poverty is more prevalent among women than men. But this statement relates to averages (or means) calculated across the population. In fact, the distribution patterns for men and women are very different, with low variability among men (that is, men do a consistently low amount of unpaid care work) and high variability among women (some women do significantly more unpaid care work than others). As a consequence, there is a notable level of intra-group inequality.¹⁸

Several factors affect the amount of unpaid care work performed by both sexes

Age, gender, marital status, income/class, ethnicity/caste and the presence of young children in the household are some of the factors that influence the time people spend

on unpaid care work. These factors can also reinforce each other. A simple tabulation by age, for example, would show a clear pattern of increased engagement in, and time spent on, care of persons as age increases, up to a point. Part of this pattern can be explained by the fact that adults are more likely to be married and to have children. Both of these factors in and of themselves tend to result in an increase in time spent on care of persons.

Looking at unpaid care work more broadly, cross-country data show that being male tends to result in doing less of this type of work. As far as the age of the caregiver is concerned, the common pattern is an initial increase in the amount of unpaid care work performed, followed by a decrease. Meanwhile, household income tends to have an inverse relationship to women’s time spent on unpaid care work. In other words, in low-income households, women allocate more time to such tasks than in high-income households, possibly reflecting limited options for purchasing care services, the lack of infrastructure and larger household size.¹⁹

Having a young child in the household has a major impact on the amount of unpaid care work assumed by women and men. At first glance, this would suggest that falling fertility rates could yield a care dividend in the form of reduced unpaid care burdens. In reality, however, demographic variables alone (for example, a simple ratio of young children to adults) do not determine care needs and burdens. Rather, they are filtered through social, cultural and economic factors that, in turn, shape what is considered to be sufficient or good care.

This point is illustrated by the figure in box 7.1, which shows that the care dependency ratio is lowest in the Republic of Korea, followed by Argentina, and highest for the United Republic of Tanzania, reflecting in particular the relative size of the under-six cohort. Demographic structures thus suggest a lower care burden in the Republic of Korea and Argentina than in the United Republic of Tanzania, India and South Africa. Nevertheless, time use surveys show that relatively more time is allocated to person-care in the former two countries than in the latter three. In the latter countries, as the next section will argue, a serious care deficit may exist.

BOX 7.1: Measuring the burden of care: The care dependency ratio

The care dependency ratio is intended to reflect the relative burden placed on caregivers in a society. As with the standard dependency ratio, the care dependency ratio is defined in terms of age groups. Those with intense care needs (0–6 years of age and 85+ years) are given full weight, while those with less intense needs (7–12 years and 75–84 years) get half-weights. Potential caregivers fall in the age category of 15–74 years.

Those needing care:

- A=0–6 years; weight: 1
- B=7–12 years; weight: 0.5
- C=75–84 years; weight: 0.5
- D=85+; weight: 1

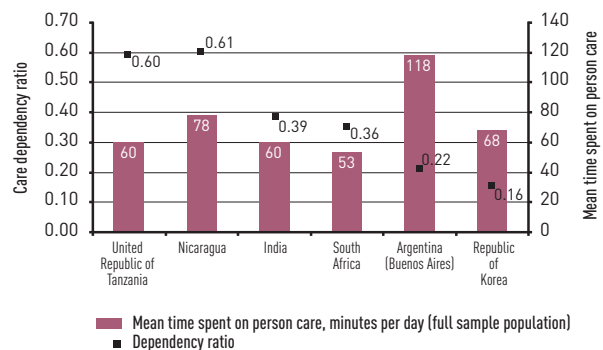
Potential caregivers:

E=15–74 years

Care dependency ratio = (A+B+C+D)/E

The care dependency ratio tends to undercount the number of people needing care (and overestimate the number of caregivers), since it does not take into consideration those in either group who are disabled or ill (due to lack of adequate data). Undercounting is most likely to occur in countries affected by HIV and AIDS. The care dependency ratio also disregards the fact that all people require a certain amount of care.

Care dependency ratios and time spent on person-care



3. Care Arrangements across Countries

This section explains how care needs are being addressed through public policy in a range of countries – from the institutionalized welfare states, where the issue of care is an established element of the policy agenda, to East Asian developmental states and middle-income countries. Finally, it looks at agrarian and lower income developing countries, where the policy challenges of care are most severe.

From the analysis it becomes clear that despite relatively similar levels of income within each cluster, there is considerable variation in how care needs are being addressed. The comparative findings hold important policy lessons, which are summarized in section 4.

How care policies affect outcomes

Lessons from advanced industrialized economies

Most high-income countries have gradually moved away from the male-breadwinner model (see chapter 4). Women’s labour force participation has been growing in most countries, reducing the time spent on unpaid care work at home. As a consequence, recognition of care as a public policy issue is also on the rise. Institutionalized welfare states have responded differently to this scenario.

Recognition of care as a public policy issue is on the rise in most high-income countries, largely as a result of women’s increased labour force participation

Policy interventions in these countries have ranged from allowances for caregivers or care recipients, to tax breaks, paid and unpaid leave provision, social security credits and social services. Some assist caregivers in carrying out their tasks; others partly substitute for their labour. Yet others allow care recipients (including those with disabilities) to buy-in the assistance they consider necessary. Cross-country comparative research provides critical assessments of these policies based on a number of criteria, including gender equality, women’s access to paid employment and the rights of caregivers and care recipients.²⁰

Table 7.1 shows a trend across Europe that favours multidimensional responses to care and thus some degree of convergence. However, it also reveals that, across high-income countries, overall spending on family policy varies (indicating different levels of state commitment to care) and that policy emphasis is not uniform. Some states, including the Nordic countries and France, have placed the accent on the provision of care services. In addition to services and transfers, the Nordic countries also provide generous leave systems and comparatively long and well-compensated paternity leave or father quotas in parental leave. They have therefore been characterized as “caring states” that provide families with multiple options.

Other states are more active in supporting family care through cash benefits, particularly the United Kingdom and Ireland, rather than offering services. Germany and the United States spend more on tax breaks towards families than they do on service provision, which favours higher income households. Canada, the United States and the Southern European countries, which are particularly low spenders, have therefore been called “non-caring states”.²¹

TABLE 7.1: Selected OECD countries: Public spending on family policy

	Public spending on family policy as % of GDP, 2005				Spending on maternity and parental leave payments per child born as % of GDP per capita, 2005
	Total	Cash	Services	Tax breaks towards family	
France	3.8	1.4	1.6	0.8	27.5
United Kingdom	3.6	2.2	1.0	0.4	10.3
Denmark	3.2	1.5	1.6	0.0	47.4
Sweden	3.2	1.5	1.6	0.0	59.4
Belgium	3.1	1.7	0.9	0.5	15.8
Germany	3.0	1.4	0.7	0.9	23.0
Finland	3.0	1.6	1.4	0.0	58.0
Norway	3.0	1.6	1.3	0.1	53.7
Austria	2.9	2.4	0.5	0.0	15.4
Australia	2.9	2.2	0.6	0.0	7.2
New Zealand	2.6	1.9	0.7	0.0	4.4
Ireland	2.6	2.2	0.3	0.1	5.5
Netherlands	2.3	0.6	1.0	0.6	12.9
Portugal	1.7	0.7	0.8	0.2	18.5
Italy	1.3	0.6	0.7	0.0	18.7
United States	1.3	0.1	0.5	0.7	n.a.
Spain	1.2	0.4	0.7	0.1	14.5
Canada	1.1	0.9	0.2	0.1	21.4
Greece	1.1	0.7	0.4	n.a.	8.9

Note: n.a. = not available. Source: OECD 2008b.

The combination of employment opportunities and state social provisioning has consequences for the poverty risk of single mothers who have to juggle income-earning and care responsibilities (see chapter 4). While the relationship between public spending on families and poverty outcomes

is not straightforward, concern is growing about child poverty in several high-income countries of the Organisation for Economic Co-operation and Development (OECD), and rightly so, as table 7.2 suggests.

TABLE 7.2: Child poverty and poverty rates in selected OECD countries

	Child poverty rate, mid-2000s (%)^a	Poverty rate for the total population, mid-2000s (%)^b
United States	20.6	17.1
Spain	17.3	13.7
Portugal	16.6	13.7
Ireland	16.3	15.4
Germany	16.3	11.0
Italy	15.5	11.4
Canada	15.1	12.0
New Zealand	15.0	10.8
Greece	13.2	12.6
Australia	11.8	12.4
Netherlands	11.5	7.7
United Kingdom	10.1	8.3
Belgium	10.0	10.4
France	7.6	6.5
Norway	4.6	6.8
Finland	4.2	7.3
Sweden	4.0	5.3
Denmark	2.7	5.3

Sources: ^a OECD 2008b, ^b OECD 2008a.

Anglophone and Southern European countries, and Germany, show the highest child poverty rates. Moreover, poverty tends to be higher among children than among the total population in these countries. The four Nordic countries in the sample outperform all others in terms of reducing child poverty, mirroring the findings on low poverty rates among single mothers in those countries (see chapter 4). Child poverty levels are actually lower than overall poverty in the Nordic countries. This suggests that high performers in terms of child welfare (that is, countries where child poverty rates are very low both absolutely and relative to overall poverty rates) tend to be high spenders with a balanced mix of public spending on services, parental leave and transfers. However not all high spenders perform well (such as Belgium, Germany and the United Kingdom).

High performers in terms of child welfare tend to have a balanced mix of public spending on services, parental leave and transfers

Time, money and services are thus complementary rather than alternative policy inputs. Cash transfers can assist families financially with the cost of bringing up children, but transfer-heavy and service-lean systems also tend to undermine women's participation in paid work. Tax cuts, on the other hand, display a clear class bias, failing to reach households whose income is below the tax threshold. The provision of accessible and affordable care services, on the other hand, can give unpaid caregivers the option of engaging in other activities, including paid work, thus improving the income level of their households.

Catching up: Care and developmentalism in two Asian Tigers

The export-led industrialization period for Taiwan Province of China and the Republic of Korea relied heavily on the use of female labour in the manufacturing sector (see chapter 4). Since the 1980s, both have followed a similar decline in total fertility rates and, hence, are

experiencing population ageing. Concern over demographic change and possible labour shortages has led to greater attention to women's care responsibilities. However, government response and the institutional set-up for childcare and family welfare appear to be quite different.

Republic of Korea. The Republic of Korea – where caregiving has been largely left to families – has been undergoing important changes over the last two decades. Both political contestation and demographic imperatives have catapulted social care onto the national policy agenda. The state has extended and redesigned parental leave, expanded early childhood education and early childhood care, and integrated the two systems. It has also provided subsidies to childcare centres and tax exemptions for families. In 2008, the Elderly Care Insurance programme was introduced to cover long-term care needs.

Despite the increase in social spending since 1990, the proportion that goes to the family remained a marginal 0.39 per cent of total government expenditure in 2003.²² Most of this spending has focused on service provision. While the Republic of Korea was lagging behind most member countries of the OECD in coverage of children under age 3, the country has been proactive in its efforts to catch up. For example, from 2004 to 2006, under-3 coverage increased from 19 per cent to 31 per cent, outperforming 20 of 36 OECD countries.²³ Most enrolment is part-time, reflecting the country's female employment patterns (see chapter 4).

The state partially finances and regulates the provision of care, but does not actually deliver most care services. Indeed, only around 6 per cent of the childcare centres are truly public; the rest are subsidized private-for-profit and non-profit centres, mimicking the role of the private sector in the delivery of health care (see chapter 6). Government subsidies, on a sliding scale based on parents' income, are paid directly to the institution where the child is enrolled. Hence, the same institution may be frequented by children from low- and high-income groups, with the participation of those from lower income families subsidized by the state. A distinguishing feature of public childcare centres is that they are run as part of the public service; their staff

members, often with strong educational qualifications, are classified as public servants, enjoy good working conditions and salaries, and are represented by public sector unions. This is not the case with workers in the subsidized sectors, both for-profit and non-profit, who tend to have fewer qualifications and lower salaries.

Even though the country's Ministry of Gender Equality and Family, and policy think tanks linked to it, had proposed the Nordic path of direct public care provisioning, opposition from the Ministry of Planning and Budget as well as the Private Childcare Providers' Association finally led to the adoption of a less state-centred delivery mechanism. Childcare subsidies have been presented not only as a family-friendly social policy, but also as a family-friendly economic policy, framing social services as the growth engines of the new economy. In a similar vein, the Elderly Care Insurance services are expected to be provided primarily by the market and non-profit sector. The expansion of social care in the Republic of Korea is therefore hardly market challenging.²⁴

Social services have been framed as the growth engines of the new economy in the Republic of Korea

In addition to services, the government has introduced a number of policy reforms to harmonize work and family life. For example, the 2001 Maternity Protection Act extended paid maternity leave from 60 to 90 days (at 100 per cent wage replacement) and introduced financial support for parents taking one-year parental leave. In response to high non-compliance rates by employers, maternity leave legislation was revised again in 2005, shifting the financial burden of wage replacement from the employer to the state and social insurance. To encourage uptake of parental leave, a monthly flat-rate wage of approximately \$250 per month was added to the remaining nine months of leave in 2004. This rate was subsequently raised, reaching \$500 in 2007. A non-transferable “daddy quota” in parental leave was also introduced in 2006.²⁵ However, the total take-up

rate of parental leave is still very low: 5 per cent of eligible mothers and less than 1 per cent of eligible fathers. Surveys show that the main reason for the low take-up rate is workplace discrimination against workers who take the leave.

Taiwan Province of China. In Taiwan Province of China, state activity in social care appears to be lower than in the Republic of Korea. The maximum length of paid maternity leave, for example, is 56 days compared to 90 days in the Republic of Korea. State provision of childcare services also appears to be limited, as in the Republic of Korea, and private and for-profit childcare organizations outnumber publicly provided services there.²⁶ The relaxation of immigration laws for foreign caregivers suggests another method of privatizing care responsibilities by shifting the care burden away from the state and down a gendered, and ethnicized, global care chain.²⁷ The Taiwanese government opened up immigration laws in 1992 to allow the inflow of foreign domestic workers to solve the care deficit.²⁸ In 2003, there were around 120,000 documented migrant domestic workers in the country – most of them from Indonesia and Viet Nam and, to a lesser extent, from the Philippines – with their presence making up for “the absence of the state and the husband”.²⁹ In the Republic of Korea, in contrast, the immigration of foreign domestic workers has so far been minimal, due to its more conservative stance on labour migration.

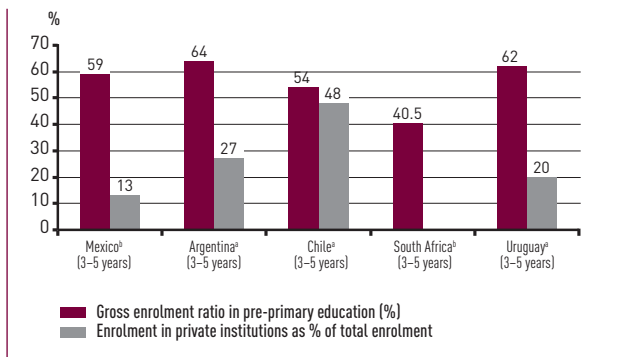
The challenge of inequality: Care in dualist economies

Argentina, Chile, Mexico, South Africa and Uruguay. While primary school enrolment is close to universal in most upper-middle-income countries, many of them, including Argentina, Chile, Mexico, South Africa³⁰ and Uruguay have been experimenting with a range of care-related social policies. These include early childhood education and care, full-day school programmes, pension credits for child-rearing, conditional and unconditional cash transfers and home-based care of the sick, to name just a few. All of these countries are characterized by fairly segmented labour markets and high levels of income inequality. These inequalities are often reproduced in the type of care services accessible to children.

Dualist labour markets leave large parts of the working population excluded from employment-related benefits, such as paid maternity or parental leave. In Argentina, for example, the law that stipulates a three-month maternity leave at 100 per cent wage replacement applies only to half the female workforce due to pervasive informality.³¹ In none of the above countries can fathers significantly share parental leave. A similar spillover from labour market inequalities to care entitlements can be observed when childcare service provision is through social security, excluding informal workers from this benefit, as is the case in Mexico. Where access to childcare has been introduced as a right of working mothers and provision is left to employers, as in Argentina or Chile, weak enforcement often leads to low compliance and coverage. There is thus a dire need for accessible care services that are not linked to employment, particularly in the face of increasing labour market informality.

Some of these countries have made progress in early childhood education and care services for children aged 3 to 5. Figure 7.4 shows, however, that enrolment levels vary considerably – as does private sector participation. Thus, Uruguay outperforms Chile at lower levels of per capita income, and all of the Latin American countries in figure 7.4 do better than South Africa.

FIGURE 7.4: Gross enrolment ratios in pre-primary education and enrolment in private institutions as a percentage of total enrolment, according to per capita GNP in selected upper-middle-income countries, around 2005

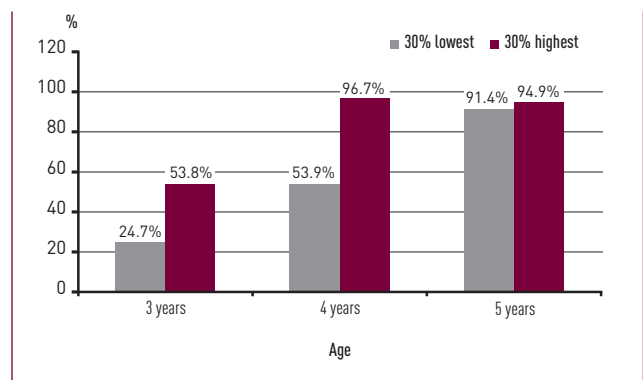


Notes: ^a Enrolment ratio from UNESCO 2008, based on national survey data from 2005. ^b Enrolment ratio for Mexico from Presidencia 2008; for South Africa, from Statistics South Africa 2008. Includes daycare and childcare facilities.

In Argentina and Mexico, preschool coverage increased significantly after attendance was made mandatory for different age groups. In Mexico, preschool enrolment for children aged 3 to 5 was made compulsory in 2002 and, since that time, has grown from 3.5 million to almost 5 million children. Almost universal coverage of 4- and 5-year-olds was achieved in 2008. While coverage of 3-year-olds had doubled, it remained at a low 34 per cent.³² Most preschools are public and run only half-day programmes, limiting the extent to which they can address working parents’ needs for childcare. A recent evaluation also shows huge differences in quality and student achievement across public preschools in rural and urban areas, as well as the few private schools performing considerably better.³³

In Argentina, preschool attendance was made mandatory for 5-year-olds and coverage is now close to universal. Nevertheless, coverage and quality of preschool education are still characterized by regional disparities (particularly with regard to the availability of full-day programmes). Furthermore, for 3- and 4-year-olds, access to quality preschools is limited for children from families who cannot pay for the service, as figure 7.5 shows. The gap between different income groups shrinks significantly in the age group for which attendance was made compulsory (age 5), indicating that this measure has had a positive effect on reducing inequalities in access to early childhood education.³⁴

FIGURE 7.5: Large cities in Argentina: Preschool attendance rates by age and per capita household income, 2006



Source: Faur 2008.

Chile, where preschool education is not mandatory and private sector participation is much more pronounced, displays similar inequalities. According to a 2006 household survey, 70 per cent of 4- and 5-year-old children from the poorest income quintile attended preschool in 2006, compared to 87 per cent from the richest quintile.³⁵ There is also clear segmentation along the lines of household income with respect to the type of institution children attend. Half the children from the richest quintile enrolled in private institutions, while coverage in the poorest quintile is largely concentrated in public institutions.

For younger age groups (0–3 years), the picture is less encouraging in most countries. In Uruguay, where overall enrolment rates are high by Latin American standards, approximately 75 per cent of the 3-year-old children from poor households are without access.³⁶ In Chile, coverage was low and negligible for children under the age of 2 until 2006, when the government launched a programme to expand the availability of public daycare facilities. Similarly, public childcare for lower age groups is still scarce in Argentina, and the market plays a dominant role in its provision – an arrangement that is also heavily class-biased.³⁷

Child-centred cash transfer schemes. In advanced industrialized countries, child allowances were never intended to pay for care. The idea, rather, was to assist families with some of the material costs of raising children. In developing countries, a new generation of cash transfer programmes is often framed as a measure for reducing poverty and enhancing children's capabilities. While these transfers are thus not meant to pay for care, many of them are explicitly targeted to mothers or primary caregivers and facilitate the care work they do by allowing them to purchase essential inputs (food, school supplies, health services) or to buy-in care substitutes (by drawing on family members or informal carers). Social assistance pensions or disability grants, on the other hand, can help elderly people and those with disabilities to care for themselves by purchasing care where necessary. The disability movement in particular has tended to take a more positive attitude towards the availability of cash benefits (as opposed to service provisioning). It has argued that cash benefits enable people with disabilities

to exercise greater choice in accessing the type of services they need and hence foster greater independent living.³⁸

In several Latin American countries, child-centred cash transfer schemes tend to be conditioned on compliance with care requirements, such as taking children for regular health checks, ensuring school attendance and participating in health and nutritional workshops. The two largest long-standing programmes in this area – Mexico's *Progres/Oportunidades* and Brazil's *Bolsa Familia* – have served as blueprints and, by 2008, at least 10 Latin American countries had initiated similar schemes. *Progres/Oportunidades* and *Bolsa Familia* now reach significant proportions of the population (see table 5.5 in chapter 5). In most countries, transfers are targeted to the poor and benefits are channelled through women, usually mothers, who are in charge of fulfilling the conditionalities.

Despite their limitations (see chapter 5), positive effects on child development are evident as a result of some of these schemes. These include improvements in primary and secondary school enrolment and attendance rates, food consumption and height, as well as a decline in school drop-out rates and child labour.³⁹ In several programmes, incentives are designed in ways that promote school attendance among girls in particular in order to equalize the educational opportunities of boys and girls. In Mexico, there is evidence that such incentives have helped reduce the gender gap in schooling.⁴⁰

The South African Child Support Grant, which is given to the primary care provider, is not conditional on a recipient's behaviour. The programme, which replaced the ethnically based State Maintenance Grant in 1998 as a poverty-oriented policy measure, is a means-tested grant payable to the primary caregiver (not necessarily the biological mother or father).⁴¹ Estimates suggest that well over 80 per cent of eligible children are benefiting from the grant, with a positive impact on their development.⁴² Some of the existing research shows that conditional cash transfers increase children's school enrolment and attendance rates (research on *Bolsa Familia* in Brazil excepted) and result in improved health. However, there is very little evidence that it is the

conditionalities that have brought about these changes, as opposed to the simple injection of additional cash into a household. Indeed, evidence from South Africa reveals the markedly positive impact of unconditional grants.⁴³

Positive findings notwithstanding, the proliferation of cash grants targeted to children and the elderly in poor households raises some important issues. First, while cash transfers may assist poor households in paying user fees and accessing poor-quality public health and education services, they are no substitute for quality public services as evidence from advanced industrialized countries shows.⁴⁴ Despite South Africa's child support grant, for example, the country lags behind in coverage of preschool for children aged 3 to 5 (see figure 7.4). This may reflect the fact that spending on cash grants has taken the policy and advocacy focus away from the need for public investment in decent social and care services. While welfare spending increased sharply between 2000 and 2007, the budget for social services remained fairly stable.⁴⁵

Positive findings notwithstanding, the proliferation of cash grants targeted to children and the elderly in poor households raises contentious issues

A second contentious issue is whether these cash benefits empower women and increase their autonomy vis-à-vis men in the same household. While an evaluation of the Mexican programme found that access to cash had increased women's voice in household decision making,⁴⁶ others have raised concerns about men withholding their financial contributions in households where women receive the transfer.⁴⁷ A regular and reliable source of income in the hands of women can assist them in their responsibilities as caregivers, particularly in contexts where a large proportion of women have to juggle household survival and care on their own, as in South Africa. However, conditional cash transfers that come with heavy co-responsibilities that women have to assume not only discourage men from assuming

care-related tasks, but also risk overburdening women whose (paid and unpaid) inputs into household survival have both diversified and intensified in many developing countries.⁴⁸

Social assistance pensions for the elderly. Positive findings have also been documented for social assistance pensions (see chapter 5). In South Africa, for example, the means-tested Old Age Pension has been praised for being well targeted in ethnic and gender terms, and valued for its reliability. There is also evidence that the Old Age Pension stimulates care provision, bolsters the security of households in which elderly people live, contributes to the livelihood of elderly people themselves, and of other and younger family members.⁴⁹ However, the fact that such pensions may be spent on other household members raises the question of the adequacy of such fungible cash benefits for securing adequate care for elderly people themselves. This is especially true for elderly women, who cannot rely on a spouse to care for them in the way that elderly men often can, given the fact that women very often live longer than men and marry or cohabit with men older than themselves.

The policy debates on care for old and very old people often focus on financial issues (pensions). This is to some extent understandable. However, it also presents a partial view of the policy challenges that population ageing entails. The organization and distribution of the practical work of caring for the elderly constitutes another important set of considerations often left out of policy debates; in many countries these are now urgent issues requiring policy redress.⁵⁰ Gender inequalities can also be found in this domain. For example, women are the main caregivers for the very old and frail, yet they are in a weaker position than their male counterparts to demand care (whether paid or unpaid) when they become old and frail themselves.

Confronting deficits: Care in agrarian economies with large informal labour markets

Many low- and lower-middle-income countries face formidable challenges in addressing even basic care needs. Explicit care policies and programmes are few and far

between, and those that do exist are often characterized by low coverage and poor quality. This section offers evidence from three countries – India, Nicaragua and the United Republic of Tanzania – to show how care has entered the public policy agenda.

Many low- and lower-middle-income countries face formidable challenges in addressing even basic care needs

All three countries have extensively informal labour markets; their social protection measures are largely directed to the smaller segment of the population that is engaged in formal employment. Coverage of public health and primary education tends to be inadequate and of poor quality, and specialized care services (for preschoolers or those with AIDS) are also rudimentary. To this must be added the heavy demands that poor and inaccessible infrastructure place on such households, especially on women and girls (see box 7.2). Hence, much of the burden of caregiving is shifted to the unpaid economy, with women putting in relatively long hours of work (see figure 7.3).

BOX 7.2: United Republic of Tanzania: The time burden of collecting water and fuel

The time it takes to collect water is significant in many developing countries. In the United Republic of Tanzania, people spend an average of 16 minutes each day collecting water (if the time spent on water collection is averaged out over the entire population aged 5 years and older). If the time spent by only those who collect water is averaged, it rises to 28 minutes each day. One-tenth of water collectors spend 54 minutes or more on average per day fetching water.

These time use data also show that 69 per cent of those who reported that they collect firewood or other forms of fuel were female. When age and sex are considered together, 39 per cent of women aged 18–49 years, and 16 per cent of men, reported some collection of fuel over a seven-day period. Engagement in fuel collection is noticeably lower for girls and boys, at 27 per cent and 19 per cent, respectively, but higher than suggested by what household heads reported.

As with water collection, the poorest households bear the heaviest burdens. Data show that 42 per cent of females and 22 per cent of males from the poorest households collect fuel, compared to 15 per cent of females and 7 per cent of males in relatively wealthy households. In rural areas, 33 per cent of respondents collect fuel compared to only 7 per cent in urban areas.

In terms of time spent, those who collect fuel spend an average of 25 minutes a day on this specific task. Nine in 10 collectors spend 48 minutes or more on average a day collecting fuel. Given that fuel collection may not be carried out on a daily basis, the amount of time spent on a particular day could be much longer.

Source: TGNP (Tanzania Gender Networking Programme) 2009.

TABLE 7.3: Selected social indicators in India, Nicaragua and the United Republic of Tanzania

Social spending indicators	Nicaragua	India	United Republic of Tanzania
Public spending on education as % of GDP, 2002–2005 ^a	3.1	3.8	2.2
Public spending on health as % of GDP ^a	3.9	0.9	1.7
Private expenditure on health as % of total expenditure on health ^b	45.3	80.4	40.8
Per capita government expenditure on health (PPP \$) ^b	137.0	21.0	27.0
Social outcome indicators	Nicaragua	India	United Republic of Tanzania
Infant mortality rate (per 1,000 live births) ^a	30.0	56.0	76.0
Births attended by skilled health personnel (%) ^b	67.0	47.0	43.0
Population with sustainable access to improved sanitation (%) ^b	48.0	28.0	33.0
Net primary school enrolment (%) ^c	89.8	88.7	97.8

Notes: ^a UNDP Human Development Index 2005 or latest year available. ^b WHOSIS (WHO Statistical Information System) 2006 or latest year available. ^c World Bank 2006.

As illustrated in table 7.3, public spending on education constitutes a smaller percentage of GDP in the United Republic of Tanzania than in India or Nicaragua. While both India and the United Republic of Tanzania spend very little on the health of their citizens (compared to Nicaragua), government health expenditure per capita is higher in the United Republic of Tanzania than in India. Health spending in the United Republic of Tanzania, however, needs to be considered alongside the substantial increase in the demand for health services as a result of HIV and AIDS.

On a range of outcome indicators – including infant mortality rates and births attended by skilled personnel – the United Republic of Tanzania does more poorly than the other two countries, as might be expected from the combination of very low levels of income, relatively low spending on public health and formidable health challenges.

However, India's relatively poor performance compared to Nicaragua, despite their roughly similar levels of per capita

income and poverty, is striking. If we add to this India's impressive growth rates over the past decade, stronger state administrative capacity compared to both Nicaragua and the United Republic of Tanzania,⁵¹ and the fact that the country enjoys greater policy and fiscal space due to the marginal role of international donors, it is reasonable to conclude that political impediments to state action in India are daunting.

The following sections describe some of the social programmes that directly or inadvertently address the care burden of households, focusing on HIV and AIDS in the United Republic of Tanzania and on children in the other two countries.

United Republic of Tanzania. In this country, as in other parts of sub-Saharan Africa, creeping liberalization of health services, together with the introduction of market principles in the public system during the 1990s, have led to the exclusion of large segments of the population.⁵² Though exemption and waiver systems were

designed to mitigate the impact of user fees on the poor, widespread difficulties in their implementation suggest a significant financial burden on poor households. The impact of HIV and AIDS has placed enormous additional stress on the formal health care system, which had serious problems addressing citizens' basic needs even before the epidemic. While HIV and AIDS create an ever-increasing demand for health services, human resources are not often sufficient to meet it. The total health workforce declined by 28 per cent between 1994/1995 and 2000/2001, and by a further 10 per cent by 2005/2006,⁵³ in part due to the out-migration of health personnel, particularly nurses, to countries that offer better wages and working conditions.

Home-based care services are severely underfunded, receiving only about 1–2 per cent of government and donor spending on HIV/AIDS in sub-Saharan Africa

In several sub-Saharan African countries, including the United Republic of Tanzania, home-based care programmes are being promoted to complement public health services in coping with the enormous care demands imposed by AIDS. In theory, trained nurses are supposed to offer skilled support and training to community-based volunteers, and a functional referral system is assumed to be in place to provide specialized care to patients where needed. Community volunteers are theoretically supplied with a small transport allowance and a kit of gloves and food supplements. Their responsibility is to visit patients affected by HIV or AIDS in their homes and provide some basic care and support, thereby relieving the burden on family members. The government has advocated strongly in favour of home-based care programmes. And with funding from external donors, several non-governmental, faith-based and community organizations have responded positively to this call.

However, in practice, home-based care programmes face innumerable challenges. Referral systems are weak. Volunteers, most of whom are women and poor, receive little training on even the rudimentary skills of caring for an ill patient or even themselves while in the caregiving role, nor are they always supplied with basic supplies and stipends. Moreover, home-based care services are severely underfunded, receiving only about 1–2 per cent of government and donor spending on HIV/AIDS, since the emphasis continues to be on treatment, which is heavily skewed towards antiretroviral medications.⁵⁴ Field research in the United Republic of Tanzania suggests that home-based care volunteers spend long hours every day on care activities that impose major physical and emotional stress, without receiving any compensation.⁵⁵ Heavy reliance on external sources of funding has also created serious problems of sustainability, with little opportunity for individual organizations to accumulate experience in this field, as they shift to other forms of intervention in the hope of attracting funds, or simply collapse.

India. Overall enrolment in primary education has improved substantially in India, and drop-out rates have decreased for both boys and girls over the past 25 years. Preschool care, however, has been largely neglected. The policy assumption is that women are either full-time mothers or engaged in types of work (home-based, self-employed and informal) that enable them to combine paid work with care responsibilities. There is a lack of childcare facilities even in legally mandated work sites, public or private, including those established through the National Rural Employment Guarantee Act.⁵⁶

Among the urban middle classes, grandparents and domestic workers may help with care in the first year after a child's birth. Outside the elite and upper-middle classes, mothers try to interweave paid jobs with domestic and care work through the day, carrying their children with them. In both rural and urban working-class neighbourhoods, children may be left with kin, neighbours or even on their own, on the assumption that, in an emergency, the neighbours will take charge or make contact at the nearby work sites.⁵⁷ While this represents extreme cases, it also indicates

that the compulsion to work among the income-poor can mean that women's paid work, often as domestic workers in middle-class and elite households, leads to a care deficit in their own homes.

Public responsibility for childcare has entered government policy rather inadvertently through attempts to improve levels of nutrition and lower infant and child mortality rates. The Integrated Child Development Scheme, probably the largest child nutrition programme in the world, emerged in India as a result of a focus on nutrition and infant and maternal mortality, and has been expanding since the 1990s. It has taken on a minimal care function over time to the extent that delivery of some of the nutrition programmes required children's presence at *anganwadis* (government childcare facilities). However, opening hours are short and erratic, staff-to-child ratios are abysmally low and facilities and teaching materials are lacking. *Anganwadis* are thus not tapped by parents for daycare. Indeed, most children come to the centres only at meal times.⁵⁸

Though enrolment in primary education has improved substantially in India, preschool care has been largely neglected

Nicaragua. In Nicaragua, too, coverage of primary education has increased over the past two decades. However, unlike India and many countries in Latin America, both preschool programmes (catering to children between 3 and 5 years of age) and childcare services (which accommodate children from birth until age 5) were created and expanded in the early 1980s after the Sandinista revolution. A universal vision underpinned this expansion, even if, in practice, coverage remained limited and expansion was only possible through the mobilization and organization of volunteers that sought to bring about social change from below.⁵⁹ Over the past two decades, this element of volunteering or community involvement has remained a key feature of Nicaraguan social programmes, albeit for

different reasons (fiscal constraints imposed by public sector retrenchment under structural adjustment) and harnessed to a different model of social and economic policy (embracing certain neoliberal elements, such as targeting and co-responsibility).

Social programmes aimed at improving children's nutrition and retaining them in school, as well as preschool care, have proliferated in recent years, with many of them highly dependent on external funding sources. This has led to a certain degree of duplication, conflict of interest and institutional discontinuity, with some externally funded programmes working at cross-purposes with already established public social programmes. This has reduced overall impact. Again, a common feature of social programmes, be they nutritional or preschool programmes or conditional cash transfers, has been heavy reliance on the voluntary work of beneficiaries and community members, often the mothers of targeted children. Such reliance has been particularly onerous in the education sector, where a radical decentralization policy has devolved school management, fundraising activities, maintenance and improvement of facilities, responsibility for food preparation and even the hiring and firing of teachers in autonomous schools, demanding an excessive amount of time from both teachers and parents, mostly mothers.⁶⁰

4. Putting Care on the Agenda: Implications for Policy

This chapter has shown that policies that are good for care are not a luxury that only high-income countries can afford. While social care services (such as those oriented towards children or the elderly) tend to be underdeveloped in many lower income developing countries, caregiving is facilitated by a much wider range of factors – including access to water and sanitation, a decent income, social protection and good quality health and education services.

A policy environment that recognizes and values care as the bedrock of social and economic development needs to move

progressively towards respecting the rights and needs of those who give and receive care. The goal is to provide universal and affordable access to care to everyone who needs it, as well as control over how such help or assistance is given, in order to ensure the greatest degree of independence, if desired. In this ideal scenario, unpaid caregivers should be able to provide care in ways that strengthen the well-being and capabilities of those they care for without jeopardizing their own economic security. And caregiving should become a viable option, with adequate recognition and reward.

The goal is to provide universal and affordable care to everyone who needs it

While concrete policy options are country- and context-specific, a number of priorities can be identified, guided by the following principles.

Invest in infrastructure and basic social services

Investment in infrastructure (water, sanitation, electricity) in low-income countries can significantly increase the efficiency of unpaid domestic work. The availability of basic social services (such as primary education and health care) enhances the well-being and capabilities of service-users and reduces the time that family members allocate to those tasks. And both types of investment allow people more time for other pursuits, such as self-care, education, political participation and paid work.

Ensure an adequate and reliable source of income

In addition to time, caregiving also requires a reliable and adequate source of income with which to access the inputs (food, housing, transport) required for a decent standard of living. This can be achieved through either

paid work or appropriate social transfers, such as pensions or child/family allowances. The latter are particularly important in contexts where caregiving absorbs a significant amount of time.

Create synergies between social transfers and social services

Pensions and child/family allowances complement, but cannot substitute for, quality and accessible care services. The state has an important role to play in financing, regulating and providing care services. This is increasingly recognized in the area of childcare, where the challenge is to expand coverage in ways that reduce class and regional inequalities. One or two years of mandatory preschool can be an effective step in this direction. Policy debates on care for the elderly, on the other hand, often focus on financial issues, such as pensions. Meanwhile, the need for practical support in carrying out daily activities and the demand for long-term physical care are often neglected. In many countries, these are now urgent issues requiring policy attention.

Build on existing programmes to cover care needs

Low-income countries should build on existing social care programmes. The expansion of child nutrition centres into quality preschool/educational centres with wider coverage, or support for community-based health programmes (through training, and resources for meals, transport and medical kits, for example) can help provide better working conditions for care workers *and* improve the quality of the care they provide.

Recognize care workers and guarantee their rights

Evidence from both developed and developing countries shows that shifting some components of care work from households to markets or the public sector does not, in and

of itself, enhance its perceived value. Nor does it change the fact that it is carried out predominantly by women. Policy makers must lead the shift from a strategy that relies on market and voluntary provision of care of the most informal and exploitative kind to one that nurtures professional, decently paid and compassionate forms of care. This requires effective regulation and monitoring by states. Organizations of care workers and of care recipients also need to be involved, in order to build public confidence in such services and sustain their financing through general taxation. Non-profit organizations and civil society associations play an increasingly important role in the delivery of care services. It is the duty of the state to create clear standards on the rights of volunteers (including their health and safety at work and regular stipends), and to recognize them as workers.

Make care work more visible

In short, care has important features of a public good whose contribution to economic growth, social development and social cohesion extends far beyond the individual

care recipient. The costs of care must therefore be more evenly distributed among all members of society. In order to increase policy support for caregivers and care recipients, care must emerge from the private realm and become a public issue. Towards this end, it is important to make care work more visible through statistics as well as in public debates. Timely and regular indicators, such as those provided by time use surveys, are needed to monitor policy effectiveness in reducing and equalizing care burdens. Such indicators, along with in-depth qualitative research, can provide a care lens for assessing how policies and processes of social change impact on care.

The contribution of care to economic growth, social development and social cohesion extends far beyond the individual recipient

Notes

- 1 These figures have been calculated for six countries that formed part of an UNRISD study, by multiplying the estimated number of hours spent on unpaid care by a “generalist wage” (that is, using the average wage paid to a worker, such as a domestic worker or housekeeper, who would carry out virtually all care-related tasks) (Budlender 2008a).
- 2 Folbre and Nelson 2000.
- 3 Gonzalez de la Rocha 1988; Bakker 1994; Elson 2002.
- 4 Razavi 2007b.
- 5 Gough 2004; Wood and Gough 2006.
- 6 Patel 2009.
- 7 Williams and Gavanoas 2008.
- 8 Tronto 1993.
- 9 UNRISD 2009.
- 10 Elson 2005.
- 11 Budlender 2008a. The System of National Accounts (SNA) is a set of internationally accepted rules for calculating gross domestic product (GDP). After much lobbying by activist networks, researchers and some governments, the SNA was revised in 1993 to include (i) undercounted work, that is, work that is not fully counted due to conceptual and methodological problems of data collection, often described as “difficult to measure sectors” within the market economy, and (ii) uncounted work, that is, primarily subsistence work (including gathering fuel and water), the output of which is meant for own-consumption. Unpaid services for own-consumption (domestic work, person care and volunteer work), however, continue to be excluded from the SNA and referred to as extended-SNA.
- 12 The countries in each cluster tend to share basic principles of welfare entitlements and display relatively homogeneous outcomes (Esping-Andersen 1999).
- 13 These countries formed part of the UNRISD project, *Political and Social Economy of Care*. All country reports are available on the UNRISD website (www.unrisd.org).
- 14 Budlender 2007.
- 15 Ironmonger 2004.
- 16 Folbre and Yoon 2008.
- 17 Folbre 2006.
- 18 Budlender 2008a.
- 19 Budlender 2008a.
- 20 Daly 2001.
- 21 Daly 2001:45.
- 22 OECD 2008a. It should be pointed out here that social expenditure on family and social welfare increased quite substantially after 2003, however no data on social expenditure after 2003 are currently available.
- 23 OECD 2008b.
- 24 Peng 2009.
- 25 Choi 2006.
- 26 Wang 2004; Lei 2006.
- 27 Hochschild and Ehrenreich 2002.
- 28 Suzuki 2009.
- 29 Lan 2005:227.
- 30 Primary school enrolment has not been universalized in South Africa.
- 31 Faur 2008.
- 32 Staab and Gerhard 2010.
- 33 INEE 2008.
- 34 Faur 2008.
- 35 MIDEPLAN 2006.
- 36 Figueira et al. forthcoming.
- 37 Faur 2008.
- 38 Williams 2009.
- 39 Perez Ribas et al. 2008.
- 40 Escobar Latapi and Gonzalez de la Rocha 2009.
- 41 Goldblatt 2005; Hassim 2006.
- 42 Budlender and Woolard 2006.
- 43 Budlender 2008b.
- 44 Melo 2007b.
- 45 Pauw and Mncube 2007b; Lund 2009.
- 46 Adato et al. 2000.
- 47 Armas 2004; Bradshaw 2008.
- 48 Chant 2008.
- 49 Ardington and Lund 1996; Lund 2002.
- 50 Figueira et al. forthcoming; Stark 2005.
- 51 Kaufmann et al. 2009. The chapter uses government effectiveness as a proxy to measure the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government’s commitment to such policies.
- 52 Mackintosh and Tibandebage 2006.
- 53 Meena 2008.

- 54 Meena 2008.
- 55 Meena 2008.
- 56 Narayanan 2008.
- 57 Paliwala and Neetha 2009b.
- 58 Paliwala and Neetha 2009a.
- 59 Martínez Franzoni et al. 2009.
- 60 Martínez Franzoni et al. 2009.

Financing Social Policy

Previous chapters in Section two of the report have provided substantial evidence of the positive economic and social impact of expenditures on basic social services and social protection programmes. Although the value of such social policies in reducing poverty and inequality is recognized, concern over their affordability remains widespread.

As fiscal constraints and the costs of health and elder care grow, even mature welfare states have come under pressure in recent decades, leading to predictions of their imminent demise. For the most part, however, such states have managed to adjust their social systems to these pressures. Most developing countries, on the other hand, operate within more severe fiscal constraints. Moreover, globalization and accompanying neoliberal policy prescriptions have had a negative impact on public revenues, forcing governments to reduce expenditures, curtailing social spending severely. These trends have had a particularly strong impact on low-income and aid-dependent countries.

A clear case can be made for increasing investments in social protection and social services in order to make meaningful dents in the multiple manifestations of poverty

In light of the positive development synergies explained in previous chapters, a clear case can be made for increasing investments in social protection and social services in order to make meaningful dents in the multiple manifestations of poverty. The United Nations Millennium Project recognized this in calling on most developing countries to mobilize up to an additional 4 per cent of their gross domestic product (GDP) to promote poverty reduction.¹

Such funds can be raised from a variety of sources: internally via taxation and social insurance schemes, externally in the form of aid or, in the case of mineral-rich countries, by taking advantage of favourable commodity prices and channelling rents into social programmes. Social protection and social services can also be financed privately through household income, including transfers from migrant workers, and unpaid work. Obviously such public and private sources lead to significant differences in terms of outcomes. This chapter analyses the contrasting effects of different financing sources and instruments on social development, equality and poverty outcomes.

The availability of resources to finance social policies depends on a country's economic performance, including its capacity to produce income and savings and to generate government revenues; the performance of its domestic capital markets; and the availability of external funding such as foreign investment, loans or grants. A dynamic economic environment and a stable world economy are therefore key determinants of national public finances, and it is here that the global economic crisis has had severe consequences for developing countries. Many are faced with sharply declining private and public revenues and falling growth rates due to a decrease in foreign capital inflows, domestic credit and remittances, falling commodity prices and worsening terms of trade. Mobilizing additional resources or even maintaining existing levels in such a context is a major challenge. Nonetheless, in response to the crisis, many countries are making efforts to implement social protection programmes alongside fiscal stimulus packages. Meanwhile, the international donor community has made commitments to increase development assistance.

Mobilizing resources is, however, only part of the battle. Decisions about revenue policies and the allocation of public funds are the result of political processes,

often dominated by elite groups. Consequently, such policies may not lead to the best outcomes in terms of providing public goods and reducing poverty (see chapter 11). Furthermore, institutional capacity, including the quality and efficiency of public administration and service providers, influences how successfully resources are translated into social outcomes (see chapter 10).

Mobilizing resources is only part of the battle: decisions about revenue policies and the allocation of public funds are the result of political processes, often dominated by elite groups

The analysis in this chapter points to four main conclusions.

- To significantly reduce poverty, more funds have to be invested in universal social policies, especially in low-income countries.
- Domestic financing instruments such as taxation and social insurance can create synergies between economic and social development and strengthen democracy and solidarity within states.
- Other financing sources, such as aid, remittances and mineral rents, can play an important role in complementing domestic resources. This is especially true in low-income countries characterized by high degrees of informality, low tax revenues and low coverage of social insurance schemes.
- The ultimate challenge is to build social programmes on financial arrangements that are themselves sustainable in fiscal and political terms, equitable and conducive to economic development.

Section 1 of the chapter describes how social expenditures and public finances vary according to income level and policy regime, how they have been affected by globalization and why social policies are affordable even for low-income countries.

Section 2 focuses on the links between different revenue sources and financing instruments and the various dimensions of social policy – redistribution, reproduction, production and protection.

Section 3 analyses the impact of selected revenue sources on development outcomes and equality across various social policy regimes and development contexts. It compares domestic resources such as taxation, social insurance contributions and pension funds with sources such as mineral rents, aid and remittances.

Section 4 highlights policy lessons and remaining challenges, particularly with regard to the political economy of financing social policy.

1. Spending on Social Policy

Social spending reflects both national incomes and policy choices

In general, public social expenditure as a share of GDP rises with income, with high-income countries in the North spending the most. However, countries with a comparable income level display significantly different levels of expenditure on social protection and social services.² Within member countries of the Organisation for Economic Co-operation and Development (OECD), for example, Sweden spends as much as 30 per cent of GDP on cash benefits and social services, whereas the United States and Ireland spend only half that amount (around 16 per cent). Middle-income countries such as Mexico and the Republic of Korea spend between 6 and 7 per cent – lower than their respective regional averages of 12.7 per cent for Latin America and 8.4 per cent for emerging economies in Asia.³ Within the same region, Brazil and Mexico, both middle-income countries, spend 13.2 and 3.5 per cent, respectively, of GDP on social protection. Mongolia spends 10.5 per cent versus 1.9 per cent in Indonesia (see table 8.1).

TABLE 8.1: Government expenditure on social protection, social insurance and social assistance (% of GDP)

Country	Year	Social protection	Social insurance	Social assistance
Argentina	2004	9.2	7.7	1.5
Brazil	2004	13.2	11.7	1.4
Mexico	2002	3.5	2.6	1.0
Guatemala	2000	1.8	0.7	1.1
Viet Nam	early 2000s	3.5	1.9	0.5
Mongolia	early 2000s	10.5	7.8	1.1
Indonesia	early 2000s	1.9	1.3	0.3

Note: Social protection expenditure includes public expenditure on social insurance and social assistance, as well as other programmes, such as housing, municipal and community services. Source: Barrientos 2010.

The amount of public resources channelled into social sector policies is determined by the availability of funds and policy priorities, but administrative effectiveness also plays a role. As the case studies throughout this report show, the size of government spending is also determined by the division of labour between the state, markets and households in providing social services, which, in turn, is strongly influenced by a country's policy regime.

As discussed previously in this report, the amount of social expenditure does not reveal how much of this money actually reaches lower income groups or how effective these expenditures are in reducing poverty or increasing equality (see chapters 5 and 6). Nonetheless, a comparison of the shares of public social expenditure in domestic income demonstrates two important points: first, that social expenditure is clearly a policy variable and, second, that the amount of resources invested in social policy (and, most importantly, how they are spent) is determined largely by the policy regime in a country, rather than its income level. High-expenditure levels in former socialist countries, such as Mongolia, and in welfare state pioneers in Latin America, such as Argentina and Brazil, illustrate this point (see table 8.1).

The amount of resources invested in social policy – and how they are spent – is largely determined by a country's policy regime

The global context influences the financing of social policy

Following the debt crises in the early 1980s, many developing countries, particularly in Latin America and sub-Saharan Africa, were forced to undertake significant fiscal adjustments. The radical rethinking of the role of the state and fiscal expenditures during this phase of neoliberal reform undermined the interventionist policies of developmental states, leading to the withdrawal of the state from many policy areas and the retention of only a residual role in social provisioning. This paradigm shift led to the substantial privatization of social programmes, public sector retrenchment and considerable decreases in social expenditures. The reforms had differing effects on public budgets: in some cases the privatization of public enterprises led to

transitory inflows of capital, whereas in the case of pension privatization, considerable fiscal costs over several decades were incurred (see below). In addition, government revenues fell as liberalization policies and international tax competition led to shrinking revenues from trade taxes and levies on mobile production factors such as capital. Economic crises and recessions also had adverse effects on public accounts due to a combination of higher expenditures (including social transfers, economic subsidies and debt service) and lower fiscal receipts, a scenario that is once more a reality for many countries affected by the global economic crisis.

Even when countries managed to maintain expenditure levels as a percentage of GDP or the budget, especially for health and education,⁴ per capita expenditures fell each time an absolute decline in per capita GDP occurred.⁵ Overall, fiscal policy has been highly procyclical in Latin America and sub-Saharan Africa, reducing states' capacities

to protect the vulnerable and the poor. East Asia's fiscal policy, on the contrary, has been more countercyclical in the post-Asian crisis period, with social expenditures increasing during economic downturns.⁶

During the last decade, some countries, especially those that performed weakly with regard to domestic revenues, have seen increases in other types of revenues, such as development aid, remittances and natural resource rents. Increasing numbers of international migrants (usually escaping from adverse economic conditions in their country of origin), temporarily booming commodity prices (especially for selected minerals, oil and gas) and global initiatives to increase aid (including the Highly Indebted Poor Countries/HIPC initiative which aims to free up resources through debt relief) are at the heart of this trend. The questions then become how different sources of finance affect social development and how financing policies can be made more sustainable and equitable.

BOX 8.1: Social policy is affordable – for all countries

Evidence that social policy is affordable, even for countries with low levels of income, has recently been provided by research conducted by the International Labour Organization (ILO). A basic social protection package (comprising pensions for the elderly and the disabled, child benefits and essential health care) for low-income countries, such as Bangladesh, India, Kenya and Pakistan, was estimated to cost around 10 per cent of GDP. Although this is more than most of these countries currently spend, it is less than the average now spent on social protection in transition countries in Eastern Europe and Central Asia and some Latin American countries. It is also far below the average spent by OECD countries, which stands at 17.3 per cent of GDP.

In a similar vein, a recent UN study of 18 countries in Latin America and the Caribbean suggests that the Millennium Development Goals (MDGs) would be achievable for all countries in the region if they mobilized additional MDG-related public spending of between 0.9 and 6.1 per cent of GDP per year until 2015.

Sources: Pal et al. 2005; Clements et al. 2007; Vos et al. 2008.

2. Revenue Sources and Their Impact on Development

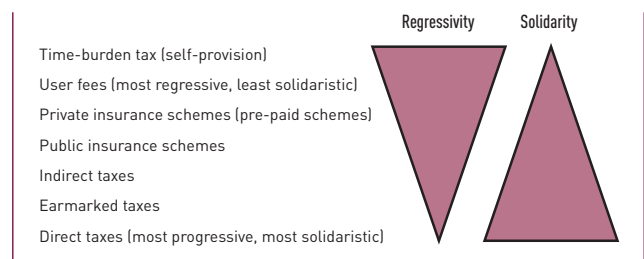
As discussed in previous chapters, adequate levels of social protection and the universal provision of essential social services can improve the distribution of income and assets in a society, transform gender relations and help reconcile the burden of reproduction with that of other social tasks. They also enhance the productive potential of members of society and protect people from the vagaries of the market and the changing circumstances of age. Achieving universal social policies and ultimately reducing poverty and inequality in developing countries requires that both expenditure and revenue policies respond to the principles of equity, gender equality, progressive redistribution and sustainable economic development. This section analyses how different revenue sources and financing mechanisms relate to these principles and dimensions of social policy.

Expenditure and revenue policies need to be equitable, progressive and sustainable

Different financing instruments affect redistribution and reproduction in different ways

Financing instruments can be classified according to whether they are distributionally progressive (redistributing from rich to poor), neutral or regressive, or based on normative principles of individualism or solidarity (see figure 8.1). For any level of resources, financing instruments become preferable as their progressiveness increases (in terms of redistributing resources towards lower income, disadvantaged or vulnerable groups, including ethnic minorities, rural dwellers, children, the elderly and the chronically ill).

FIGURE 8.1: Revenue type, distribution and social relations



Source: Based on Delamonica and Mehrotra (2009).

Financing social policies through self-provisioning, user fees or cost sharing

In the case of domestic financing sources, as figure 8.1 indicates, the most regressive and individualistic forms of financing for social services or social protection are those in which people provide for themselves (self-provisioning) or that require out-of-pocket payment of user fees. Self-provisioning means that households and families provide their own services, or smooth consumption in the event of income shocks by performing unpaid care work, drawing down savings, selling household assets or increasing their paid labour. User fees include informal payments to health care providers at the point of service and cost sharing, the latter requiring the individual to pay part of the cost of the health care actually received. Cost sharing, whether in the form of a fixed or proportional amount per service received, is therefore different from the payment of an insurance premium, contribution or tax, which is paid whether health care is received or not. Particularly during the 1980s, user fees were promoted by the international financial institutions (IFIs) as mechanisms for raising additional revenues and improving access, efficiency and quality of social services, such as health care and education. It was also thought that people would value services more if there was some notional fee attached to them (see chapter 6).⁷

The evidence, however, suggests that the adoption and expansion of user fees has not resulted in these potential benefits (see chapters 5 and 6).⁸ In fact, user fees are linked to a decline in the utilization of services, with adverse

effects on equity. Any redistribution that takes place is usually limited to members of the same household, rather than across different income and risk groups, and is often to the disadvantage of women and girls within households (see chapters 4 and 7).

Pre-paid schemes and public social insurance

Private insurance or pre-paid schemes, in which contributions are collected before a contingency occurs, are superior to user fees paid at the point of use in terms of both risk pooling and administrative costs, which tend to be lower if schemes allow for economies of scale. Insurance contributions, whether private or public, can be a fiscally neutral way of financing social protection, because the insurance principle establishes a close link between contributions and benefits, based on the risk profile of the insured and possible dependants. However, flat rate contributions are regressive, and even proportional contributions levied as a percentage of salaries usually do not apply to incomes earned from investments and saving. Moreover, insurance schemes, whether private or public, are less redistributive in gender terms than general revenues. This is because women tend to have lower earnings and less stable work and earning trajectories due to their reproductive and caring roles and, especially in developing countries, because they are concentrated in low-paid informal jobs.

With regard to private programmes, redistribution is limited to risk pooling, making them a more expensive option for low-income earners and families unless the state intervenes to provide subsidies. Public social insurance is more effective in increasing solidarity and redistribution. This is especially true if the system is financed through progressive payroll taxes, if contributions are shared between workers and employers, and if subsidies are provided for disadvantaged groups of the insured.

Indirect taxes levied on consumer goods and services

Indirect taxes levied on consumer goods and services (sales tax or value added tax/VAT), trade or specific products (excise tax) are more regressive than progressive income taxes. They are also more problematic in terms of gender,

since lower income groups and women spend a higher share of their income on these goods and services.⁹ In theory, taxes such as VAT can include exemptions for goods and services related to basic needs and impose higher rates on luxury goods in order to make distributional effects more progressive and gender neutral.

Direct taxation of personal and corporate income and of property

Finally, direct taxation of personal and corporate income, along with property, is the most redistributive and gender equalizing way of mobilizing revenue. This is especially true if couples are taxed as individuals, if the system does not discriminate against single female-headed households, if marginal tax rates increase with income, and if no exemptions and allowances are granted for high income earners.¹⁰

Thus, governments have a variety of domestic financing instruments to choose from, ranging from regressive forms of self-provisioning to public transfers and services financed by direct progressive taxation, which entails potential gains with regard to distributional justice and social reproduction. In many developing countries, however, the more progressive options are constrained by a widespread informal economy, lower administrative capacity and the entrenched power of domestic economic elites and external investors to negotiate favourable tax conditions.

Mineral rents, remittances and aid

The impact of mineral rents, remittances and aid on redistribution and gender equality is more complex and is mediated by a number of context-specific factors. For example, the effect of mineral rents on redistribution and reproduction depends on the fiscal regime and social policy system in place in a country, which determine how rents from mineral wealth are extracted and redistributed. Moreover, the concentration and enclave nature of the extractive sector, coupled with the type of manual work involved in it, are less likely to contribute to more equal gender opportunities in a given country.

While sustaining the social and economic reproduction of migrant-sending communities, remittances can transform

but also reinforce existing inequalities and social structures, such as gender relations, care arrangements, class and ethnic hierarchies.¹¹ As international migration is a selective process, most direct benefits of remittances are also selective and do not tend to flow to the poorest members of communities, nor to the poorest countries.¹² In general, data suggest that the non-poor often benefit more, and remittance inflows can initially lead to increasing inequality. However, the poorest people might benefit indirectly through positive effects of remittance expenditure on wages, prices and employment in the communities and countries from which migrants originate.

Remittances can transform but also reinforce existing inequalities and social structures

Aid represents a form of international redistribution of resources. However, its redistributive impact at the national level depends on the type of instrument used (loan or grant), the sector it is intended to support (such as social services, infrastructure, rural development or capacity building), and the way in which it is channelled (through budget support, project funding or non-governmental organizations/NGOs). Furthermore, its redistributive effects depend on the conditionalities attached to it, which can include provisions related to mainstreaming gender equality. In particular, the payment of interest on loans in low-income countries is not likely to have positive redistributive and equity-enhancing effects when the local fiscal regime relies disproportionately on indirect taxes, overburdening low-income citizens and women.

Different financing instruments affect production and protection in different ways

The conventional view on public finance dominated by neoclassical economists tends to separate funding from expenditure policies and to ground them in different principles. Revenue policies, according to this view, should be

guided by efficiency norms rather than distributing from the rich to the poor, in order to minimize adverse incentives for domestic demand, labour supply, savings and investment. Redistribution should then take place through targeted expenditure policies and not through taxation or social insurance schemes. However, while some economists see possible distortions that could undermine efficiency and growth, others consider the so-called automatic stabilizers – progressive tax-transfer schemes – as a means to combining redistribution with macroeconomic stabilization. In addition, as shown in chapter 5, social insurance programmes financed through contributions can support economic development in a variety of ways. For example, funded social protection schemes such as pension funds can be a source of finance, stimulating financial sector development and, in the case of occupational funds, providing “patient capital” (long-term financing) and wage moderation to firms, while supporting employment stability and incentives for workers to invest in industry-specific and/or firm-specific skills.¹³

An additional concern is whether domestic resources have a different impact on economic development when compared to alternative or external resources. Export earnings or private and official transfers and loans (in the form of official development assistance/ODA, and remittances) are denominated in foreign currency and have a potentially negative effect on macroeconomic stability. In addition, aid – grants and low-interest loans – is subject to conditionality, while loans might adversely affect debt sustainability. Remittances, on the other hand, are difficult to tap because of the private and often informal nature of these flows. The fact that these resources are of growing importance to many developing countries, especially lower income countries, justifies a closer analysis of their potential and challenges.

The impact of different revenue sources on protection depends on how revenues are used. Revenues are usually not tied to a specific spending purpose and are fungible, except for the case of earmarked taxes, social insurance contributions and aid targeted to social provisioning. Consequently, the impact of any revenue source on protection depends on the level, type (public versus private) and structure (sector) of social expenditure it finances. The social policy regime

determines the extent to which revenues are invested in public or private provision, universal or targeted social programmes, which implies different ways of protecting against a range of individual and market risks with different outcomes (see chapters 5 and 6). Concrete examples of how the relationship between revenue sources and protection plays out are examined in the following section.

3. Mobilizing Resources for Social Policy

How have countries mobilized resources in different national contexts and a changing global environment? This section illustrates, through specific country experiences, the relative importance of each of the revenue sources discussed above in terms of their impact on social development and social policy. The findings suggest that domestic resources should form the bedrock of revenue policies, while remittances, aid and mineral rents, if properly managed, can provide additional funds for investments in social policy.¹⁴

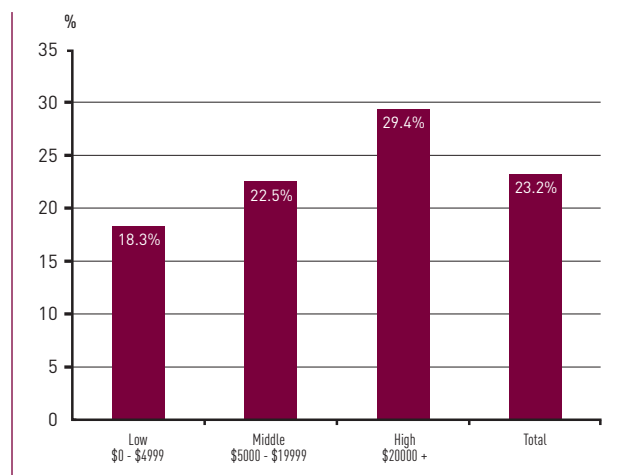
Designing equitable and efficient tax systems is key to development

In developing countries, designing equitable and efficient tax systems is key to financing social policy in a context of consistent national development strategies and strong state-citizen relationships. The mobilization of domestic resources through tax reform was considered a pillar of the 2002 Monterrey Consensus on Financing for Development and its follow-up declaration in Doha in 2008.¹⁵ It is also recommended as the principal financing strategy (together with limited public and foreign borrowing, reallocation of funds and efficiency-enhancing measures) for Latin America and the Caribbean for achieving the MDGs.¹⁶ Taxation revenue is generally deemed superior to other sources because of its stability and its potential for distributional justice and for financing programmes with universal coverage. Tax systems are also said to enhance state

ownership and accountability as compared to external revenues, which in the case of aid, for example, is tied to donor conditionality, therefore bypassing national constituencies and political institutions (see chapters 10 and 11).¹⁷

While tax shares tend to grow as GDP does (see figure 8.2), important variations can be found within each income group.¹⁸ The Netherlands and Sweden collect over 45 per cent of GDP in taxes. In Japan and the United States, the share is less than 40 per cent; in Brazil and South Africa, it is over 35 per cent; and in Colombia and Mexico, less than 15 per cent (all include social insurance contributions). How can these differences be explained?

FIGURE 8.2: Tax revenue as a percentage of GDP in low-, middle- and high-income countries



Source: Bird and Zolt 2005.

Tax capacity in developing countries is determined by the level of development, economic structure (size of the informal sector, size of wage employment, share of agriculture or primary products, reliance on trade), institutional legacies, and political-institutional factors such as state capacity, credibility and what could be labelled tax effort. In many countries, trade liberalization policies have led to the shrinking of total tax revenues, despite the fact that efforts were made to make up for losses through new and supposedly less distortionary taxes, such as consumption taxes. Several studies¹⁹ show mixed results for the recovery

of lost trade revenues, but the positive trends largely reflect gains in middle-income countries from the implementation of VAT.²⁰ In contrast, low-income countries, by and large, have not enjoyed revenue gains from such taxes due to problems with refund and credit mechanisms, underpayment and high levels of informality.²¹

Recent tax reforms have not only led to shrinking tax revenues; they have also switched the overall tax structure towards more regressive consumption taxes. Table 8.2 shows that revenue from VAT as a percentage of GDP increased in Latin America, East Asia and South Africa between the second half of the 1970s and 2002. Meanwhile, in Latin America, personal income and property taxes, and taxes on

corporate income, profits and capital gains have, on average, fallen. Tax revenues have also been negatively affected by economic crises, de-industrialization and growing informalization – particularly in Latin America, sub-Saharan Africa and transition economies.

Tax systems across regions and selected countries

East Asia. In East Asia, tax rates, especially payroll taxes for social insurance, have been moderate to low. However, a diversified tax structure, high compliance and positive economic performance in recent decades have resulted in relatively high and increasing tax receipts, especially with regard to progressive direct taxation (see table 8.2), which is now three to four times higher than in Latin America.

TABLE 8.2: VAT; taxes on corporate income, profits and capital gains; and taxes on personal income and property (% of GDP)

Countries	Value added tax (VAT)			Tax on corporate income, profits and capital gains			Personal income and property tax			Per capita GDP in 2000
	1975–1978	1985–1988	1997–2002	1975–1978	1985–1988	1997–2002	1975–1978	1985–1988	1997–2002	(in 2000 \$)
Argentina	1.1	1.8	3.8	0.7	0.8	2.2	0.4	0.8	1.1	7,726
Brazil	0	8.7	12.1	3.2	4.4	4.5	0.2	0.2	1.4	3,537
Costa Rica	1.6	2.8	4.8	2.8	2.4	2.8	2.9	2.2	0.7	4,185
Republic of Korea	2.6	3.5	4.1	4.2	4.8	5.5	1.9	2.8	3.6	10,890
South Africa	1.2	6.1	6.1	12.9	13.1	14.6	n.a.	n.a.	n.a.	n.a.
Taiwan Province of China	n.a.	n.a.	n.a.	4.0	4.8	6.6	3.4	4.5	5.2	13,985
East Asia (average) ^a	2.0	2.3	2.9	5.7	6.0	6.9	1.8	2.3	3.9	3,716
Eastern Europe (average) ^b	n.a.	n.a.	7.4	n.a.	n.a.	8.3	n.a.	n.a.	6.8	4,327
Latin America (average) ^c	2.5	3.6	5.6	5.0	4.1	3.9	1.7	1.2	1.0	4,399

Notes: ^a Average includes countries and areas for which data were consistently available: Indonesia, Malaysia, the Philippines, Republic of Korea, Taiwan Province of China and Thailand. ^b Average includes countries for which data were consistently available: Czech Republic, Estonia, Hungary, Latvia and Poland. ^c Average includes countries for which data were consistently available: Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, Peru and Venezuela. n.a. = not available. Source: Di John 2008. Data for Taiwan Province of China are from Directorate General of Budget, Accounting and Statistics, Executive Yuan, Taiwan, China (2002).

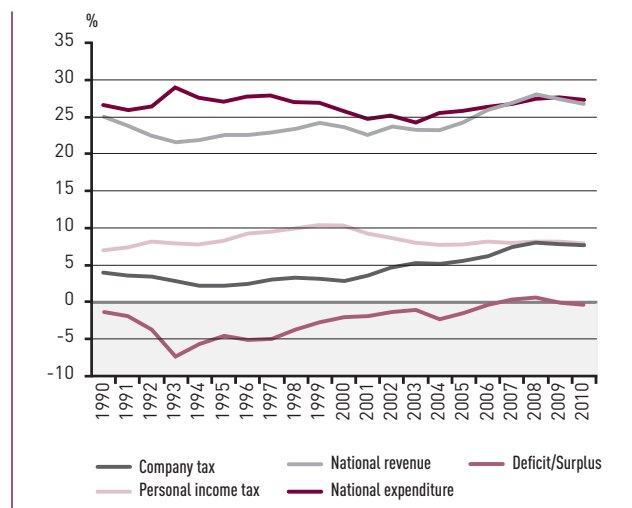
The Republic of Korea and Taiwan Province of China show the highest rates of progressive income tax, whereas direct taxes are considerably lower in Hong Kong, China and Singapore. In Taiwan Province of China, similarly to the Republic of Korea, democratization brought some fundamental changes to the local fiscal policy, which has become much more expansive in an attempt to finance a new emerging welfare state.²² In comparison to other regions of the developing world, Asia – East Asia in particular – still benefits from healthy fiscal balances. This inheritance provided states with more options to expand public insurance and services as democratization and world market integration advanced,²³ with scope to increase tax rates to mobilize higher public revenues.

Brazil and South Africa. These two middle-income countries, featuring dualistic structures in both their economic and social systems, exhibit high tax-to-GDP shares when compared to their regional averages (see tables 8.2 and 8.3). In the case of Brazil, tax receipts as a percentage of GDP increased from 17 per cent in 1980 to 21.1 per cent in 2004. When social security contributions are included, they rose from 22.7 to 35.9 per cent, with the highest receipts obtained from the value added communication and transportation tax collected at the state level.²⁴

Tax policy in Brazil is caught between competing demands. On the one hand, it is shaped by relatively orthodox economic policies aimed at higher revenues in order to service Brazil’s huge debt and to achieve budget surpluses for the purpose of macroeconomic stabilization. On the other hand, it is confronted with social demands due to persistent problems of poverty and inequality. More recently, Brazil is among the countries aiming at a gradual rebalancing of expenditure, away from social insurance and towards social assistance (see chapter 5).²⁵ The country is also experimenting with forms of direct involvement by citizens in the budget process (see chapter 10). In Porto Alegre, the support of the Workers’ Party has been central to the success of participatory budgeting initiatives, which have raised the legitimacy of local government among the poor and middle classes, created more and better pro-poor expenditure, and raised local tax collection from wealthier groups.²⁶

In South Africa, institutional legacies, a strong party system, and strong economic growth (when compared to the rest of sub-Saharan Africa) have all contributed to positive tax performance. In addition, the South African Revenue Service has successfully managed to broaden the tax base and to improve tax compliance.²⁷ Increased revenue, in combination with decreasing expenditure, has helped to reduce the fiscal deficit, as figure 8.3 shows. With 14.6 per cent of GDP in tax receipts from corporate income, profits and capital gains (see table 8.2), South Africa holds the highest rank in the developing world. The South African fiscal system, on both the revenue and expenditure sides, is considered to be fairly progressive. National studies of fiscal incidence demonstrate that there is considerable redistribution through the budget, from rich taxpayers to poor households, especially through old-age pensions, other welfare programmes and educational spending.²⁸ Personal income tax has declined as a proportion of GDP, but company tax has risen. Overall, direct taxes (57 per cent of total) have risen slightly, whereas indirect taxes have fallen (comprising 43 per cent).

FIGURE 8.3: Fiscal indicators in South Africa (as % of GDP)



Source: Seekings and Natrass 2008.

India. Largely due to the informal nature of the Indian economy, tax revenue accounts for a low 15 per cent of GDP. High dependence on indirect taxes in combination

with multiple exemptions for direct taxes on income and profits indicate that the overall structure tends to be regressive. Incomes below a threshold of \$206 per month are exempt from taxation, narrowing the tax base to around 40 million taxpayers.²⁹ Additional factors contributing to the low tax intake are the lack of a social security system, the large informal sector, large-scale evasion and legal tax avoidance via exemptions and incentives, as well as tax reforms reducing tariffs, especially on trade. Improved tax administration and compliance are considered of crucial importance in raising public revenues in India. Also, from the point of view of equality and growth, there is ample room to improve the system, which at present largely favours bigger enterprises and higher income groups.

Mineral-rich countries. The diverse group of mineral-rich countries, including Norway (one of the richest countries in the world), many middle-income countries such as Chile and Malaysia, as well as very poor countries such as Angola, Bolivia and Chad, also reflect huge differences in existing welfare systems and underlying fiscal and tax regimes.³⁰ As table 8.3 shows, many of the higher tax states in sub-Saharan Africa, such as Botswana, Nigeria and Zambia, are in fact mineral-rich countries, receiving the bulk of their revenues from the minerals sector. In contrast, trade and, more recently, consumption taxes are relatively more important in the group of so-called merchant states – countries relying on export of primary products, such as Kenya and Senegal.³¹

TABLE 8.3: Tax collection and composition in selected sub-Saharan African countries

	Years	Tax revenue (% of GDP)	Trade taxes (% of total taxes)	Per capita GDP (2000 market prices, \$)
Lower tax countries				
Chad	1994–2000	6.5	34	801
Democratic Republic of the Congo	1998–2002	4.5	32	600
Ethiopia	1993–1997	12.9	40	814
Mozambique	1993–1999	11.4	18	799
Niger	1994–2000	7.9	57	678
Uganda	1998–2003	11.4	16	1,167
United Republic of Tanzania	1992–1999	9.6	35	524
Average		9.2	33.1	769
Higher tax countries				
Botswana	1993–1998	32.5	18	8,347
Kenya	1992–2001	23.1	17	1,033
Nigeria	1992–2000	15.2	18	854
Senegal	1992–1998	16.0	28	1,427
South Africa	1998–2002	25.5	13	8,764
Zambia	1990–1999	18.1	12	785
Average		21.7	17.7	3,535
Average excluding Botswana and South Africa		18.1	18.8	1,025

Source: Di John 2008.

Within Latin America, Chile, one of the world's leading copper producers, is also among the group of relatively strong tax states. Tax receipts from mining account for roughly 35 per cent of total fiscal revenues, and more than half of these receipts originate from CODELCO, the state-owned Chilean copper company.³² After extensive public debate on the capture of mineral rents by the private sector, which benefited from extensive tax privileges in the past,³³ a specific tax on mining activities (the so-called Royalty 2) was introduced in 2005. As a result, \$544 million was collected in 2006 and \$730 million the following year.³⁴

Taxation as a social contract between citizens and the state

The analysis presented in this chapter highlights the importance of recognizing taxation as an intrinsic dimension of the state, and the need to design tax systems that reflect a social contract that inextricably links citizens and the state. There is a clear case as to why progressive forms of taxation are best suited to foster nation building and social cohesion over the long term, although it is well known that direct and progressive taxation policies are difficult to implement in a context of highly unequal distributional patterns, low wages, a predominantly informal economy, and low state capacity and legitimacy.

Progressive forms of taxation are best suited to foster nation building and social cohesion over the long term

More than with other revenue sources, therefore, it is critical to establish a culture of taxation based on mutual trust, and to adapt systems to local circumstances. This tends to make tax reform a long-term endeavour rather than a quick fix. Furthermore, this means that, at times, taxing exports or land or establishing marketing boards can serve as a functional equivalent to taxing landowners or high-income earners directly (see chapter 10).³⁵ The surplus generated by marketing boards, to give an example, was often similar to total tax collection from other sources, especially

in sub-Saharan Africa in the 1960s and 1970s. It should, however, be acknowledged that not only rich peasants but also many rural poor were taxed by the controlled price policy of the boards. As a second possible device, earmarked taxes, although criticized by some economists for reducing the fiscal autonomy of the government, can be another way of fostering political support for new revenues.³⁶ The challenge is to find ways of guaranteeing that both parties – taxpayers and the state – will comply. The latter also calls for coordinated action at the international level to complement national efforts for reducing tax avoidance and tax evasion, which has been estimated to account for revenue losses of \$385 billion per year in developing countries.³⁷

Extension of social insurance schemes is a challenge for developing countries

Social insurance schemes are a common instrument to finance and provide social transfers. They can be initiated on a small scale and gradually extended to other groups of citizens as the formal economy expands, as shown in chapter 5. Nevertheless, the fact that demographic change and, more recently, labour market flexibility are resulting in shrinking numbers of active contributors and growing numbers of beneficiaries raises a key question: how can extending social insurance programmes become a viable financial option for developing countries?

In most countries, the supposed attraction of contribution-financed schemes – their fiscal neutrality – no longer holds true. Increasing subsidies to make up for deficits, unless explicitly used to incorporate low-income groups (see chapter 5), not only creates a fiscal problem, but is also questionable in terms of equity: most low income earners in developing countries are excluded from formal social insurance programmes. If these programmes benefit from subsidies financed via general revenues, regressive redistribution might take place, especially if subsidies benefit special programmes such as civil servants' pensions (see chapter 5), and the tax system relies heavily on consumption taxes.

Pension funds: A balance between social protection and development

Social insurance programmes can be set up for contingencies, such as sickness, disability and death of the main breadwinner, old age, work accidents and unemployment. This section concentrates on pension insurance, given its relevance in terms of competing reform models and the magnitude of funding involved. Pension insurance can be organized according to different models, such as public, private or occupationally based (enterprise-related) insurance schemes. They can be further broken down into funded schemes, in which benefits depend on past contributions and the individual characteristics of the insured, and redistributive (pay-as-you-go/PAYG) schemes. Both models are financed through contributions. In the case of PAYG schemes, such contributions are usually shared between workers and their employers and are ideally designed as progressive payroll taxes. The extent to which the state is involved in social insurance schemes depends on the characteristics of a country's social policy regime, ranging from basic normative and regulatory interventions, as in the case of East Asia,³⁸ South Africa and parts of Latin America,³⁹ to extensive financial contributions, as in the case of the Western European, former socialist and some Latin American welfare states.

At the macro level, pension funds have constituted a domestic source of finance. In Finland, for example, funds from the partially funded pension scheme were used in the post-war era for investments in housing, electrification of the country and to build up national industry.⁴⁰ The same applies to provident funds in East Asia. Such funds in Hong Kong, China; Malaysia; and Singapore have partly financed domestic investment, housing in particular, or contributed to stabilization through forced savings and investment of funds abroad.⁴¹ In successful cases, national pension funds have contributed to economic development, and their growth contribution has secured their own long-term solvency.⁴² In unsuccessful cases, the erosion of funds due to inflation and mismanagement or gradual depletion of funds in the case of maturing pension schemes has resulted in the conversion of funded schemes into PAYG systems.

In Finland, funds from the pension scheme were used for investments in housing, electrification and to build up national industry

Privatizing pension funds. Against this “natural” transition from pre-funding to PAYG financing, Chile, in 1981, chose the opposite sequencing. The country privatized the public pension scheme and introduced fully funded individual pension accounts for the insured. Since then, privately managed and decentralized funds have been created in a number of Latin American and Eastern European countries, as well as in China and in Nigeria.⁴³ These reforms have been justified on the grounds of efficiency and accumulation, as part of structural adjustment and greater reliance on markets.⁴⁴ It has been argued that these reforms will not only lead to greater personal savings and reduced fiscal burdens in the future, but will also contribute to the establishment of stock markets and deepening of the financial sector, which is considered necessary for efficiently allocating capital and promoting growth.⁴⁵

Privatizing pension funds raises a number of issues in the context of financing development. First, preconditions for implementing private schemes are demanding. Funded schemes are risky when financial and banking systems are not well developed and regulated, and they are especially vulnerable during financial and economic crises, as the recent situation forcefully shows. Chile lost almost 12 per cent of GDP in accumulated pension assets between 2007 and 2008.⁴⁶

The second issue for concern regards the actual investment of pension funds. In the case of transition from a public PAYG system, the majority of funds are invested in public debt in order to finance transition costs. Transition costs occur once contributors start paying into individual accounts and the public scheme is left without revenues, but still has to pay current pensions and compensate the insured, who switched to the private scheme, for their past contributions. In order for pension reform to remain

cost-efficient – one of the key objectives of pension privatization – governments must usually cut benefits and entitlements, potentially undermining social goals such as coverage, gender equality, income security and poverty reduction. The insured not only bear these costs as taxpayers and future beneficiaries, but they also shoulder high administrative costs associated with decentralized funds (in Latin America, these amounted to an average of 9 per cent of collected contributions in 2009),⁴⁷ considerably lowering rates of return on their pension savings.

In Chile, transition costs are spread over a 30-year period. They were as high as 4.7 per cent of GDP in 1984 and are expected to decline gradually until they reach approximately 1.5 per cent in 2010.⁴⁸ To close the rising coverage gap caused by privatization, Chile introduced a non-contributory basic pension and subsidies to low-income groups in 2008, at an estimated cost of around 1 per cent of GDP annually.⁴⁹ In the case of Argentina, the transition costs associated with the introduction of a second pillar of private pension accounts in 1994 caused a fiscal deficit that was deemed unsustainable in view of the country's monetary regime. These costs also prompted creditors to withdraw their funds in 2001, leading to the worst crisis in the history of the country (see chapter 5). After implementing several small reform measures to strengthen the public pillar of the Argentine pension system, the government finally opted to re-nationalize it. In the midst of international financial turmoil in November 2008, accumulated pension assets of approximately \$30 billion were transferred to the public sector. The government justified the reform by referencing numerous shortcomings of the private scheme, including its demonstrated vulnerability in times of financial crisis, and its objective of using the funds to reactivate the economy.⁵⁰ Critics suspect fiscal motives played a major role in the reform project, fearing funds could be decapitalized when used as a cheap financing instrument for the public sector (for example, if invested in securities with negative real interest rates), as has happened in the past.⁵¹

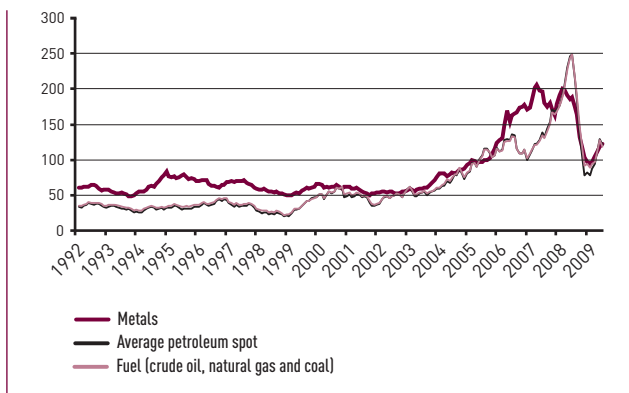
As shown above, the challenge with pension insurance is to strike a delicate balance between designing models guaranteeing adequate protection levels for the aged,

while also contributing positively to economic development and creating appropriate governance structures for these institutions. The stronger the economic and institutional environment, the more likely that pension systems will contribute to both objectives: social protection and economic development. Given the inherent risks and shortcomings of the private model, however, it seems reasonable to focus reform efforts on enhancing equity and efficiency in public PAYG schemes and on strengthening basic pensions that benefit the majority of the population.

The challenge with pension insurance is to strike a balance between guaranteeing adequate protection for the aged, while contributing to economic development

A wealth of mineral resources does not necessarily enrich people

If the lack of sufficient revenues is considered a major problem for social policies in developing countries, those countries that are richly endowed with natural resources, especially oil and gas, should presumably be fortunate. For many developing countries, natural resource rents represent a substantial and growing proportion of total government revenues, either by means of taxation or royalty payments or direct ownership, with potentially enormous implications for the design and delivery of social policies. Before commodity prices dropped in the context of the recent global economic crisis, these countries experienced a mineral bonanza (especially due to skyrocketing oil prices, as shown in figure 8.4), which could potentially produce a big push for the development process.⁵² Yet there is considerable evidence that many resource-abundant countries have not been able to utilize their resources to induce a process of sustained economic growth, let alone social development involving equitable distribution of the fruits of this natural wealth and overall improvements in the welfare of their citizens.

FIGURE 8.4: Monthly price index for commodity metals, oil and fuel, 1992–2009 (2005 = 100)

Note: Value of index in January each year. Source: UNRISD elaboration, based on data from IMF (2009).

Mineral-rich countries are often said to suffer from a “resource curse”, a supposed correlation between natural resource abundance on the one hand, and a set of negative economic, political and social outcomes on the other.⁵³

However, numerous resource-rich countries do not suffer from these symptoms, which points to the more interesting issue of explaining these variations in outcomes. The main task for research should therefore be to identify intervening variables, such as economic and social policies, or political institutions, that mediate the relationship between mineral-led development paths and developmental outcomes.

Overcoming the resource curse

One precondition for successfully tapping mineral wealth for social development is to avoid falling into the trap of “Dutch disease” (see box 8.2). This requires macroeconomic policies that counteract inflationary pressures arising from the huge inflow of foreign exchange stemming from the mineral sector, with negative effects on stability and the competitiveness of manufacturing. Equally important are investments in infrastructure, such as electricity and transport, and in technologies that reduce the adverse environmental effects of mining. Lastly, improved taxation systems and contracts with private investors are crucial to ensure a fair share of income for the state.⁵⁴

BOX 8.2: Mineral rents and “Dutch disease”

Dutch disease is one of the most extensively studied conduits through which revenue booms affect development in mineral-rich countries. It refers to a situation in which the real exchange rate appreciates in periods of resource booms, thereby negatively affecting competitiveness in non-mineral tradable sectors, in particular agriculture and industry. Dutch disease was first recognized in the Netherlands following that country’s discovery of natural gas in the North Sea in 1960. In 1976, gas revenue in the Netherlands amounted to \$5.5 billion, most of which was too quickly spent, pushing up internal demand and prices. This led to a strong guilder (then the Dutch currency). Subsequently, the manufacturing sector declined sharply and experienced a 16 per cent loss of employment. The state struggled to save jobs and to maintain its welfare commitments. By 1982, its budget deficit was 7 per cent of GDP.

Countries can act to prevent or mitigate Dutch disease: instead of spending windfall revenues on domestic non-tradables, they can buy imports or remove the money from circulation by saving it or paying off debt. In this way, the relative domestic price of tradables and non-tradables would remain the same, implying no change in the real exchange rate. Thus, real exchange rate appreciation is determined by the spending and savings decisions of governments. Dutch disease is thus as much a policy phenomenon as it is a macroeconomic one.

Source: Asfaha 2008.

Resource-rich countries such as Botswana, Chile, Indonesia, Malaysia and Norway have managed the challenge of Dutch disease reasonably well, applying different policy instruments. These include monetary sterilization, reserve accumulation, repayment of foreign debt, purchase of imports, forced savings through budget surpluses or creation of stabilization or pension funds, capital controls to reduce speculative short-term inflows, and social pacts to enforce wage restraint. However, some of these countries have not been as successful in terms of fostering democratic governance and equitable social policies. Chile, Indonesia and Malaysia have undermined democratic rights and civil society during long-term dictatorships or electoral democracies with one-party rule and with social policies whose main purpose was to legitimize authoritarian rule.

Resource-rich countries such as Botswana, Chile, Indonesia, Malaysia and Norway have managed the challenge of Dutch disease reasonably well

The Norwegian model

One way of using mineral windfalls to finance social protection schemes is to channel revenues into long-term pension funds. Doing so can simultaneously accomplish the two objectives of stabilization and social protection, at least during the build-up phase of the pension funds. In Norway, the Government Petroleum Fund established in 1990 (renamed the Government Pension Fund Global in 2006) is a model of such a policy. The aim of the fund is to ensure sustainable and transparent use of income from the oil sector by channelling all proceeds (in terms of tax revenue and gains from direct public ownership) into this fund. Accumulated wealth in the Government Pension Fund amounts to about \$400 billion, which is slightly less than Norway's annual GDP.⁵⁵ Since 2001, only 4 per cent

(the supposed long-term rate of return) of the fund has been transferred annually into the state budget. However, the fact that domestic investment of the fund is forbidden, which in normal times adds to macroeconomic stabilization, has been disastrous in the recent economic crisis: the fund incurred losses of over \$90 billion in 2008.⁵⁶

Among other factors cited as most relevant to Norway's success in overcoming the resource curse are the quality of its institutions; parliamentary democracy and active civil society; development of a technology-intensive industry for offshore drilling; high involvement of the Norwegian state, including direct ownership of the national oil company, Statoil; and the fact that Norway was already an advanced industrialized country when oil was discovered.⁵⁷ A considerable part of the country's oil wealth has been transferred to citizens in the form of increased welfare spending on social protection and social services, rather than through tax cuts or gasoline subsidies that tend to favour higher income groups.⁵⁸ The expansion of the welfare state has also been reflected in increased employment (especially among women) in the social sector, thus compensating for some job losses in the manufacturing sector.

Bolivia: Financing social pensions though mineral wealth

In contrast to Norway, mineral-rich developing countries such as Bolivia, Nigeria and Venezuela are characterized by intense pressure to spend revenues quickly in order to improve the intolerable living conditions of the majority of their populations. This is especially true if political leaders have been voted in on the basis of a popular platform that advocates redistribution of income. Such pressure often leads to social and political conflict, as the case of Bolivia clearly demonstrates.

Bolivia's first non-contributory pension scheme for the elderly, Bono Solidario or Bonosol, was financed by dividends generated from state-owned shares in a number of energy, oil, gas and communications enterprises privatized in the 1990s.⁵⁹ It paid an annual benefit of \$235 to people over 65. In 2006, oil and gas industries were re-nationalized and private companies compelled to sign new contracts with

the Bolivian state, thus undermining Bonosol's funding. A new and expanded universal pension, Renta Dignidad, replaced Bonosol in 2007. The scheme is financed through the direct hydrocarbons tax, a levy of 32 per cent on the production of hydrocarbons introduced in 2005. The tax aims at redistributing mineral rents to poorer regions, indigenous peoples, agricultural communities, universities and other public institutions. Resources are invested in education, health, infrastructure and productive activities that lead to the generation of employment.

The financing of Renta Dignidad was not among the original uses of the tax, and it provoked strong resistance from entities that would see their share of the tax revenue reduced, especially in regions governed by the opposition to President Evo Morales's party. First payments began in February 2008, amid strong support from the pensioners' federation, peasant organizations and other social groups, with claimants totalling 676,000 at the end of 2008.⁶⁰ Tensions between the government and the other sectors and groups benefiting from the hydrocarbon tax revenue exploded in August 2008, when it was decided to increase the annual amount of the pension due to high international gas prices. Thus, while Renta Dignidad has gained the status of an acquired right, at least among its recipients, the way towards progressive improvements and extensions of the scheme is still subject to negotiations among different actors and development priorities competing for the use of mineral rents, and will ultimately depend upon the volume of these rents. In this sense, recent declines in exports (in March 2009 export levels were 25 per cent less than for the same month in 2008⁶¹) and in prices of natural gas (a 42 per cent decline between January and early April 2009) due to falling demand highlight the risks associated with financing Bolivia's social pension, and social policies in general, with highly volatile resources.

Overall, it is reasonable to posit that successful management of mineral rents is a demanding task, especially for developing countries with weak political and economic contexts and where distributional struggles and inequality loom large. In spite of tremendous social needs, the capacity of low-income countries to absorb funds without

causing macroeconomic instability is often limited, which calls for a cautious approach in terms of the fiscal and monetary management of these flows. The contrasting examples of Norway and Bolivia show that it is crucial to construct a social consensus about the use of mineral rents for development.

The contrasting examples of Norway and Bolivia show that it is crucial to construct a social consensus about the use of mineral rents for development

Aid can contribute to social development and international justice

When identifying possible financing sources for development, taxation and aid are often juxtaposed against each other due to their different effects on economic and political systems. Yet external funding through international development cooperation remains an important pillar of development finance. International donors have agreed to substantially increase ODA for low-income countries in order to accelerate the MDG process. And, although development assistance in the past has shown a procyclical pattern with regard to global economic boom and bust cycles, donors have promised to maintain ODA levels despite the recent economic crisis.

The upsides and downsides of aid

Additional funding for poor countries can ease financial constraints. But, like rents from natural resources, aid flows are volatile (see box 8.3), tend to parallel global and national economic trends, and pose a variety of political and economic challenges. These challenges are related to conditionality, accountability and the effects of Dutch disease (see box 8.2), which have to be addressed successfully in order to make aid more effective for development.

BOX 8.3: Aid – Good intentions are slow to materialize

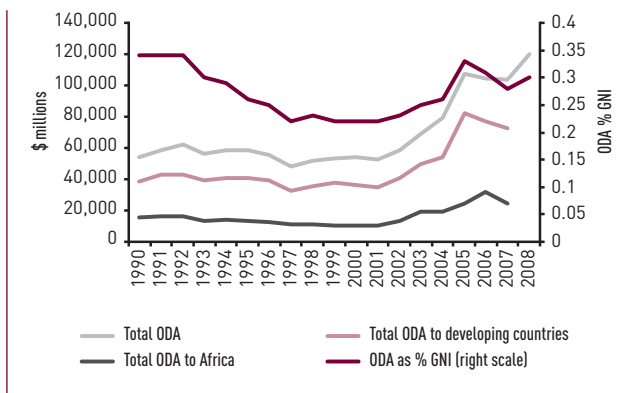
Despite rich countries' recurring commitments to provide 0.7 per cent of their gross national product to official development assistance, total ODA from OECD donors as a percentage of their combined gross national incomes consistently falls below this target (see figure 8.5). In absolute numbers, ODA has been on the rise since the 2000s. It peaked between 2005 and 2006 due to large Paris Club debt-relief operations for Iraq and Nigeria, and special humanitarian assistance provided for the Indian Ocean tsunami and earthquake in Pakistan.^a After a slight decrease between 2006 and 2007, aid reached \$119.8 billion in 2008, the highest dollar figure ever recorded.^b However, as a proportion of gross national incomes, aid flows have been decreasing since 2006.

The volatility of aid flows is increased by geopolitics, which tends to play a decisive role in the global redistribution of funds. Post-conflict countries, such as Afghanistan, the Democratic Republic of the Congo and Iraq, accounted for over 60 per cent of the total ODA increase between 2001 and 2004. Estimations of the volume of aid needed to help developing countries cope with the global economic crisis and achieve the MDGs have included the proposal to dedicate 0.7 per cent of rich countries' stimulus packages (about \$15 billion) to a vulnerability fund for the poorest developing countries^d and to raise \$1 trillion in aid.^e A portion of these funds will be needed to help developing countries classified as highly indebted cope with debt distress brought about by the crisis, as growth rates and export earnings fall and shifts in exchange rates affect repayment ability.^f

Though aid has recently picked up (see figure 8.5), future trends may not be promising. Indeed, the global economic crisis could well lead to cutbacks in aid budgets as advanced industrialized countries strive to deal with growing domestic fiscal deficits and take up huge financial commitments to rescue their domestic markets.^g In addition, recent injections of resources into multilateral agencies, such as the IMF, the World Bank and the regional banks, are shifting the composition of assistance flows towards loan facilities rather than development aid strictly interpreted (based on non-refundable grants). At the same time, UN agencies are not being allocated additional funds. Despite the recapitalization and creation of new financing facilities within the Bretton Woods institutions, there is a danger that these new funds will largely bypass the poorer, most vulnerable countries and instead be directed mainly towards emerging markets and middle-income countries.^h Indeed, substantial reforms of the IMF's and World Bank's loan design and governance mechanisms, which currently exclude developing countries, are being increasingly advocated in order to ensure that policy recommendations and conditionalities attached to the loans promote countercyclical policies, protect social spending and target poverty reduction.

Besides bilateral and multilateral aid, new international sources of development finance are emerging. Some of these, such as global funds and special drawing rights, already exist; others have been proposed or introduced only recently, such as luxury taxes, currency transaction taxes or taxes on activities with a negative environmental impact, such as air flights.ⁱ In addition, South-South transfers are becoming increasingly important as a means of international redistribution, including ODA by Southern donors (China or Venezuela), regional integration initiatives and South-South banks.^j

Notes: ^a OECD-DAC 2009b. ^b OECD-DAC 2009c. ^c CSDH 2008. ^d ODI 2009. ^e Birdsall 2009. ^f Mold et al. 2009. ^g Mold et al. 2009. ^h Mold et al. 2009. ⁱ Atkinson 2005. ^j Ortiz 2009.

FIGURE 8.5: Official development assistance, 1990–2008

Source: UNRISD elaboration based on data from OECD–DAC 2009a.

Aid can contribute to poverty reduction and have a positive impact on social sector spending. A recent study⁶² that measured changes in government social spending on health, education and sanitation as a function of variations in aid flows, tax revenue as a share of GDP, and per capita GDP over a given period shows that foreign aid, on average, has a small but significant effect on government social spending (1.7 per cent increase for every 10 per cent increase in aid). However, the effect of increases in tax revenue on government and social spending is found to be significantly larger, at 3.2 per cent.

Aid has a greater impact on social spending in low-income countries than in middle-income countries. This is not only because middle-income countries tend to spend more, on average, on social services regardless of aid or tax revenues, but also because aid to middle-income countries is more likely to go towards investments in infrastructure.

Aid has a small but significant effect on public social spending; the effect of increases in tax revenue is significantly larger

Besides influencing government social spending, aid also affects measures of aggregate welfare – either directly, by creating income-earning opportunities and providing services, or indirectly, by contributing to growth.⁶³ Finally, there is robust evidence that aid does indeed finance government social spending to reduce poverty and improve human welfare. Still, government social spending is less likely to have an impact on aggregate welfare in low-income countries. One reason is the low quality of public services generally, and consistently low levels of social spending. Positive effects of aid increases will be enhanced if backed up by measures to improve state capacity, especially in terms of allocating funds and delivering services (see chapter 10).

Perhaps the most striking aspect of the current global economy is the net transfer of financial resources from poor countries to rich countries

Finally, aid is important not only in terms of financing social expenditure (and pro-poor economic infrastructure) in recipient countries, but also as an element of international justice. Enormous global wealth disparities – half the world's population have access to just 1 per cent of the world's assets – give rise to debates about international redistribution.

Perhaps the most striking aspect of the current global economy is the net transfer of financial resources from poor countries to rich countries (see table 8.4). Overall, debt interest payments, investment profit remittances, and the portfolio of central bank reserves offset net financial inflows to developing countries. Rich countries, most notably the United States, are at the receiving end of the vast majority of global savings, which has been identified as one of the main causal factors of the global economic crisis.

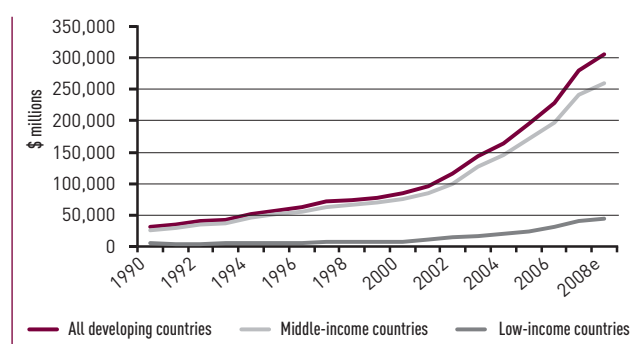
TABLE 8.4: Net financial transfers to developing countries (\$billions)

Year	1996	1998	2000	2002	2004	2006	2008
Africa	-8.4	13.0	-31.4	-5.1	-36.4	-78.8	-125.9
Sub-Saharan Africa (excluding Nigeria and South Africa)	5.2	11.9	3.0	4.5	2.5	-8.4	-28.6
East and South Asia	18.9	-128	-119.8	-145	-177.7	-375.2	-431.9
Western Asia	10.6	34.2	-31.4	-19.7	-70.7	-158.0	-315.6
Latin America and the Caribbean	-0.5	43.1	-2.8	-30.4	-80.6	-108.8	-60.0
Transition economies	-8.7	0.7	-51.5	-28.6	-63.3	-124.6	-171.2
Highly indebted poor countries	6.7	8.5	8.2	12.4	12.8	12.8	26.1
Least developed countries	11.5	13.5	6.6	9.6	8.1	-5.4	-22.3

Source: UNRISD elaboration, based on data from UNDESA (2009b).

Remittances are a financing source for development and household welfare

If social insurance and pension funds have a clear and direct link to social policy, remittances arguably stand at the opposite end of the spectrum. Nevertheless, in a context where global capital flows are increasingly volatile and aid commitments lagging, the steady growth of global remittance flows has generated optimism in policy circles (see figure 8.6).

FIGURE 8.6: Annual remittance flows to developing countries

Note: e = estimate. Source: UNRISD elaboration with World Bank staff estimates, based on IMF data (World Bank 2009b).

Remittances are seen as stable, countercyclical development finance from below, providing foreign exchange at the macro level and increasing income, consumption and investment for receiving households at the micro level. Yet the positive effects of remittances are countered by problems associated with migration, including brain and care drain, social disintegration and remittance dependency, as well as the effects of Dutch disease (see box 8.2). Moreover, the countercyclical nature of remittances does not hold once home and destination countries are exposed to similar external shocks, such as the global economic crisis. Questions therefore arise as to the impact remittances have on the different dimensions of social development, how they shape patterns of social provisioning and the implications for social policy.

What has been observed is that remittances are more important when public social protection programmes are less developed and welfare provision is largely informal. Guatemala and Haiti are two low-income countries following a service-led development path, with agriculture remaining important in terms of employment and livelihoods. Remittance expenditure patterns in these two countries show that households spend a considerable portion of

transfers from abroad on social services such as health and education. In Guatemala, for example, households receiving remittances use them to finance more than half of their expenditures on health and education.⁶⁴ However, the impact on out-of-pocket payments (or insurance contributions) is not the only link between remittances and social protection. UNRISD research reveals that remittances can lead to higher tax receipts, which, in turn, contribute to the financing of public policies.⁶⁵

In Guatemala, households receiving remittances use them to finance more than half of their expenditures on health and education

International migration generated \$5.5 billion in remittances for Viet Nam in 2005, a figure nearly equal to combined ODA (\$3 billion) and foreign direct investment (FDI) (\$3 billion) that year.⁶⁶ Besides revenues sent by migrant workers abroad, internal migration, mainly from the countryside to urban and industrial areas, accounted for 80 per cent of the transfers received and reported by Vietnamese households in 2002.⁶⁷ Remittances in Viet Nam are considered crucial for reducing poverty and sustaining livelihoods.

Nevertheless, in the context of the global economic crisis, remittance flows have decreased considerably (the World Bank estimates a global decline of 5–8 per cent in 2009),⁶⁸ exposing the risks associated with heavy reliance on a development model based on migration. Admittedly, remittances produce an increase in migrant households' monetary income, which can then be spent for different purposes, including social protection and community projects. However, it is also generally agreed that remittances, like any other form of private revenue, cannot substitute for public social policy. They can merely serve to complement it.

4. Financing Social Development: Implications for Policy

UNRISD research has shown that social policies cannot be divorced from the financing structures that underpin them. Affordability arguments effectively foreclose discussions about the possibility of expanding and diversifying the existing resource base. Research and policy makers must begin to explore the complex challenges of mobilizing resources in a way that not only increases fiscal space for social policies, but also reinforces it. The quality (and not simply the quantity) of fiscal resources is important for creating and strengthening synergistic feedback with social policy systems.

Create financing mechanisms that are sustainable, equitable and conducive to economic development

Ideally, revenue and expenditure policies for social provisioning should respond to the principles of efficiency, equity and democratic accountability. They should be embedded in and support a broader macroeconomic framework that is conducive to productive investment and employment. In a nutshell, the challenge is to build social programmes based on financial arrangements that are themselves sustainable in fiscal and political terms, equitable and conducive to economic development. This chapter has argued that domestic financing instruments, such as taxation and social insurance, if well designed, are best suited to create these synergies, to strengthen democracy and social solidarity, to support a social contract among citizens and with their political leaders, and to provide the latter with more policy space. Private and external resources (including mineral rents), although second best from an economic and equity point of view, have the potential to complement public domestic financing.

Although no clear-cut links can be found between specific growth patterns, policy regimes and revenue sources,

high-tax (including social contributions) regimes are more frequently found in countries following the manufacturing-led growth path. These include East Asian developmental states, former socialist countries in Eastern Europe and Central Asia and some dualistic states, such as Brazil and South Africa. Tax shares are usually lower in countries following growth paths led by services, mineral rents or agriculture.

The composition of revenues is strongly determined by a country's level of development and prevailing economic structures, in particular labour market characteristics. Economies characterized by high proportions of informality do not perform well in terms of taxation, especially direct taxes, and few people contribute to social insurance schemes. Therefore, these countries rely heavily on the more regressive forms of consumption taxes and user fees to finance social protection and social services. External resources such as aid, remittances or resource rents often fill in the gaps, but they are also bedevilled with problems of volatility, conditionality and adverse effects on macroeconomic stability.

Consider the political and macroeconomic effects of various types of financing

Whether improved funding opportunities eventually increase social expenditures, are channelled into productive investment, pile up in central bank reserves, or reduce public debt (not to mention corruption and other types of illegal appropriation of public funds) is a political decision. The more democratic, accountable and transparent the political process is, the more likely social programmes and the corresponding budget allocations will reflect the public interest and a reasonable balance between transfers and investment, economic and social spending. As mentioned earlier, some countries have started to experiment with alternative budget processes in order to improve budget analysis and outcomes of fiscal policy for local communities or specific groups, such as women. The results are encouraging.⁶⁹

The way in which social expenditure is financed is not neutral in its distributional or productive effects. Reforms entail potential losers and winners, which may or may not correspond to groups benefiting from public transfer schemes and social investments. The macroeconomic effects of different financing sources, such as the impact on domestic demand, investment and savings, monetary stability and currency risks, have to be considered carefully.⁷⁰ Similarly, the implementation of progressive direct taxes on wealth and income tends to create opposition from influential social groups and can lead to reform blockades. Therefore, the more universal social programmes are, the easier it is to find convincing arguments for progressive funding structures, which are built on relatively greater contributions from higher income groups.

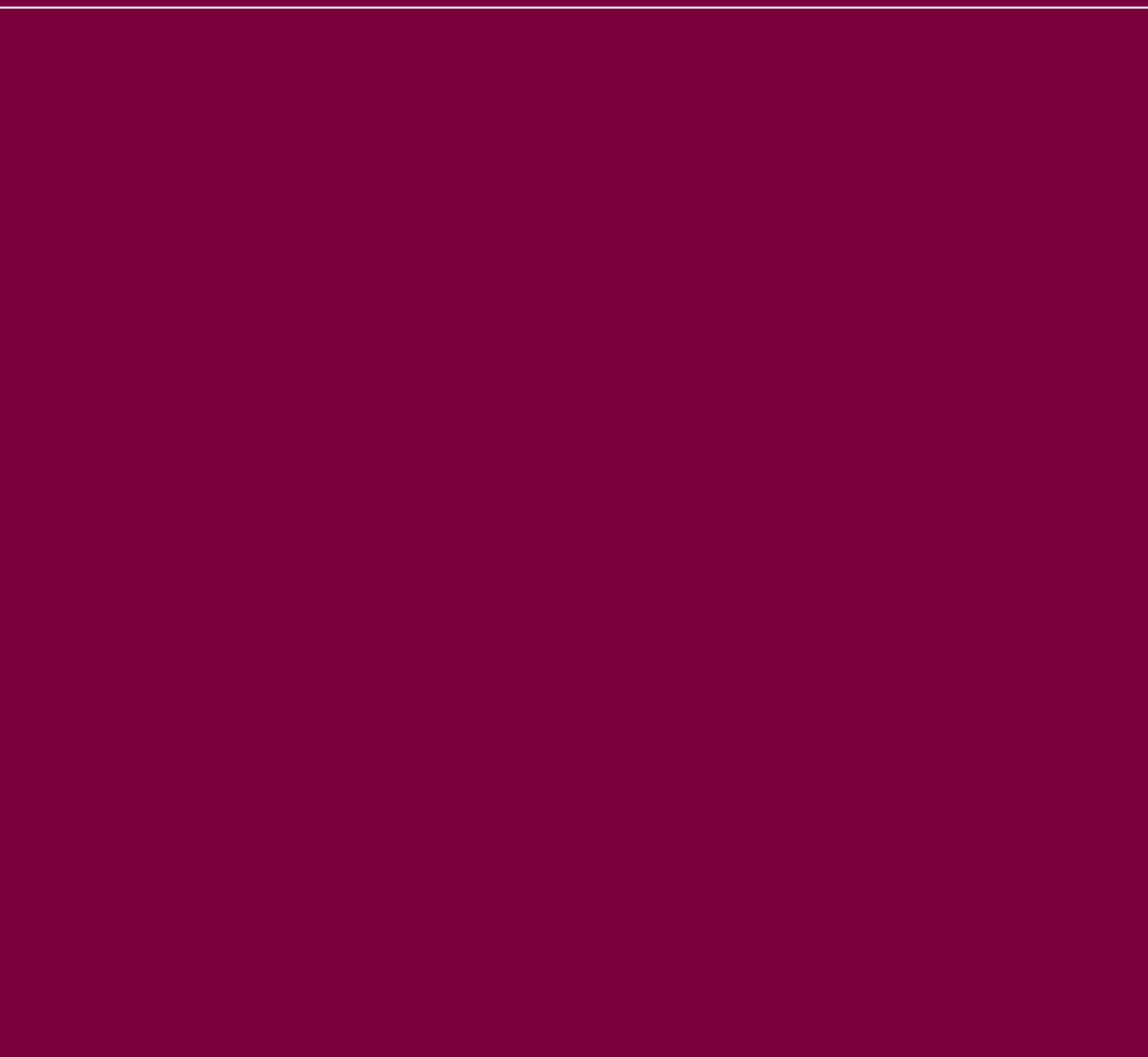
The more universal social programmes are, the easier it is to find convincing arguments for progressive funding structures

Anchor a country's social policy system with domestic sources of financing

Like the budget process, financing structures are inherently political. The source of funding has profound implications for the political economy of building and sustaining social policies. External sources of funding, in particular ODA, are only sustainable as long as donor commitments last. Internal sources, on the other hand, if designed effectively, have the potential to create intergenerational and interclass linkages that are more difficult to break over the long term. These domestic financing structures are the core or the anchor of social policy systems. Domestic financing instruments are levied on national economic activity and they redistribute among different groups. Macroeconomic policies that foster income creation and decent, formal employment are therefore the foundation for any successful fiscal strategy.

Notes

- 1 Di John 2008; United Nations Millennium Project 2005.
- 2 De Haan 2007; Besley et al. 2003.
- 3 Figures for 2003, regional averages for 2004 (OECD 2007).
- 4 De Haan 2007; Melo 2008.
- 5 Hicks and Wodon 2001.
- 6 Kwon 2005; Bird 2008; Vos et al. 2008.
- 7 Delamonica and Mehrotra 2009.
- 8 Delamonica and Mehrotra 2009.
- 9 Grown and Valodia 2010.
- 10 Huber 2006; Barnett and Grown 2004.
- 11 De Haas (forthcoming).
- 12 De Haas (forthcoming).
- 13 Manow 2001; Estevez-Abe et al. 1999.
- 14 Funding instruments, such as microcredit or other financial sector instruments (including domestic savings), public debt financing, as well as resource mobilization via debt relief for the poorest countries (HIPC initiative), are definitely important, but will not be discussed here (see UNRISD 2000; Vos et al. 2008; United Nations 2008b). See also chapter 10 of this report.
- 15 United Nations 2008b.
- 16 Vos et al. 2008.
- 17 Moore 2004; Fjeldstad and Rakner 2003; Bräutigam et al. 2008.
- 18 Di John 2008.
- 19 Gupta et al. 2005; Glenday 2006; Aizenman and Jinjark 2006, cited in Sindzingre 2009.
- 20 See Jiménez and Gómez Sabaini (2009) for Latin America.
- 21 Sindzingre 2009; Di John 2008.
- 22 Lue 2008.
- 23 Haggard and Kaufman 2004.
- 24 ECLAC 2006.
- 25 Barrientos 2008.
- 26 Schneider and Baquero 2006.
- 27 Seekings and Natrass 2008.
- 28 Seekings and Natrass 2008.
- 29 Poirson 2006.
- 30 Dietsche 2008.
- 31 Mkandawire 1995.
- 32 Riesco 2008.
- 33 Riesco et al. 2005; Guajardo 2007.
- 34 Guajardo 2009.
- 35 Di John 2008.
- 36 Delamonica and Mehrotra 2009.
- 37 Cobham 2005.
- 38 Kwon 2005.
- 39 Seekings and Natrass 2008; Mesa-Lago 2009a.
- 40 Kangas 2009.
- 41 Asher 2009.
- 42 Kangas 2009.
- 43 Müller 2003.
- 44 World Bank 1994; Charlton and McKinnon 2001; Hujo 2004; Arenas de Mesa and Mesa-Lago 2006.
- 45 World Bank 1994, 2001b.
- 46 AIOS 2008.
- 47 AIOS 2008.
- 48 Titelman et al. 2009.
- 49 Titleman et al. 2009.
- 50 Mesa-Lago 2009b.
- 51 Lo Vuolo 2008; Mesa-Lago 2009b.
- 52 Rostow 1960.
- 53 Sachs and Warner 1995; Auty 2001; Collier and Hoeffler 2005.
- 54 Stürmer 2008.
- 55 Mehlum et al. 2009; BBC News 2009.
- 56 Holmøy 2009.
- 57 Holmøy 2009; Mehlum et al. 2009.
- 58 Mehlum et al. 2009.
- 59 Müller 2009.
- 60 HelpAge International 2009.
- 61 Revenue Watch Institute 2009.
- 62 Morrissey 2009.
- 63 Morrissey 2009.
- 64 Orozco 2009.
- 65 Orozco 2009.
- 66 Dinh 2008.
- 67 Dinh 2008.
- 68 Ratha and Mohapatra 2009.
- 69 Bloj 2009.
- 70 Vos et al. 2008.





THE POLITICS OF POVERTY REDUCTION

Section Three

The success of strategies to reduce poverty and inequality hinges on shifts in the relationships and exercise of power. In recent decades, economic liberalization, democratization and changes in governance have profoundly altered the relative power and influence of key actors within the state, business and civil society. This section shows why patterns of development that are conducive to poverty reduction require a regulatory and political context characterized by effective state institutions, social pacts, democratic governance and active citizenship.

The presence, responsibilities and authority of organized business interests have increased considerably in areas such as regulation and social policy. This enhanced role for business has occurred to a large extent through corporate social responsibility, private regulation and public-private partnerships. Such approaches, however, are found wanting from the perspective of inclusive development and democratic governance. They often ignore key institutional and political conditions conducive to corporate accountability and the constructive engagement of business actors in public policy. These conditions include social pacts that encourage business to support social policies; strong state capacities in areas such as labour regulation; appropriate norms and laws governing the participation of private interests in public governance; and institutional mechanisms and forms of collective action for holding corporations accountable and facilitating redress.

State capacity is crucial for business regulation as well as for the types of structural change and transformative social policy discussed in previous sections. Strong capacity is associated with enhanced policy space and political legitimacy, reducing the likelihood of government capture by powerful groups. Such capacity facilitates the enforcement of rules, and the mobilization and allocation of resources for development purposes. While authoritarian developmental regimes have been able to reduce poverty, it has often come at the cost of suppressing civil rights. Democratic developmental states have been equally successful in reducing poverty where they have had a broad power base, a coherent bureaucracy, healthy public engagement, and various commitments and compromises by business. The contemporary focus on good governance and new public management, however, often ignores such conditions.

Successful poverty reduction requires both that governing elites are committed to changing power structures in favour of the poor, and that citizens engage in policy-making processes. Allocative and enforcement capacities, for example, can be improved through citizen participation in monitoring development agents and service providers. Democracies deliver outcomes that are beneficial to the poor when groups with strong ties to the poor demonstrate the capacity for organization and mobilization, transcend or reconcile ethnic, regional and other divisions, and create links with actors involved in policy making. Electoral processes that can vote parties in and out of office can be conducive to redistribution and progressive reforms, but sustaining such outcomes requires effective group organization and contestation. Agency and representation remain key issues in development politics. Poverty reduction is ultimately a question of political power and active citizenship.

Business, Power and Poverty Reduction

As the role of the state in key aspects of social policy and labour market regulation has declined, that of business has increased. Pro-market ideology and strategies in recent decades have generated fundamental changes in relations among state, society and business actors. Economic, regulatory and governance trends that have characterized globalization and liberalization have not only expanded commercial opportunities for business enterprises; they have also drawn them more directly into the arenas of social policy and poverty reduction. This is particularly apparent in four areas: the role of business in the privatization of social services, discussed in chapter 6; the adoption of corporate social responsibility (CSR) principles and practices; new roles for business organizations in standard setting and other aspects of business regulation; and the participation of transnational corporations (TNCs) and business associations in processes of global governance and public policy.

These changes contrast with the traditional role of business in social development. In countries where poverty was reduced in relatively short periods of time, this role could vary significantly but often featured employment generation, tax payments, philanthropy, corporate social welfare and insurance obligations, and implicit support for social policy or a welfare state model.

Today's world is quite different. The number of TNCs has vastly increased, as has their economic power through foreign direct investment (FDI) and global value chains. Moreover, corporate tax rates have declined sharply over the past two decades, the percentage of workers covered by company health plans has decreased in many countries, and social pacts that aligned business interests with a welfare state model have weakened. At the same time, international initiatives to control company behaviour through harder regulations have ceded ground to efforts to engage the private sector far more directly and proactively

in national and international strategies to raise social and environmental standards and reduce poverty. More and more companies are associating themselves with the Millennium Development Goals (MDGs), participating in public-private partnerships concerned with the provision of basic services, adopting voluntary initiatives associated with an expanding CSR agenda, and targeting the world's poor in their investment, production and marketing strategies. However, whether or not such approaches enhance corporate accountability and promote inclusive development remains an open question.

How business relates to poverty and poverty reduction is complex. Business activities both cause and alleviate poverty, and poverty generates both costs and benefits for business. These diverse relationships give rise to varied and often polarized views regarding the new roles that business actors are assuming in the social and public arenas. Are such roles effective from the perspective of inclusive development? Do they do more to legitimize business-as-usual than enhance well-being? Can organized business interests play a constructive role in democratic governance, and if so, under what conditions? This chapter addresses these questions, paying particular attention to how transnational corporations and business associations facilitate or constrain poverty reduction via their relationship to public policy and more direct interventions associated with CSR and private standard setting. It draws three main conclusions.

- The movement towards corporate responsibility has heightened awareness of how business impacts development and human rights. But there are major shortcomings in regulatory and commercial approaches that aim to enhance the social and environmental performance of business through corporate self-regulation, voluntary initiatives and inclusive business models.

- Far greater attention must be paid to corporate accountability, which obliges corporations to systematically address stakeholder concerns; imposes some form of penalty on non-compliant firms; and enables workers, smallholders, indigenous peoples and others whose livelihoods and rights have been negatively affected by business activities to channel grievances and seek redress.
- The key challenge is to reassert social control over markets and large corporations via various institutional arrangements and the reconfiguration of power relations. Among other things, this requires new ways of linking CSR and private regulation with public policy and law; a strengthening of state regulatory and inspection capacity; attention to conflicts of interest and responsible lobbying; complaints procedures; an active role for civil society in advocacy and social dialogue; and broad-based domestic business associations and coalitions for progressive social change. It will also demand an international CSR agenda that does not shy away from sensitive issues such as labour rights, corporate lobbying, tax evasion and avoidance, as well as the social and developmental effects of the concentration of economic power in global corporations.

Section 1 of the chapter examines the effectiveness of recent developments in business practices and international development policy that aim to engage business more proactively in social development and poverty reduction. The remaining sections examine different dimensions of business power and influence, with a view to understanding when business is likely to play a constructive role in crafting models conducive to inclusive development.

Section 2 looks at the changing nature of state-business relations.

Section 3 examines the countervailing forces and social pressures associated with civil society and subaltern groups.

Section 4 explores variations in the preferences of different types of firms and industries.

Section 5 analyses the role of various types of collaborative institutions.

In conclusion, section 6 highlights key policy implications of encouraging greater corporate accountability.

1. The Rhetoric and Reality of Corporate Responsibility

In the 1980s and 1990s, the rise of FDI and industrial restructuring centred on subcontracting, and the lengthening of supply chains, rapidly expanded the presence and influence of TNCs in developing countries. Although concentrated in relatively few countries, FDI in developing countries increased from \$7.7 billion in 1980 to over \$500 billion in 2007, constituting 27 per cent of global inflows.¹

The social agenda of business is expanding

In response to mounting concern that globalization and neo-liberal policies were generating heavy social costs, and that TNCs were exacerbating the problem of global injustice, a worldwide movement emerged that called on firms to become more socially responsible.² CSR embraces the notion that businesses need to consider not only the economic ramifications of their activities, but also their social and environmental performance and impacts, wherever they operate in the world. The movement also called for more constructive engagement with stakeholders (groups that affect or are affected by business activities). CSR has thus become an umbrella term that refers to an ever-widening agenda of voluntary initiatives and various forms of private regulation in which non-state actors play a key role in setting standards related to the workplace, the environment and human rights, and promoting or overseeing their implementation. CSR initiatives typically relate to working conditions, eco-efficiency, community support and anti-corruption. And CSR instruments include codes of conduct, reporting and disclosure, monitoring, certification and stakeholder dialogues.

In recent years, the CSR agenda has broadened, moving beyond TNC affiliates to their supply chains, beyond production-based TNCs to the financial services industry, and beyond environment, labour and community issues,

to other dimensions of human rights. It has also embraced new business models that engage communities and the poor in commercial activities, as well as myriad forms of public-private partnerships (see box 9.1).

BOX 9.1: Engaging business in international efforts to reduce poverty

The idea that business in general and TNCs in particular should engage proactively in poverty reduction has been widely supported by bilateral and international development agencies. Prominent within this agenda are initiatives and approaches aimed at improving the market climate for the poor; promoting inclusive business models; and mobilizing additional resources for poverty reduction through philanthropy and partnerships.

Improving the market climate for the poor involves responding to conditions that lead to market failures. These can be related to property rights, corruption, regulation, information, infrastructure and bargaining power.^a Devising inclusive business strategies has two main objectives: first, building new markets that offer products and services adapted to the situation of the poor and that generate income and employment – for example, providing nutritionally rich yoghurt distributed through community networks. And, second, improving existing markets by offering better opportunities to entrepreneurs in supply chains and enhancing linkages between companies and local producers.^b Within such strategies, considerable attention has been focused on the potential of the “bottom of the pyramid” approach, which aims to integrate the poor and the informal sector into the formal economy and value chains as consumers, producers or employees. According to some estimates, the bottom of the pyramid comprises four billion people.^c

Although there is a growing body of best practice examples, the assumption that business can actively promote poverty reduction and pursue profits through such models is questionable. It runs the risk of ignoring several realities, including:

- the limitations posed by the lack of income among the poor. This means that inclusive business strategies will most likely connect only with those at the top of the poverty pyramid;
- the constraints imposed on businesses by the environment in which they operate. This limits the extent to which they can pursue strategies that do not generate high short-term profit projections (see section 2 of this chapter);
- inclusive business models that tend to focus more on engaging the poor as consumers rather than as producers; and
- market-oriented solutions that often ignore the key role of social, redistributive and labour market policies in poverty reduction.

More recently the idea of multinational social business has attracted attention. Defined as a non-loss, non-dividend company dedicated to achieving a social goal, this type of enterprise upholds the importance of profitability but uses surplus to expand operations while investors may only recoup what they put in.^d As in the case of the Grameen-Danone Foods joint venture in Bangladesh, such initiatives currently tend to be highly dependent on the idiosyncrasies of individual entrepreneurs. The absence of an enabling institutional environment raises considerable doubt about the extent to which they can be replicated on a significant scale.^e

The role of business in social development has been further enhanced by international efforts to cultivate new sources of financing for development. The private sector is being courted as a key source of financing for the MDGs.^f Philanthropic foundations, such as the Bill and Melinda Gates Foundation, the Clinton Global Initiative, and public-private partnerships such as the Global Fund to Fight AIDS, Tuberculosis and Malaria, and the Global Alliance for Vaccines and Immunization are mobilizing and channelling private sector funding to various fields of social development.^g Such initiatives have mobilized significant resources and resulted in many tangible benefits, particularly in fields related to health, agriculture and microfinance. But they also raise serious questions about the fragmentation of health systems, stress on national capacities, conflicts of interest and the influence of private actors in public governance, as well as the sustainability of such funding sources – not least in the context of the global economic crisis.^h

Notes: ^a World Bank 2001d. ^b UNDP 2004; IFC 2007; UNDP 2008a. ^c Prahalad 2004. ^d Yunus 2007. ^e Zanfei 2010. ^f Atkinson 2005. ^g Kaul and Conceição 2006. ^h Richter 2004; Utting and Zammit 2006; TERG 2009.

Consequently, businesses are increasingly expected to move beyond their conventional role and engage with social and sustainable development objectives as part of their core strategies. CSR is often held up as a third way between heavy-handed government regulation and a market-oriented approach to development that marginalizes social concerns. From the perspective of poverty reduction and inclusive development, how constructive an approach is CSR?

This question has generated much heated debate among those who lean towards the view that firms should not be distracted from their central focus on profit maximization and responsibilities to shareholders; that smart companies must manage risk and reputation; that their license to operate implies being responsive to societal concerns and proactive in good governance; and that CSR and public-private partnerships tend to legitimize big business and facilitate institutional capture. Such diverse views partly reflect the multiple ways in which business relates to poverty and poverty reduction (see box 9.2).

Assessments of CSR reveal major shortcomings

The scope and substance of CSR have developed considerably in recent years. Over 5,000 businesses, including one-third of the Fortune 500 companies, participated in the world's largest CSR initiative – the UN Global Compact – in 2009. Business-oriented non-governmental organizations (NGOs) have mobilized considerable company support for CSR in numerous countries. By mid-2009, for example, nearly 1,400 companies were members of Instituto Ethos in Brazil, and 300 companies belonged to an organization called Philippines Business for Social Progress. The business universe, however, is vast. Transnational corporations alone number 82,000, and their 810,000 affiliates source from millions of suppliers.³ As can be seen in table 9.1, the number of enterprises participating in some of the high-profile international and sectoral CSR initiatives still represents a small fraction of this universe.

BOX 9.2: Business, poverty and poverty reduction – A complex relationship

How business relates to poverty and poverty reduction is complex. In some circumstances, business activities and the power of certain business interests can be seen as cause of poverty. Power asymmetries in trade relations, competitive pressures in global value chains and skewed business-labour relations, for example, can result in small agricultural producers and low-skilled workers receiving prices or wages that fuel absolute or relative poverty and indecent work. The benign-sounding term externalities is used to refer to the fact that economic activities can have spillover effects on third parties that are not compensated. But such language can mask the human consequences of situations where oil, mining, agribusiness and many other business activities pollute the environment, damage people's health and dislocate livelihoods and communities. Tax avoidance and evasion deprive governments of the revenues needed for social and other expenditures associated with poverty reduction, while bribery and lobbying can undermine governance for the public good.

Business itself may be negatively affected by poverty, when, for example, poverty reduces the size of consumer markets, diminishes the pool of healthy and educated workers, or undermines the stability of a particular country or region. Business can also be a fundamental part of the solution to poverty by generating employment, lowering prices through competition, facilitating access to basic goods and services, and stimulating economic activity through linkages with micro- and small enterprises. It can promote corporate social welfare and social responsibility, engage in philanthropy, support progressive social policies and provide much needed expertise, taxes and royalties to governments.³

Note: ³ Blowfield 2008, 2010.

TABLE 9.1: Business participation in selected initiatives promoting CSR, 2009

Multistakeholder initiative	Number of participating entities
ISO 14001 Certification ^a	188,815
Global Reporting Initiative (GRI) ^b	1,368
United Nations Global Compact ^c	5,135
Forest Stewardship Council ^d	13,500
Marine Stewardship Council ^e	51
Partnerships for Sustainable Development ^f	867
SA 8000 ^g	1,942
Fair Labor Association (FLA) Participating companies ^h Accredited companies ⁱ	30 11
Ethical Trading Initiative (ETI)	53
Principles for Responsible Investment Asset owners Investment managers ^j	183 286
Extractive Industries Transparency Initiative (EITI) ^k	42

Notes: ^a Certificates issued by December 2008, some of which relate to non-business entities (data accessed on 5 January 2010). ^b Number of organizations that issued reports based on GRI guidelines in 2009 (data accessed on 30 May 2010). ^c Number of participating businesses, of which 937 are non-communicating and 166 are in the Fortune Global 500 list of largest global corporations (data accessed on 28 August 2009). ^d Number of certificates held by companies in 2008 (data accessed on 28 August 2009). ^e Certified fisheries (data accessed on 28 August 2009). ^f Number of partners from business and industry in partnerships registered with the UN Commission on Sustainable Development (data accessed on 28 August 2009). ^g Certified facilities as of 31 March 2009 (data accessed on 28 August 2009). ^h Participating companies that commit to implement FLA Standards in factories throughout their supply chains (data accessed on 28 August 2009). ⁱ Accreditation implies that a participating company's workplace standards programme is substantially in compliance with the FLA Code following an assessment at the end of the implementation period ^j Data accessed on 28 August 2009. ^k Companies that support and actively participate in the EITI process (data accessed on 28 August 2009). Source: Official website of each initiative.

While thousands of enterprises participate in CSR initiatives, this represents a small fraction of the business universe

Despite the increasing popularity of CSR within business circles and the international development community more generally, there is surprisingly little systematic research into what it has achieved.⁴ Attention has focused

primarily on understanding how CSR affects business – in particular financial – performance. But even this analysis is inconclusive, relying heavily on case studies and using varied and often poor methodologies that tend to provide snapshots that say more about inputs and outputs than outcomes and change.

Research is beginning to raise awareness that the impact of CSR cannot be taken for granted. One of the few comprehensive assessments of a large CSR effort is that of the UK – based Ethical Trading Initiative (ETI), which promotes CSR in global value chains of mainly large supermarket

groups, agrifood or clothing companies. The study found some improvements related to overtime, occupational health and safety, and compliance with minimum wage legislation, but considerable neglect of labour rights related to collective bargaining and freedom of association.⁵

Pros and cons of the human rights agenda

The recent attention to human rights as another pillar of CSR, particularly through the work of the UN Secretary-General's Special Representative on business and human rights, appointed in 2005, is potentially a significant development from the perspective of poverty reduction. While concerns persist about the voluntary nature of many of the proposals, the framework not only recognizes the multiple dimensions of poverty (economic, social and cultural), but also suggests the need for companies to address CSR more systematically, rather than in an ad hoc manner. The evidence shows, however, that the way powerful actors and institutions choose to apply and interpret a rights-based discourse can be problematic.

Mining companies and international financial institutions (IFIs), for example, are now paying more attention to issues of indigenous rights. They have developed a variety of voluntary standards and other initiatives to address the negative impact of natural resource extraction on the livelihood, identity and environment of indigenous peoples. UNRISD studies in Australia, Cameroon, Chad, India, Nigeria, Peru and the Philippines show, however, that TNCs, IFIs and governments often adopt particular meanings of indigenous rights. These interpretations may, in fact, serve to divide indigenous communities and co-opt indigenous leaders or groups in ways that align indigenous interests with those of state and corporate agendas.⁶

When corporate policies and practices work against inclusivity

Research in recent years has also focused on the limitations of CSR that relate to the structural context in which firms operate and the nature of power relations. The CSR agenda has some major blind spots and in some contexts may have contradictory effects from the perspective of inclusive development. Of particular concern are situations where:

- CSR enhances the influence of big business in global governance and public policy;
- trade unions and industrial relations institutions, as well as Southern stakeholders, are marginalized in CSR processes;
- the CSR agenda ignores issues of corporate power and unequal power relations within value chains and partnerships;
- so-called policing approaches are used by large corporations to raise standards in supply chains;
- CSR co-exists with the tendency to transfer risks and costs down the supply chain, often forcing suppliers to cut costs and undermining their ability to raise labour standards;
- increased wages constrain employment generation and add to the pool of factors encouraging firms to relocate;⁷
- there is a gulf between the CSR discourse of global corporations and business associations and their lobbying and fiscal practices; and
- so-called shareholder primacy – the notion that shareholder interests are prioritized in corporate decision making – and the way companies relate to the financial system encourages managers to focus narrowly on short-term financial results.

CSR varies by region, industry and firm

Despite the global presence of many TNCs, they are still strongly influenced by the institutional context and regulatory frameworks of both home and host countries. The responsiveness of firms to stakeholder or societal concerns is also shaped by the variations that exist in the preferences of particular firms and sectors, the nature of relations between firms and the relative weight of markets or states in coordinating such relations.

Four distinct approaches

An analysis of a large number of corporate policies, commitments and initiatives referred to on company websites and in reports that relate to CSR and poverty reduction reveals four different approaches among the world's top 100 corporations and significant variations by region and sector.⁸

- Inactive: companies make no explicit commitments to poverty reduction or CSR.
- Reactive: companies engage defensively with CSR and modestly support certain CSR initiatives.
- Active: companies adopt a variety of CSR practices and acknowledge the problem of poverty.
- Proactive: companies systematically and proactively apply a broad range of CSR and corporate accountability measures, promote inclusive business models and explicitly support the MDGs.

Furthermore, a tally of whether companies are engaging with the myriad CSR standards and instruments that now exist also reveals the tendency for companies to adopt a fragmented approach. They are active in some areas, but far less so in others. This might be expected in situations where companies begin to engage with CSR, or if they

adhere too strictly to the mantra that CSR needs to be tied to core business strategies.⁹ But it contradicts the principle that companies that are serious about CSR should be applying ethical principles more systematically rather than picking and choosing.

Table 9.2 suggests that the largest European corporations lean towards a more active response to CSR than East Asian corporations, although the latter are also noted for more traditional corporate social welfare benefits (at least in their home countries) rather than contemporary CSR initiatives. The biggest corporations in the United States are somewhere in between those of Europe and Asia, with a strong inclination towards inactive and reactive approaches. The largest corporations in Latin America, which are state-controlled corporations in the energy industry, have tended to adopt a fairly reactive approach.

TABLE 9.2: Approaches to CSR and poverty reduction: Fortune 100 corporations by region and sector, 2006 (% of row category)

	Inactive	Reactive	Active	Proactive
Total (N=100)	63	55	33	4
Europe ^a (N=52)	48	67	52	8
Headquartered in the United Kingdom	60	60	40	10
United States (N=30)	77	47	13	0
Asia ^b (N=15)	93	27	7	0
Latin America ^c (N=3)	33	66	33	0
Petroleum refining (N=14)	50	71	36	14
Banks (N=17)	59	47	47	6
Insurance (N=13)	62	39	31	0
Electronics, computers, telecommunications (N=15)	74	53	27	0
Motor vehicles and parts (N=13)	69	46	23	0
Retailers, general merchandise, wholesalers (N=12)	75	42	17	0

Note: The classification is based on publicly available information published in company reports, codes of conduct and websites. Some companies score on two or even three indicators under each approach, which changes the sample size per score and explains why the row percentages exceed 100. ^a Includes companies in Germany (14), France (11), United Kingdom (10), Netherlands (4), Switzerland (4), Italy (3), Belgium (2), Spain (2), Ireland (1), Norway (1). ^b Includes companies in Japan (9), China (3), Republic of Korea (3). ^c Includes state-controlled energy corporations in Brazil, Mexico and Venezuela. Source: Based on van Tulder (2008).

Variations in CSR by industry

Responses to CSR also vary significantly by industry and firm, given the variations in business preferences, social pressure, the regulatory environment and the specific history and culture of each company, as well as how these elements interact.¹⁰ Sectoral variations related to the world's largest corporations are indicated in table 9.2. The response of the petroleum refining sector partly reflects the fact that high-profile companies such as BP and Shell periodically find themselves in the sights of activists, the media and regulators for environmental, health and safety and other violations, and need to take action to protect their brand value and reputation. Companies in other sectors targeted by activists often reveal similar responses: for example, Rio Tinto in mining, Nike in sports footwear, Gap in apparel and Nestlé in food processing. Through time such companies have engaged with a broader range of CSR issues. Others, such as ExxonMobil and Walmart, have remained more selective, a fact that reaffirms the relevance of corporate culture as an element that explains the uptake and trajectory of CSR. For companies such as Danone and Unilever, which have a longer social trajectory of one form or another, the jump from business-as-usual to CSR may not seem particularly challenging. This helps to explain not only variations in levels of company engagement with CSR in general, but also the aspects of CSR that are emphasized by corporate management. Norms related to labour rights, for example, tend to be fairly well embedded in European companies, which have a long history of engagement with governments and trade unions promoting labour rights, at least in their home countries.

Attention should refocus on corporate accountability

The above discussion suggests the need to rethink the role of business in social development and poverty reduction that has been promoted in mainstream international development circles. Two strands of analysis are particularly useful in this regard.

First, a growing recognition of the limits of CSR and the need for alternative approaches has led many observers to focus

on ways and means of enhancing corporate accountability. The term refers to institutional arrangements that go beyond corporate self-regulation and voluntary initiatives and oblige corporations to answer to their stakeholders, incur some sort of penalty in cases of non-compliance with agreed standards, and provide mechanisms for those whose rights and livelihoods have been negatively affected to channel grievances and seek redress.¹¹ Whether or not business adopts a meaningful and proactive approach to CSR and is accountable depends to a large extent on the institutional and political settings in which firms operate. Proactivity and accountability require a context in which law, public policy, voluntary approaches, social pressures, critical thinking and learning about best practices combine in ways that are complementary and reinforce each other in positive ways.¹²

Growing recognition of the limits of CSR has led many observers to focus on ways and means of enhancing corporate accountability

Second, if, as argued throughout this report, macroeconomic, social and other public policies are key for development, then it is crucial to examine how business interests influence the design, substance and implementation of public policies.¹³ A useful starting point is to consider how business has behaved in societies or varieties of capitalism (that is, the different ways firms use market and non-market institutions to coordinate their activities in different spheres of the political economy) that managed to reduce poverty in relatively short periods of time. In East Asia, the Nordic countries and the United States during the New Deal era, some or all of the following conditions or drivers were particularly relevant.¹⁴

- Certain types of state-business relations: states had significant administrative capacity, regulatory authority and developmental vision to provide the incentives and controls needed to enhance competitiveness, contain negative externalities and social conflict, and craft social pacts that reduced business opposition to redistributive policies.

- Both states and businesses needed to minimize the disruptive influences or potential threats associated with social pressures, notably labour unrest.
- Certain firms and industries supported social policy for reasons related to business preferences or strategy: firms dependent on skilled workers, for example, needed a well-educated pool from which to draw labour.
- Certain forms of collaborative institutions conducive to social dialogue and bargaining, as well as the presence of broad-based business associations representing large, medium and small enterprises from multiple sectors, played a role in fostering business positions more supportive of progressive public policy. Such associations were more likely to speak for the wider business community than for corporate elites and special interests.

Although based on an observation of today's richer countries, the above analysis is relevant for understanding when business might support labour market and social policies that are conducive to inclusive development. The following sections examine the changing nature of these conditions in the context of liberalization, and how they vary under different development paths and policy regimes.

2. Changes and Variations in State-Business Relations

Powerful ties between political and business elites often ensure that states prioritize the preferences of organized business interests. In developing countries, media and international attention have focused to a large extent on corruption and crony capitalism. In practice, business power and influence come in many guises. The so-called structural power of capital is a crucial dimension of business influence. States typically seek to achieve high rates of growth in the interests of modernization, to attract private investment, and to secure the fiscal revenues on which the state depends. Lobbying, legal and illegal financial flows

between business and politicians, bureaucrats and political parties as well as myriad social, professional and institutional relations further bind states and business interests. These mechanisms can vary significantly by country and varieties of capitalism, as well as across time.

From the perspective of social development, four major constraints follow from these relations. First, they favour patterns of resource allocation guided by particular as opposed to public interests. Second, they can reinforce macroeconomic policies that, as was seen in Section one of this report, can have perverse social and developmental implications. Third, they often impose major limits on the scope for redistributive policy. And fourth, social policy may be designed and rights-based laws enacted, but implementation and enforcement lag far behind.

Globalization and liberalization have profoundly altered power relations

Important shifts in the balance of power and regulatory authority have occurred with globalization and liberalization.

- The structural power of some sectors of business has increased, particularly in developing country contexts where government technocrats see FDI as the key to development and are fearful of capital flight or capital strikes. Often, their assumptions about what business wants relate more to the interests of TNCs and foreign investors than the broader business community, which includes domestic capital and small- and medium-sized enterprises.¹⁵
- The instrumental power of business to mobilize material resources and social capital to influence the policy process through both formal and informal channels has also increased. Important in this regard is the capacity of corporations and business associations to lobby decision makers and the increasing needs of policy makers for technical knowledge, which has facilitated business participation in consultative processes.

- The discursive power of business elites has expanded.¹⁶ This is reflected in the use of buzzwords and narratives that serve to frame knowledge and policy agendas and debates,¹⁷ and demonstrate that corporations are now “partners” – part of the solution and not simply part of the problem.¹⁸
- There has been a vast increase in non-equity forms of TNC activity associated, for example, with subcontracting, franchising and certain forms of public-private partnerships that have major implications for the distribution of responsibility, risk and costs within value chains.¹⁹
- New powerful business actors from emerging market economies are increasing their global reach. They are often not exposed to the same pressures that have forced some Northern corporations to review their social, environmental and human rights performance.
- Privatization in developing and transitional economies has not only increased corporate control of key sectors and services, it has also resulted in reduced levels of corporate social welfare that had previously been provided by state enterprises.
- A “new constitutionalism” has arisen in which corporate rights have been locked in via a body of international and national law²⁰ concerned with property rights and an enabling environment for TNCs and foreign investors in developing countries, which is also part of the good governance agenda (see chapter 10). The strengthening of corporate rights has produced a growing imbalance between corporate rights and obligations, particularly in developing countries,²¹ which the CSR movement is seeking to address.
- State capacity in key areas of government has declined, particularly in developing countries undergoing structural adjustment (see chapter 10). This has affected not only aspects of business regulation such as labour inspection, but also policy space or the capacity of developing country governments to resort to a range

of policy instruments and approaches. Furthermore, regulatory authority has increasingly been assumed by non-state actors, including corporations and business associations, which set standards and oversee their implementation.²²

- Democratization affects business-state relations in complex ways: electoral competition and other democratic institutions may favour more pluralistic models of governance and provide space for countervailing social forces. But democracy can also present numerous opportunities for business elites and corporations to lobby, buy influence and take up influential positions in political parties and executive office.

The influence of business varies by industry and policy regime

As a result of these developments, the degree of autonomy that technocracies in some developmental states enjoyed in crafting national development strategies has often been reduced. But it is misleading to overgeneralize about the rise of corporate power vis-à-vis states. Transnational corporations do not always have superior bargaining power. Depending on the industry and policy regime in question, such power may vary considerably, ranging from very high, in the case of a company like Nike investing in a shoe production site, to very low, as in the case of automobile TNCs in China.²³ The relative power of state and business interests associated with FDI depends partly on the nature of the investment involved. Investments that are seeking low labour costs, as in the case of apparel and textile companies in Bangladesh, Honduras and Tunisia, can shift location relatively easily, giving companies more bargaining power. In contexts where investment occurs as part of a search for resources, such as mining companies in Chile or Peru, or for new or bigger markets, as in Brazil, China and India, national governments may have more leverage.²⁴

While the dominant change in development policy and ideology that has occurred since the 1980s is often described

as neoliberal, this obscures significant variations in approach and practice.²⁵ Both China and Viet Nam, for example, vigorously entered the international trade regime, but retained important elements of the traditional developmental state. In more established democracies, such as Costa Rica and India, governments of different political persuasions have promoted economic liberalization, but electoral competition and a vibrant civil society have imposed certain limits on the extent to which government policy can liberalize and prioritize business interests.²⁶

The bargaining power of transnational corporations may range from almost absolute to close to zero, depending on the industry and policy regime

In newly democratic states

In new democracies, even governments controlled by political parties with Leftist credentials often pursue a neoliberal agenda.²⁷ In South Africa, both the structural and instrumental power of business have increased through competitive pressures related to trade and investment, perceptions of impending economic crisis, the strength of both home-grown and foreign TNCs and certain sectoral business associations, as well as the rise of a black capitalist class. The close relationship between big business interests and the technocracy played a part in the shift from a more redistributive to a more business-friendly development strategy in 1996. A key dimension of big business influence related to the easy access of the business elite to senior policy makers through formal and informal consultative processes. The instrumental power of business further increased in the past decade with Black Economic Empowerment, which expanded and consolidated a black business elite that enjoyed close personal and political ties to the African National Congress (ANC).²⁸

Brazil has experienced a partial shift from a corporatist to a more pluralistic model, where a diverse range of actors and

organizations lobby government and parliament. Interests associated with domestic and transnational capital have been particularly adept at taking advantage of this shift. During the initial period of liberalization in the 1980s, when there was a large and sudden flow of FDI into Brazil, some sectors of domestic capital were adversely affected. This led to a major organizational effort on the part of certain business associations to strengthen their influence in the policy and legislative process, in an attempt to influence trade policy negotiations and ensure that labour and other aspects of the “Brazil cost” of doing business were reduced in order to enhance international competitiveness.²⁹ In both Brazil and South Africa, pro-business gains that derive from economic liberalization have been moderated to some extent by institutional and political developments associated with social dialogue and democratization, which have facilitated civil society advocacy and given voice to a recently enfranchised citizenry (see chapter 11).

In more established democracies

In more established democracies such as Costa Rica and India, governments of different political persuasions have promoted economic liberalization. But a number of countervailing forces exist. As noted in chapter 11, political parties that have to compete in elections and alternate in power are likely to confront certain pressures that limit the pace and extent of liberalization and their willingness to prioritize certain business interests. And such democracies may also have a well-organized and vibrant civil society that includes trade unions, NGOs and social movements engaged in contestation, advocacy and social dialogue calling for business regulation and more inclusive patterns of development.³⁰

In more fragile democracies and clientelistic states

In more fragile democracies and clientelistic states experiencing neoliberal reform, state-business relations often evolved in ways that had little to do with the textbook theory of structural adjustment. In Kenya, a fragmented business sector was not only vulnerable to international competition, but also marginalized in formal consultative processes associated with public policy. Transnational corporations increased their presence in the country,

but often had to collude with public officials who had a stake in companies that established linkages with TNCs.³¹ Indeed, close ties between the upper echelons of the civil service and business, which had been legitimized by a 1970s ruling that allowed civil servants to have business interests, fuelled conflicts of interest and underpinned corruption. As noted in chapter 10, corruption often increased in countries undergoing structural adjustment due to the decline in the real incomes of civil servants.

Similarly, in Peru, rapid privatization increased the power and influence of a group of large, mainly foreign, corporations. Such business interests became highly influential in shaping political appointments in key centres of economic policy making. Furthermore, the use of a “revolving door” mechanism acted as an effective transmission belt between some sectors of business and the state technocracy. Bribery also ensured that some media companies became part of a process that legitimized corrupt practices linked to privatization, provided generous tax benefits and exoneration to companies, and condoned the use of repression, which stifled civil society activism.³²

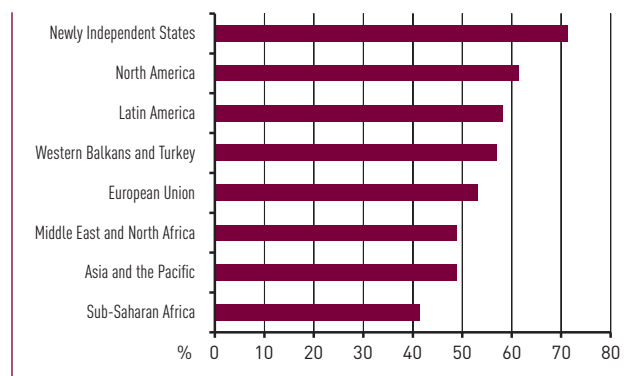
Corruption results in fiscal losses, tension and conflict, and a fall in private sector resources

Corruption and economic development

But state capture and corruption are global phenomena: indeed, if public opinion is any guide, problems of bribery appear to be as prevalent in advanced industrialized countries as they are in developing ones (see figure 9.1). How corruption relates to economic development is a complex issue. The effects are often unequivocally perverse, for example, when bribery results in fiscal losses, generates tensions and conflict within the state and between the state and civil society, and prevents business collective action,³³ or when large-scale corruption pumps resources out of the private sector.³⁴ In some contexts, as in East Asia, corruption may be widespread, but both the state and political parties tend to support a pattern of private sector development that facilitates

growth. In this region, however, corruption has also led to periodic crises, given the inability of governments to adopt timely regulatory and interventionist policies.³⁵

FIGURE 9.1: Public views on use of bribery to influence government policies, laws and regulations (% of respondents, by region)



Source: Transparency International Global Corruption Barometer 2009. www.transparency.org/news_room/in_focus/2009/gcb2009, accessed in June 2010.

3. How Social Pressure Can Affect Corporate Behaviour

The above section describes how state-business relations often tend towards policy environments that favour investment and growth at the expense of redistribution and transformative social policy. They can also impede the effective implementation and enforcement of progressive laws and regulations. What conditions must exist, therefore, to promote more inclusive models of development and social policy? A large body of political economy analysis and so-called power resource theory emphasizes the need for changes in the configuration of organized interests and the strengthening of coalitions of multiple actors, including political parties and subaltern social groups. How such conditions relate to development strategies and policies conducive to poverty reduction is discussed in chapter 11. This section examines how such pressures affect corporate accountability and business regulation.

The nature of social pressure associated with business behaviour and regulation has changed considerably in recent decades.

- The power and influence of traditional social movements associated with labour and small farmers have weakened in many countries.
- Civil society activism concerned with different dimensions of global justice has expanded rapidly.
- Large corporations, in particular high-profile brand-name companies concerned with product and company image, have been targeted by civil society campaigns.
- NGOs have been particularly active in this field, and have adopted numerous tactics and relationships with corporations that include naming and shaming, the provision of services paid for by corporations, participation in stakeholder dialogues, boycotts of companies and products, and the ranking of companies in particular sectors.

In contrast to the mainstream CSR agenda, the corporate accountability movement has redirected attention to issues of power, law and public policy

In contrast to the mainstream CSR agenda, which is concerned primarily with promoting voluntary initiatives and private standard setting, the corporate accountability movement³⁶ has redirected attention to a multitude of issues. These include questions related to industrial relations, labour rights, the role of public policy in business regulation, the synergistic relationship between voluntary initiatives and the law (where, for example, norms associated with voluntary codes of conduct are adopted as benchmarks in national law), the imposition of penalties in cases of non-compliance with agreed standards, institutional capture and perverse forms of lobbying by business interests, the right of victims to seek redress, the empowerment of weaker groups in society through organization and

mobilization, and imbalances in power relations in governance institutions and value chains.

Labour movements are showing signs of revival

There are also some signs of a revival of the labour movement. In a number of countries, trade unions are attempting to reverse the decline in union density and societal influence by reaching out, for example, to women and informal sector workers, as well as to other civil society organizations.³⁷ They also appear to be reasserting their authority and influence in initiatives and processes involving dialogue, bargaining and contestation that aim to improve the social, environmental and human rights performance of global corporations. This is apparent in some of the new democracies, such as Brazil and South Africa, where institutions of social dialogue have been strengthened.

In numerous countries with large or growing informal sectors, such as Mexico, Nicaragua and Peru in Latin America, India and the Philippines in Asia, and Kenya, South Africa and Zambia in Africa, informal or own-account workers are organizing nationally and associating internationally through organizations such as StreetNet International, which was launched in 2002. Women workers, often marginalized in male-dominated trade union structures, are either participating to greater effect or forming other organizations, such as the Self-Employed Women's Association (SEWA) in India. While freedom of association is restricted in China, workers have increasingly been mobilizing for better labour standards through various forms of struggle and grassroots strategies, as well as some small unionizing efforts outside the All-China Federation of Trade Unions.³⁸

Trade unions and other labour rights organizations are becoming more assertive in the field of CSR, moving from more defensive to more proactive engagement with various multistakeholder initiatives. Furthermore, issues of concern to unions are broadening beyond the workplace: they are now collaborating with broader civil society movements for policy reform and social change.

Trade unions and other labour rights organizations are becoming more assertive in the field of CSR

Activism is becoming more cohesive

NGOs, and networks of NGOs and other groups, have generally had more success in getting companies to commit to certain standards than in holding them to account for delivering them.³⁹ Whereas there was considerable cohesiveness within the labour movement historically, contemporary civil society activism has often been highly fragmented and dispersed in terms of issues, actions and influence. More recent developments associated with the emergence of transnational activist networks and the global justice⁴⁰ and corporate accountability movements suggest that some of the weaknesses of activism are being addressed. Such movements have brought together NGOs, trade unions and grassroots organizations from both North and South, which are integrating national, regional and transnational networks in campaigns, for example, to defend workers' rights in El Salvador and Mexico,⁴¹ indigenous peoples in Colombia and Peru affected by the activities of oil and mining companies,⁴² and to agitate against child labour.⁴³ Networking is proving to be a powerful tool for activism concerned with global justice and corporate accountability. However, ongoing hierarchies, ideological differences and turf battles within civil society, as well as resource constraints, mean that the potential of such new modes of collective action are still far from being realized.⁴⁴

Another development is the rise of activism on a scale commensurate with economic systems and institutions of governance that require change.⁴⁵ Given the extent to which global rules and powerful transnational actors and institutions currently affect domestic policy and development processes, it is crucial to organize at the global level.⁴⁶ Mobilization at the transnational level and the consolidation of transnational activist networks that connect the global and local scales not only strengthen contestation in

key international and national decision-making arenas, but also give disadvantaged groups leverage in local struggles.⁴⁷ Particularly relevant in this regard are the struggles of indigenous peoples affected by mining and oil extraction, for example, through the Camisea natural gas project in Peru, Vedanta's operations in India, Occidental Petroleum in Colombia and Shell in the Niger Delta. A key point here is not simply that activism is connecting at multiple levels, but that it is adapting to changes in governance systems that have seen the national stage lose some ground to local, regional and international levels.

Another challenge confronting activists concerns the ability of mobile capital to relocate if social pressures and economic costs increase in a particular country. As in the case of the Asia Floor Wage Campaign, which coordinates action to improve wages in the garment industry in several countries, this calls for organizing on a regional scale. Adaptation is also apparent in relation to the emergence of a broader portfolio of action. The earlier discussion of the need for law, public policy, voluntary initiatives, naming and shaming and other sorts of contestation suggests that activism must engage with multiple institutional and political arenas, and adopt multiple strategies and tactics.

The nature of social activism varies by policy regime

In countries with authoritarian structures, such as China, where independent trade union organizing and the NGO advocacy community are weak, transnational activist networks can play an important role in spearheading improvements in corporate social and environmental performance. They do so by exerting direct pressure on both TNCs with interests in the host economy and the governments of countries that are trading partners. Such activism complements the spontaneous actions of Chinese migrant, state and other workers concerned with the abuse of labour rights and poor working conditions – actions that have escalated sharply since the mid-1990s.⁴⁸ Developmental states prioritize economic development, but must also ensure social stability. While authoritarian means may be employed,

such regimes also use social and labour market policy, as occurred recently in China with the Labour Contract Law of January 2008. The law, which obligates firms to establish and enforce employment contracts, was introduced despite the concerns of some organized business interests that it would generate costly rigidities that would drive away foreign investment. They lobbied during the consultation period for less intervention in probationary periods and corporate autonomy in deciding employment codes.⁴⁹

In some new democracies, such as Brazil and South Africa, the issue of corporate accountability has achieved a higher profile in public debate and policy circles.⁵⁰ This is the result of a combination of factors, including the presence of a vibrant NGO community, a revitalized trade union movement, and linkages with transnational activist networks concerned with a variety of global justice issues. In more established electoral democracies such as India, civil society activism often evokes substantive responses from political leaders. The tactics may vary considerably, ranging from media-savvy and technically grounded advocacy, as employed, for example, by the Centre for Science and Environment, to grassroots protests. One such event, involving 25,000 people, was a month-long march organized by Ekta Parishad in 2007. The protest pressured the government to take action to address the abuse of the land rights and the threats to the livelihoods of tribal peoples and small farmers linked to the activities of corporations, state institutions and infrastructure projects. The 2005 Right to Information Act and Public Interest Litigation have also been used to seek redress.

The relative importance of transnational activism, organizations and networks is also apparent in fragile democracies such as Kenya. Here, sectors of agribusiness, in particular horticulture, have expanded rapidly in the absence of an effective regulatory environment or trade union representation. International civil society campaigns and organizations, such as the ETI, International Union of Food Workers, and Women Working Worldwide have played a role in improving working conditions for women and casual workers within global commodity chains such as those selling cut flowers.⁵¹

4. Business Preferences Relating to Social and Labour Market Policy

The sections above have focused on power relations and the correlation of social forces. Such analysis is crucial for explaining how business interests relate to and influence public policy in general and macroeconomic and social policy in particular. It runs the risk, however, of generalizing excessively about business preferences that relate to social and labour market policy. These can vary significantly by firm, industry, region and the variety of capitalism that may be operating. Firms and industries dependent on skilled labour, for example, may be more inclined to accommodate public policies supporting education and training. This was a feature of the East Asian model referred to earlier. Under the import-substitution model of industrialization in Latin America (see chapter 1), which protected domestic business from international competition, firms could more easily accommodate welfare benefits for formal sector workers.⁵² How firms position themselves in relation to minimum wage policy may also vary depending on levels of competition and the composition of their workforce.

Business preferences have changed under globalization

Business preferences have changed significantly in the context of globalization and liberalization. Financialization, industrial concentration and the growing influence of TNCs in global value chains have changed the scope for businesses to pursue strategies that enhance employment.

Financialization and transnational capital

Financialization (that is, the growing share of finance in economies and the greater application of financial logic to economic and social spheres) has reinforced short-term profitability as a key criterion for evaluating corporate performance.⁵³ This marks a significant departure from earlier periods or varieties of capitalism in which profits were reinvested into the company, and managers took a longer

term view of corporate performance. Not surprisingly, such developments coincide with a marginalization of occupational welfare stemming from pressures to improve shareholder value⁵⁴ and a stagnation in productive investment and employment growth.⁵⁵ Recent decades have witnessed a large expansion in the number of TNCs and their affiliates. The number of TNCs increased from some 35,000 in 1990 to 82,000 in recent years, while their affiliates expanded more than five-fold over the same period.⁵⁶ Compared to the global economic presence of TNCs, employment in affiliates is relatively small. TNCs account for approximately 10 per cent of the world's gross domestic product (GDP) and one-third of its exports, but less than 3 per cent of the global workforce.⁵⁷ The shift from so-called greenfield investment – that is, investment in new assets – to mergers and acquisitions has reduced the rate of employment generation associated with FDI.⁵⁸ Nevertheless, TNC employment increased fourfold since 1982, reaching 77 million in 2008.⁵⁹

Industrial concentration and restructuring

At the same time, the global business environment has seen an unprecedented degree of industrial concentration by a handful of firms in numerous sectors (see box 9.3). This has come about through a continuous focus on core competencies, while at the same time engaging in complex value chains through which big manufacturers and retailers control the costs and quality of their inputs and products.⁶⁰ What has been called the cascade effect has been noted in various global value chains, where concentration not only takes place at the level of the dominant corporations or systems integrators, but also occurs within different tiers of the chain, often crowding out smaller enterprises.⁶¹ The effect is particularly noticeable within some agricultural sectors where the smallholders that survive often have little choice but to receive low prices and incur additional costs to comply with quality standards.⁶²

TNCs account for 10 per cent of the world's GDP and one-third of its exports, but less than 3 per cent of the global workforce

BOX 9.3: Corporate concentration

The share of the global market held by the top 10 corporations:

- **Pharmaceuticals: 55%**
- **Seeds (proprietary): 67%**
- **Food and beverage processors: 26%**
- **Agrochemicals: 89%**
- **Biotechnology: 66%**

Source: ETC Group 2008.

Labour standards in supply chains

As global value chains expanded, many developing countries broadened their participation in the international division of labour, supplying raw materials and cheap manufactures produced by low-skilled and low-paid workers.⁶³ Kenya, for example, has rapidly expanded production of non-traditional agro-exports such as vegetables, fruit and cut flowers, becoming one of the largest exporters of vegetables to the European Union in the 1990s. There is some evidence that this may have contributed positively to poverty reduction via employment. But poor labour standards characterize this sector, which relies heavily on part-time, casual and female labour and the extensive use of pesticides.⁶⁴ Working conditions in affiliates of TNCs are often better than in local firms. Nevertheless, TNCs in various sectors are reducing the proportion of permanent labour employed in core enterprises and relying more on subcontracting and casual labour where conditions related to monetary wages, overtime, social entitlements, occupational health and safety, and respect for labour rights are often worse.

Cultural rights and livelihood security

In addition to the question of labour standards in the supply chain, it is important to consider other human rights dimensions, including cultural rights. There is far more to poverty reduction than increasing incomes and employment. What is sometimes referred to as the corporatization

of development has, in many countries, led to the large-scale displacement of indigenous peoples, farmers and others from their land, seriously disrupted livelihood systems and food security, and ruptured communities and families through migration to cities and abroad. In countries such as India and Mexico, the speed of liberalization and corporatization has had dramatic effects, particularly on rural communities. Recognition of the dire social effects of such patterns of development is often muted in both international development and CSR discourse, or assumed to be an unfortunate side effect of a necessary development path.

Business interests conducive to CSR and social policy

Industrial concentration and restructuring involving global value chains, as well as economic restructuring involving service-led growth can alter business preferences in ways that are conducive to some aspects of CSR and social policy. Concentration and the rise of both global value chains and intangible assets, notably brands, has cultivated preferences for CSR as companies seek to ward off reputational threats and transfer costs and risks down the supply chain by imposing standards. In some developing countries, including Costa Rica and India, dynamic growth sectors centred on information and communications technology have emerged. This has resulted in the increasing influence of business sectors that have an interest in some aspects of labour market and social policies that prioritize education and training.

There are various contexts in which theory suggests that business interests might oppose social regulation, but where, in practice, the response has been more accommodating. This has been the case in some regional trade agreements involving Latin American countries, the United States and the European Union. In Chile and Nicaragua, for example, business associations have accepted labour and environmental regulations in return for market access; they have also accepted that standards that were not seen as particularly onerous were locked in via such agreements.⁶⁵ Other research on how business interests relate to social policy in Latin America shows that, on balance, business has not been particularly proactive in the social policy arena.

This has sometimes been due to the limited presence of broad-based business associations – those most likely to articulate demands for social policy. It can also be attributed to the difficulties of engaging in social policy processes that are often protracted and where the costs and benefits of such policies are not always clear, and where the types of firms and informal labour markets that predominate in the region give rise to a relatively low preference for education and training.⁶⁶

Embedding business in society

Whether business elites contribute proactively to inclusive development through fiscal and social responsibility depends to some extent on their embeddedness in social networks. This level can vary significantly, not only by the society in which businesses are operating and the corporate culture, but also by the value chain. At one extreme, for example, are low-value-export manufacturing plants or *maquilas* in the apparel sector, which are attracted by low wages and relief from fiscal and labour obligations, develop relatively few linkages with the local economy and often have a short-term investment horizon. Mining companies often find themselves in a hybrid situation, adopting a long-term horizon but relatively few linkages due to their enclave character.⁶⁷

Mainstream literature on CSR often ignores the contribution of small- and medium-sized enterprises that are embedded in local societies

These situations contrast, say, with those of companies producing food and household products for the domestic market. An in-depth study of the contribution of Unilever-Indonesia to poverty reduction in that country notes multiple linkages and fiscal and financial flows conducive to inclusive development. However, trends associated with subcontracting and net financial outflows from the country

were of concern.⁶⁸ In countries such as Guatemala and Kenya, which rely heavily on growth in the agro-export sector associated with non-traditional crops, significant backward linkages may also be developed via contract farming. Of concern in this context, however, is the ability of large buyers, often in the United States and Europe, to dictate prices, quality and other standards, and thereby discipline supply chains in order to manage reputational risk, increase control and externalize costs.⁶⁹

Mainstream literature on CSR often ignores the contribution to economic and social development associated with the embeddedness of small- and medium-sized enterprises. Such enterprises are frequently connected more organically to local societies through employment generation, reinvestment of profits and social and cultural ties. Similarly, large home-grown corporations or business groups in developing countries, such as the Arvind Mafatlal, Bajaj and Tata groups in India, the San Miguel Corporation in the Philippines, AngloGold Ashanti and Sasol in South Africa, and Natura and Petrobras in Brazil gained a reputation in the field of social responsibility long before the Westernized notion of CSR was transmitted to developing countries via global value chains and NGO networks. In India, Gandhian ideas associated with trusteeship influenced several business leaders.⁷⁰ In Brazil, the Philippines and South Africa, corporate social activism took off when a powerful sector of the big business community, sometimes allied with a progressive sector of the church, realized a third way was needed between repressive regimes and social unrest.⁷¹

5. The Potential and Limits of Collaborative Institutions

Collaborative institutions – the fourth condition, identified in section 1, conducive to business playing a constructive role in inclusive development – have evolved in ways that bear some similarities and differences to historical experiences noted above. In this section, particular attention is focused on social dialogue, bargaining and business associations.

Social dialogue and bargaining help drive corporate change

Growing recognition of the key role of institutions in development and good governance has redirected attention to the importance of social dialogue and participation. As discussed above in relation to CSR, a proliferation of institutions is bringing business and civil society actors together in collaborative arrangements associated with standard setting and implementation. In such arrangements, the state generally assumes a lower profile than was the case historically under policy regimes that encouraged social dialogue. Furthermore, many NGOs enter into collaborative relations with corporations that inevitably circumscribe the nature of their demands and actions, particularly in cases where they were funded by corporations. Power relations within these partnerships are often heavily weighted in favour of corporate interests. In this respect they are quite different from the social pacts and compromises involving labour that were a feature of some countries or regions, referred to earlier, that achieved improvements in social well-being for low-income groups.

The considerable attention that has been given to promoting consultative processes and partnerships has diverted attention from the crucial role of bargaining among actors who have not only voice, but also leverage. Trade unions and some larger NGOs, such as the Centre for Science and Environment in India or Ibase in Brazil, can extract concessions from large corporations because of their capacity to name and shame, mobilize workers and consumers, and access policy or regulatory processes.

At the international level, global union federations are adapting to globalization by promoting international framework agreements with TNCs that transpose certain aspects of industrial relations from the national to the global arena. Such agreements attempt to fill one of the most glaring gaps in global governance institutions, namely the absence of collective bargaining at the global level. Under approximately 60 agreements now signed, TNCs agree to apply a set of standards throughout their global enterprise structure. From a policy regime perspective, it is apparent

that TNCs from countries such as France and Germany that are associated with the so-called coordinated market model are more inclined to enter into such agreements than those from liberal regimes, such as the United States.

Broad-based business associations can be forces for inclusive development

Umbrella business organizations and public-private partnerships are collaborative institutions that bear some similarity to those seen historically in today's advanced economies. At both national and international levels, corporations are increasingly collaborating among themselves as well as with government and civil society organizations to promote and set standards, and to facilitate their application. So, too, are peak associations, which represent firms and employers engaged in multiple industries and sectors. Organizations such as the International Chamber of Commerce, the International Organisation of Employers, the World Business Council for Sustainable Development and the World Economic Forum have emerged as major players in the promotion of CSR and public-private partnerships.

Corporations often organize around largely sectoral initiatives, as in the case of Responsible Care, the Common Code for the Coffee Community, the International Cocoa Initiative, the ETI, the EITI and the FLA. As explained above, though such forms of privatized regulation can have contradictory implications vis-à-vis inclusive development and democratic governance, they have facilitated certain forms of social dialogue. They have also directed the attention of organized business interests to the social and environmental dimensions of development and the need to fill governance gaps associated with globalization and liberalization.

In some countries that have experienced rapid liberalization, business associations have remained fairly weak. In Kenya and Zambia, for instance, this has resulted from the economic vulnerability of certain firms and industries, clientelistic relationships and political intervention. In other countries, such as India, rapid economic

and structural change has resulted in the splintering of established organizations and the emergence of competing associations, representing new economic actors. But in this case, some business associations have moved from being defensive to proactive in terms of policy advocacy, knowledge generation and the provision of support services.⁷²

In the wake of trade liberalization in Brazil, national business interests came together to lobby on a range of policies and laws

In Brazil, a more cohesive approach to collective business action has emerged in the wake of trade liberalization. Here, two factors came together: national business interests experienced severe shocks from the rapid opening up to foreign competition in the 1980s. At the same time, businesses also agreed that a relatively autonomous technocracy should not be allowed to decide the new rules of the game without their having a voice at the table. Various business interests therefore came together to lobby on a range of policies and laws that affected competitiveness, as well as on ongoing trade negotiations.⁷³

A key determinant of how conducive collective business actions are to inclusive development is how encompassing business associations are, in terms of the sectors and types of firms they represent. The number of countries with private-sector umbrella organizations has expanded under liberalization, but they are often dominated by the interests of large corporations. Given the importance of small- and medium-sized enterprises in local economic development and employment generation, the question of their ability to organize to gain voice, influence and bargaining power is essential. Lack of resources and the dispersion of such enterprises often greatly complicate this task. Even in regions such as Europe, where organizational potential tends to be greater and is often supported by government policy and law, there is a low propensity for small- and

medium-sized enterprises to associate in the more well-endowed peak business associations.⁷⁴ Joining such organizations may facilitate access to free services, but it is the interests of larger corporations that are likely to be heard in the relevant advocacy networks attempting to frame and influence public policy.

Collective business actions involving small- and medium-sized enterprises

International development organizations are actively promoting the creation and support of business associations. However, there are considerable variations not only in the types of organizational structures involving small- and medium-sized enterprises, but also in their developmental and political implications. For example, associations representing small- and medium-sized enterprises from multiple sectors may be incorporated into associations that are dominated by big business interests. Or, small-enterprise associations may fragment along ethnic and religious lines. Research in sub-Saharan Africa shows that this often occurs in contexts where structural adjustment programmes and rapid economic liberalization have marginalized the small businesses and resulted in weak state support structures and programmes. A coping strategy for clustered firms in Nigeria, for example, has been to gain access to resources by integrating local clientelistic political and social networks associated with particular ethnic and religious groups.⁷⁵ Business groups in some of the more successful Southeast Asian economies, such as Malaysia, have also organized along ethnic lines. In such cases, however, they have tended to support, implicitly or explicitly, national development strategies, whether due to the benefits of high growth or more direct forms of state support.

Often, the driving forces behind collective business action involving small- and medium-sized enterprises are external shocks

Often, the driving forces behind collective business action involving small- and medium-sized enterprises are external shocks. This can occur, for example, when non-tariff trade barriers are suddenly imposed on developing country producers, or cheaper or better products suddenly enter an economy.⁷⁶ Such associative activity, however, may have varied implications vis-à-vis poverty reduction. It is common for small-enterprise associations to push for exemptions from fiscal and social insurance responsibilities, and from meeting labour and environmental standards. And politicians may seek to comply with such demands for short-term political gain and to safeguard the employment-generating role of this sector, albeit by reproducing poor quality jobs.⁷⁷ This burden-reducing approach, which clearly has contradictory implications from the perspective of poverty reduction, can be aided and abetted by the current orientation of some international development agencies that support the development of small- and medium-sized enterprises in general, rather than the type of strategic interventions that support the development of particular products or sectors. Such interventions were a feature of both the East Asian and Nordic development paths, as well as successful cluster development in some of today's less developed countries.

6. Towards Corporate Accountability: Implications for Policy

The above discussion suggests that national and international policy and institutions are often pulling in contradictory directions from the perspective of inclusive development. Standard setting for CSR, for example, may attempt to raise the bar in relation to working conditions, environmental management systems and respect for indigenous rights. But policies and institutions associated with economic liberalization often exert undue pressures on wages, labour rights and small enterprises; reduce state capacity to inspect workplace conditions; and encourage transnational mining and other corporations to expand operations in environmentally and

culturally sensitive areas. TNCs may raise labour standards within their core enterprises, but rely increasingly on sub-contractors whose working conditions and labour relations are often worse. Consultative processes may provide a place at the table for a variety of stakeholders, but the increasing power and influence of corporations and their growing legitimacy in global governance often marginalize the voices of other actors.

National and international policy and institutions are often pulling in contradictory directions from the perspective of inclusive development

Such contrasts suggest that far greater attention needs to be paid to the tensions, trade-offs and contradictions inherent in contemporary policy approaches and institutional arrangements. From the perspective of inclusive development, a key challenge is not only to promote employment-centred structural change, as discussed in Section one of this report, or transformative social policy, as discussed in Section two, but also to reassert social control over markets and large corporations via various forms of regulation and the reconfiguration of power relations. From the perspective of efforts to promote CSR and corporate accountability more specifically, the analysis in this chapter points to a dual challenge – one developmental, the other regulatory. Both the mainstream CSR agenda and the corporate accountability movement need to pay more attention to the development implications of institutional reforms. Such implications relate in particular to impacts on suppliers, employment of unskilled workers, corporate taxation, linking CSR and national development strategies and priorities, and inclusive business models that focus less on consumerism and more on enhancing skills and productive capacities. Also important is greater inclusion of developing country

perspectives and stakeholders in consultative and decision-making processes.

Create an enabling environment for collective action

The regulatory challenge relates to the need to strengthen countervailing forces and institutional arrangements that can moderate forms of business influence and practices that have perverse social and developmental implications. These moderating forces range from trade unions and other labour and human rights organizations to farmers organizations, as well as networks of activists concerned with the impact of TNCs. The coexistence of diverse forms of civil society action – both cooperative and confrontational, associated with information gathering and dissemination, watchdog activities, channelling grievances through both non-judicial and judicial mechanisms, policy advocacy, bargaining and protest – is important to promote business policies and practices that are supportive of decent work, local development and transformative social policy. The fact that different types of firms and industries relate differently to social and macroeconomic policy (as seen above in the discussion on business preferences) suggests that there is significant scope to include business actors in coalitions supportive of transformative change.

The role of civil society organization and mobilization points to the crucial importance of enacting and enforcing laws safeguarding freedom of association and the right to information. Particularly in contexts where state inspection capacity is weak, governments and aid agencies can support the work of trade unions and labour rights or human rights NGOs engaged in monitoring working conditions and labour rights. Institutions for social dialogue need to guard against situations where participation is sanitized by being restricted to the chosen few or where voice and power relations are skewed towards business elites. Governments can also play a role in fostering business associations that effectively represent the interests of smaller enterprises, through the provision of incentives, developing the administrative and technical capacity of business associations, and institutionalizing state-business dialogue.

Forge social pacts between business and government

The analysis of state-business relations under different policy regimes and development paths suggests that certain types of pacts or compromises in which business elites support or accommodate government development strategies in return for particular benefits have, historically, been an important feature of models conducive to poverty reduction. Contemporary pacts or partnerships – whether they be the UN Global Compact or business support for Brazil’s Zero Hunger initiative – appear to hinge on a bargain where business is expected to support CSR in return for guarantees from government and leaders to support market liberalization.⁷⁸ From the perspective of social development, however, such pacts, which provide more general market-centred incentives, seem to lack the force of those in East Asia where large corporations committed to some aspects of corporate social welfare in return for industrial policies that provided business-centred incentives. Another variant can be found in contemporary South Africa, where the shift towards liberalization has seen companies not simply commit rhetorically to CSR, but actually increase their relative share of total tax revenues as a percentage of GDP, although some have not shown the same commitment to raise investment levels.

In a context where developing country governments are calling for greater policy space,⁷⁹ there needs to be more attention to ensuring that macroeconomic and labour market policies are less fixated on the priorities of international finance and transnational capital, and are more in tune with the needs and preferences of the wider business community.

Promote international norms and laws that regulate TNCs

In the context of globalization, it is clear that international norms and law must play a pivotal role in regulating TNCs and mobile capital. But the tendency for international “hard” law to be reserved for strengthening corporate

rights associated with FDI, trade liberalization and intellectual property, and international “soft” law and voluntary norms for promoting corporate responsibility needs to be corrected. The context of the global economic crisis is an opportune moment to rethink this approach.

The trend within the United Nations to promote voluntary initiatives and corporate self-regulation through the UN Global Compact and other forums now confronts the reality that conventional approaches to CSR are severely limited in terms of ensuring corporate accountability. The ongoing inquiry within the United Nations in relation to business and human rights, and the specific interest in due diligence and strengthening grievance procedures – generally, adding “teeth” to existing institutions – is potentially important in this regard.⁸⁰ So too is the current revision of the OECD Guidelines for Multinational Enterprises.⁸¹ At a minimum, the international CSR agenda should address far more centrally certain issues such as labour rights, industrial relations, conflicts of interest, corporate lobbying and other forms of policy influence, executive pay, tax evasion and avoidance, and the social effects of corporate concentration. The discussion in this chapter suggests that proposals related to an international competition authority and a UN corporate accountability entity engaged in monitoring, oversight and redress also need to remain on the agenda.⁸²

Bring states back into the development equation

State regulatory and inspection capacity needs to be enhanced. However, the analysis also points to various limits as to what should be expected of governments. State capacity has been rolled back in many countries, and key sectors of technocracies and political elites have been captured by particular business interests. Corporations are becoming significant actors in global governance. This points to the role of large firms as political actors themselves, not simply entities that can be easily regulated by public policy.⁸³ As political actors, however, they can also be challenged politically and will need to respond through compromise or by neutralizing opposition.

Crafting state-business relations that are conducive to inclusive development and poverty reduction will require transformations in collective action and coalitions. Processes and ideologies associated with globalization and liberalization clearly alter the nature of solutions and the politics of what is possible. Past state-business-society relations cannot simply be reconstructed. But, as indicated above, it is possible to envisage certain forms of collective business and civil society action that could potentially play an important role in this respect. Particular attention has been focused on the types of demands, proposals, networks and coalitions associated with the growing corporate accountability movement, as well as the need to move beyond a focus on either the firm or the nation-state, to actions and institutional arrangements that operate and connect on multiple scales.

This suggests that states need to play a more central role in the development equation. As indicated in chapter 10, this requires not only accepting the principle of policy space, but actually strengthening state capacities related to resource mobilization and enforcement. It also requires addressing the issue of state capture. If states are to be captured, it should not be by corporate elites but, as chapter 11 suggests, by an empowered citizenry through the institutions of democracy and collective action.

Notes

- 1 UNCTAD 2008.
- 2 Bendell 2009; Utting 2005a.
- 3 UNCTAD 2009a.
- 4 Blowfield 2008; Hamann 2007; Utting and Zammit 2006; Utting and Marques 2010.
- 5 Barrientos and Smith 2006.
- 6 Sawyer and Gomez 2008.
- 7 Harrison and Scorse 2010; Kabeer 2004.
- 8 Van Tulder 2008, 2010.
- 9 Porter and Kramer 2006.
- 10 Levy and Kolk 2002.
- 11 Bendell 2004; Newell 2002; Utting 2008.
- 12 Utting 2005b.
- 13 Marques and Utting 2010.
- 14 Marques 2010.
- 15 Farnsworth 2010; UNRISD 2008.
- 16 Fuchs (2005) refers to the structural, instrumental and discursive power of business.
- 17 See Cornwall and Brock (2006).
- 18 Utting and Zammit 2006.
- 19 See UNCTAD (2008, 2009a).
- 20 Gill 2008.
- 21 UNRISD 1995.
- 22 Gibbon and Lazaro 2010; Rittberger and Nettesheim 2008; Vogel 2006.
- 23 Chang 2003a.
- 24 Schneider 2004.
- 25 Crouch 2010.
- 26 Murali 2010.
- 27 Mkandawire 2006.
- 28 Mkandawire 2006.
- 29 Mancuso 2010.
- 30 Murali 2010.
- 31 Oloo 2008.
- 32 Durand 2010.
- 33 Durand 2010.
- 34 Gomez 2002.
- 35 Gomez 2002; Wedeman 2002.
- 36 Bendell 2004; Broad and Cavanagh 1999; Utting 2008.
- 37 Jose 2002.
- 38 Wang, K. 2007.

- 39 Blowfield 2008.
- 40 Della Porta 2006.
- 41 Palpacuer 2010.
- 42 Santos and Rodríguez-Garavito 2005; Sawyer and Gomez 2008.
- 43 ILO 2006; Utting 2008.
- 44 Bendell and Ellersiek 2009.
- 45 Evans 2008.
- 46 Keck and Sikkink 1998.
- 47 Evans 2008.
- 48 Kwan Lee 2005.
- 49 Wang, K. 2007; Global Labor Strategies 2008.
- 50 Cappellin and Giuliani 2004; Fig 2007.
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- 73 Mancuso 2010; Mejido et al. 2010.
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Building State Capacity for Poverty Reduction

For development strategies to generate the types of structural change and corporate behaviour conducive to equitable growth and poverty reduction described in this report, states must possess certain capacities. They must be able to overcome critical market failures; assist in the acquisition of new technologies; mobilize and channel resources to productive sectors; enforce standards and regulations; establish social pacts; and fund, deliver and regulate services and social programmes. Governments must also be able to reach political settlements with domestic actors in defining public policies and creating developmental and welfare-enhancing bureaucracies. Such settlements may differ in authoritarian and democratic regimes. In the first case, they tend to be top-down, while in the second, they generally require a broader power base and more engagement with citizens.

States that can deliver growth-oriented and welfare-enhancing structural change need to be rule based, not beholden to patronage, knowledgeable about the economy and society, and staffed by adequately paid and trained individuals. They also need to be able to mobilize domestic resources and strengthen capacities to influence and discipline investor behaviour. Current international development policies that emphasize a standard set of market reforms pursued through various types of conditionality limit the policy space in which national actors can pursue alternative development strategies.

From the 1950s to the early 1980s, most developing countries prioritized growth through active state intervention. This period saw the rapid expansion of the public sector, as governments provided incentives to the private sector to invest, while also establishing parastatal organizations to undertake activities in sectors where private entrepreneurs were slow to respond to incentives or had no interest in investing. However, many states were unable to develop

the requisite governance capacities for the effective implementation of their strategies.

A few countries, largely those in East Asia, did break out of poverty in a sustained way and emerged as economic giants during the period, doing so under authoritarian political systems. A number of countries with democratic regimes combined moderate growth with redistribution and achieved spectacular gains in social development. And many middle- and low-income countries initially achieved high growth rates and industrialization, but failed to give the majority of their populations the means to lift themselves out of poverty.

By the 1980s, a large group of countries were experiencing budgetary and balance of payments crises that led to a questioning of state-led development strategies and to a retreat of the state from direct economic activities. In responding to these crises, the adjustment model recommended by the international financial institutions (IFIs) did not initially address governance issues directly. Instead, state institutions were treated as a dependent variable, by assuming that once market prices were set right, the state would be efficient in its task of rule enforcement, protection of property rights and public administration. Market actors would then invest, generate growth and reduce poverty. However, the poor growth record associated with structural adjustment programmes (SAPs) has, in recent years, led to a policy stance that advocates an active role of institutions in promoting development. This approach emphasizes the crafting of institutions to promote the rule of law, protect property rights, lower expropriation risk, reduce levels of corruption and improve regulatory quality – policies that have come to define the good governance agenda.

Closely related to this approach to good governance were a second set of managerial reforms. Called New Public Management, they sought to promote market principles

in the governance of the public sector. They challenged public administration principles in which the purchasing, provisioning and policy dimensions of service provision are concentrated in a unified bureaucracy, driven by the values of public service. Instead, the new reforms advocated decentralized management, performance contracts and the contracting out of services.

A third set of reforms have been concerned with decentralization, which has come to be seen as an aspect of good governance. Proponents of decentralization assume that, by bringing government closer to where services are used, decentralization will reduce rent-seeking behaviour, enable the public to hold government providers to account, and allow market and other non-state actors to participate in service provision that will benefit the poor.

These three types of governance reforms can be described as market enhancing. But while they can contribute to greater efficiency, more accountability and transparency on the part of government, and increased citizen participation, they do not necessarily promote sustained growth or improve state capacity for delivering equitable economic and social outcomes. They also differ from the growth and welfare-enhancing strategies deployed by early industrializers or, more recently, by successful developmental states.

Market-enhancing reforms can contribute to more efficient, accountable and transparent government, but they do not necessarily promote sustained growth or equitable outcomes

The analysis in this chapter points to four main conclusions.

- Most states that eventually proved successful in achieving high growth and structural change did not have the necessary capacities to do so at first. Rather, these capacities were built over time through purposeful leadership and the formation of strategic ties with citizens and business.

- Coercion is not sufficient for building effective state capacity even in authoritarian settings and is unsustainable in the long run. Such capacity requires an ability to provide wide-ranging and good quality services and protections to broad sections of the population.
- Governments must improve domestic resource mobilization in order to create more policy space and be able to set agendas, strengthen links with citizens, and influence the strategies of business groups and service providers.
- The capacity to allocate resources effectively and enforce rules regarding their use can be improved through citizen participation in monitoring development agents and service providers. Such participation can also reduce the costs involved in enforcing policies.
- Aspects of market-enhancing reforms, including good governance, managerialism and decentralization are desirable goals for all countries, but they do not necessarily generate and sustain growth or produce socially equitable outcomes.

Section 1 of the chapter examines the institutions, policies and dynamics that have enabled some states to build up developmental and welfare-enhancing capacities. It contrasts the experiences of successful and less successful states by examining three dimensions of state capacity: political capacity, resource mobilization capacity, and allocative and enforcement capacity.

Section 2 discusses the market-enhancing reforms of good governance, managerialism and decentralization. The key questions it seeks to answer are: if states are to play an active role in development, what kinds of institutions and policies are needed to make such states effective? What lessons of state building can be learned from successful developmental states? And how appropriate are current market-enhancing state reforms in sustaining growth and generating social outcomes that are beneficial to the poor?

Section 3 concludes the chapter with implications for policy.

1. Dimensions of State Capacity That Promote Development

States that have been effective in promoting growth and structural change that reduce poverty do not generally inherit the right capacities or bureaucracies for development. They build them. A political leadership committed to fast growth and equality must reach a political settlement with domestic actors that allows it to define the direction of public policy and then create a developmental and welfare-enhancing bureaucracy to support it.

States that have been effective in promoting growth and structural change do not generally inherit the right capacities or bureaucracies for development. They build them

Three issues are important in gauging the developmental and welfare-promoting capacities of states. The first is political capacity, which addresses the extent to which the necessary coalitions or political settlements can be built that will allow governments to define, adopt and implement policies. The second is resource mobilization capacity – that is, the ability of states to generate resources for investment and social development, which may be an index of state-society relations. The third is the capacity to allocate resources to productive and welfare-enhancing sectors, as well as to ensure that favoured sectors comply with agreed-upon rules. As discussed below, these capacities may take different forms under different types of political regimes.

Political capacity is fundamental to setting and implementing policy

Governments face constraints in defining, adopting and implementing policies, including the possibility of policy capture by powerful segments of the population, opposition

by organized interest groups, and intractable conflicts based on ethnic or religious cleavages. To overcome such constraints, authoritarian regimes with a developmental orientation often rely on top-down methods of coercion and control, as well as on high growth, employment expansion, and the provision of job security, services and social protection. In democratic regimes, citizens enjoy basic rights and the freedom to contest, frustrate or block state policies, making it difficult to rely on coercion and control to push through policies. Democratic regimes with good development outcomes engage citizens more actively in order to build the necessary consensus and support for state policies. Redistributive policies and respect for the right to contest policies and make claims are therefore central to the strategies of political capacity building in such regimes.

Building political capacity in authoritarian developmental states

Authoritarian developmental states prioritize growth as the fundamental objective of public policy, concentrate power at the top of the political establishment, and use state power to discipline society and drive development.¹ The historical circumstances associated with the emergence of these relatively effective states are not easily replicated. In all the major cases, the perception of external threats was intense, thus providing strong incentives for concerted policy, cooperation among elites and adoption of a nationalistic ideology (often given economic, political and cultural expression).² The coherence of a coalition of domestic elites – either of a dominant actor (such as the military) or in the form of a compromise among elites around a set of rules – has been shaped by shared perceptions of external threats, and radical opposition has often quickly and effectively been neutralized or co-opted. In addition, political, military and ideological power was concentrated in the hands of the state, at least in the formative stage, which was conducive to policy continuity. A combination of these factors enabled these types of regimes to impose a set of developmentally driven rules governing economy and polity in order to protect and promote national interest, if not survival. In short, “their politics were developmentally driven and their development was politically driven because growth was seen as important for national autonomy and defence”.³ Most developmental

states also enjoyed considerable moral, diplomatic and material (financial and military) support from major Western powers in the context of the cold war. Given the urgency of their goals, developmental states were quick to develop effective bureaucracies with the means to ensure infrastructural power⁴ – that is, the capacity to devise, implement and achieve social, economic and policy goals. These bureaucracies were also generally well trained, well paid and highly competitive with respect to recruitment and promotion.⁵

The construction of political capacity for East Asian states to become developmental required the establishment of a tightly knit state structure that was capable of maintaining both distance (autonomy) and collaboration (embeddedness) with private capital, as well as controlling and mobilizing labour for industrialization.⁶ In Taiwan Province of China, the ruling regime enjoyed an exceptional, if not absolute, degree of autonomy from all sectors of society, including local elites, residual feudal elements and the emerging working class. To consolidate its rule in the 1950s, the Kuomintang (KMT) broke the power of the Taiwanese ruling class through land reforms. The reforms not only destroyed the powerful landlord class, they also eliminated a significant source of political instability in the countryside.⁷ Authoritarian power was supported by strong corporatist-type institutions, such as the 340 farmers associations that had been penetrated by the KMT, the China National Association of Industry and Commerce, the China Federation of Labour and the Youth Corps.

In the Republic of Korea, the military leadership that spearheaded the transformation also monopolized and centralized state power. It relied on trusted military officers to head important ministries and agencies and to redirect the bureaucracy along developmental lines. It benefited from the land reform of the previous regime that eliminated landlord power and used propaganda and campaigns to enhance its legitimacy and achieve its goals.⁸

Authoritarian developmental states did not rely on coercion alone in developing political capacity. State services – such as infrastructure, subsidized fertilizers, improved seedlings, credit, research support, investment in and regulation of

health and education to expand access – and policies of life-long employment and social insurance for workers in key industries helped to build state-citizen relations. And after a certain level of transformation had been achieved, top-down strategies of coercion and control proved unsustainable. In general, the East Asian authoritarian developmental states sought to legitimize their rule by developing economically and ensuring a steadily rising standard of living. As economic growth occurred, there was a proliferation of economic and other social interests and an expanding and demanding middle class, as well as an effective and mobilized trade union movement, acting to strengthen civil society and intensify its demands. These factors helped to shape the transition to democracy in the 1980s and beyond.⁹

Authoritarian developmental states did not rely on coercion alone in developing political capacity

The types of state-society relations developed by these East Asian developmental regimes have been rare in the developing world. The vast majority of authoritarian regimes worldwide are non-developmental and unstable, which underscores the limitations of authoritarian strategies for building effective states. Brazil pursued East Asian-type strategies during its period of military rule, especially in the 1960s and 1970s. It prioritized high growth, but its transformation of society did not reach the scale of the East Asian cases. The military was still relatively divided, regional oligarchs still held power in large areas of public life, and high levels of inequality blunted the legitimacy and appeal of the regime.¹⁰ In many authoritarian middle-income countries, the political leadership was often beholden to landholding oligarchs and business elites. Where industrialization was limited and agrarian relations were fairly inequitable, as in many least developed countries, military and single-party dictatorships emerged with no sustained commitment to growth. In some cases, ethnic polarization, civil wars and donor influence in policy making acted as additional checks on political capacity.

Building political capacity in democratic developmental states

Authoritarian approaches to building political capacity are not only unsustainable, they can also cause the political leadership to perceive societal challenges as systemic threats requiring repressive responses. In addition, such approaches limit the development of a healthy, open and mature relationship between states and citizens and lead to a reversal of social and economic gains when the authoritarian regime collapses. Furthermore, authoritarian developmental regimes are not only difficult to replicate under current conditions, but authoritarian methods of political capacity building have been rendered unacceptable by the democratic norms and values that now inform international development policies. Democracies allow for greater participation by citizens in the construction of capacities and formulation of public policies – especially those important for the well-being of deprived social groups – and can handle open conflicts without experiencing systemic threats. It is true that democracies differ in quality, and many have been unsuccessful in building political capacity for development and poverty reduction. However, as chapter 11 will show, a number of democracies that can be described as developmental have been able to develop effective and cohesive states that have delivered good outcomes.

A central concern for policy makers and investors in all developmental states – whether democratic or authoritarian – is ensuring that wage increases do not outpace productivity gains or spur inflation. Authoritarian regimes may resolve the wage problem by repressing workers, whereas democracies are more likely to develop social pacts with the working population using strong redistributive policies. The participation of subaltern groups is therefore essential in building political capacity and resolving the tension between profits and welfare in developmental democracies.

As chapter 11 will reveal, democracies have been able to regulate distributional conflicts and promote favourable macroeconomic and welfare outcomes when the workforce is highly unionized, collective bargaining agreements cover large sections of the working population, and bargaining

takes place at the national level. In agrarian developmental democracies, such as Costa Rica, the state of Kerala in India, and Mauritius, political capacities for development and welfare promotion were nurtured through active citizenship, the crafting of political parties that were strongly oriented towards equality, the self-organization of subaltern groups and alliances, strong party–social movement ties and electoral competitiveness that gave value to the votes of the poor. The redistributive social policies of such regimes were often part of political settlements that allowed states to pursue effective growth strategies.

Authoritarian approaches to building political capacity are not only unsustainable, they can also cause the leadership to see societal challenges as systemic threats requiring repressive responses

The role of popular pressure in building political capacity is vividly illustrated by comparing the performances of states across India, an established democracy. As table 10.1 and box 10.1 show, the southern states and West Bengal outperform India's northern states in poverty reduction, despite the fact that all of them are democratic. In the southern states, however, the power of dominant elites was effectively challenged, allowing middle castes and classes, and, in some instances, even lower classes, to shape state policies. Support from popular classes empowered state officials to overcome strategies of resistance or patronage from dominant classes. In contrast, the main mode of politics in northern states well into the late twentieth century was Congress Party rule, which rested on a narrow political base of upper castes and classes. With patron-client ties at the core of political society, factional and personalistic disputes among politicians were the defining trait of state politics. Such disputes detracted from any type of constructive use of state power, whether in promoting growth or distribution.¹¹

TABLE 10.1: Indian states ranked by poverty reduction, growth rate and growth elasticity of poverty, 1958–2000

State	Poverty reduction	Growth rate	Growth elasticity of poverty
Kerala	1	7	1
West Bengal	2	11	2
Punjab	3	2	3
Andhra Pradesh	4	5	4
Tamil Nadu	5	3	8
Gujarat	6	6	6
Orissa	7	12	5
Karnataka	8	8	10
Haryana	9	1	9
Uttar Pradesh	10	15	7
Maharashtra	11	4	12
Rajasthan	12	14	11
Madhya Pradesh	13	9	13
Bihar	14	16	15
Jammu and Kashmir	15	13	9
Assam	16	10	14

Source: Kohli 2008, adapted from Besley et al. (2007: figure 3.1).

BOX 10.1: The power of a broad political base: State capacity for poverty reduction in India

As table 10.1 shows, all four southern states of India – Andhra Pradesh, Karnataka, Kerala and Tamil Nadu – along with West Bengal, are among the top 50 per cent of states that have made the greatest progress in reducing poverty. In contrast, all of the Hindi-heartland states – Bihar, Uttar Pradesh and Madhya Pradesh – along with Rajasthan, are among the bottom half of states that have made the least progress.

The hypothesis that best explains these patterns is that poverty has been reduced the most in states where effective government power rests on a broad political base. In such cases, rulers have minimized the hold of upper classes on the state, successfully organized the middle and lower strata into an effective power bloc, and then used this power to channel resources to the poor. Poverty, for example, has been reduced sharply in Kerala and West Bengal. Underlying this achievement are complex historical roots, including the political mobilization of lower castes and classes well before independence. This broadened political base then facilitated the rise of a well-organized Communist Party to power. A pro-poor regime interacted with a more effective citizenry, creating what has been called a virtuous cycle.^a This created both supply and demand for a variety of successful pro-poor public policies, including land reforms, higher investments in and better implementation of education and health policies, along with greater gender equality.^b

How does one interpret the fact that all of India's southern states, not just Kerala and West Bengal, are above average in their capacity to alleviate poverty? India's southern states share two sets of distinguishing political traits. Narrow domination of the Brahmin caste was more effectively challenged in all the southern states relatively early in the twentieth century.^c Since independence, the political base of power in these states has generally been middle castes and classes, and in some instances even lower classes.^d The situation differs from the Hindi heartland states, where Brahmin domination was challenged only relatively recently. The other factor, which has not been well researched, is the generally superior quality of state-level bureaucracy in the south. Among state-level bureaucrats there appears to be a keen sense of professionalism more akin to the Indian Administrative Service than to prevailing practices in the Hindi heartland. Its roots may go back to the traditions of direct rule, when much of southern India was part of the Madras Presidency.^e

Notes: ^a Drèze and Sen 2002. ^b Shah and Rani 2003. ^c Frankel and Rao 1990. ^d Harris 2003. ^e A province of British India, which included much of southern India, dissolved at independence in 1947. Source: Kohli 2008.

Several governance issues affecting political capacities remain unresolved in a large number of low-income countries. These relate to the protection of civic rights; ensuring that leaders have real mandates to govern; having a fairly representative public sector, especially in contexts of ethnic diversity;¹² and creating effective channels through which citizens can pressure public officials to promote development and deliver public services.

The capacity to mobilize resources is key to achieving development goals

The capacity of states to mobilize resources is a second key measure of the extent to which they can achieve their development objectives. The capacity to mobilize resources improves policy space and the ability to set agendas, and empowers states to influence the orientation and strategies

of civic and business groups. However, resource mobilization is highly political. It generates conflicts over types of resources to be mobilized, who pays, how much should be paid, and how the resources collected should be allocated across sectors, groups and communities. In other words, state commitment to resource mobilization does not guarantee that the desired amount of resources will be generated, let alone allocated to preferred programmes, or that the burden of resource extraction will be distributed fairly among different population groups. Issues of trust, solidarity, consensus and reciprocity in state-society relations define the extent to which governments can succeed in extracting resources from the populace. In short, building state capacity for resource mobilization is an index of the types of relations states develop with society. Redistributive arrangements underpin successful strategies of resource mobilization in both authoritarian and democratic regimes.

Chapter 8 has discussed a variety of revenue sources for the financing of social policies. Table 10.2 shows that while tax revenue as a share of gross domestic product (GDP) in Africa and Latin America was similar to that of East Asia from the mid-1980s to 2000, there were sharp differences in the savings rates among the regions. East Asia's average savings rate, as a percentage of GDP, was more than double that of South Asia and Africa, and two-thirds higher

than that of Latin America. The great divergence in savings rates among regions occurred mainly after 1980.¹³ From 1960 to 1974, gross savings relative to GDP in Africa increased from about 18 per cent to 24 per cent and reached a peak of 26 per cent in 1980 before falling dramatically during the period of SAPs. During much of the 1970s, in fact, Africa's savings rate was higher than the average for Latin America.

Mobilizing savings in authoritarian and democratic developmental states

East Asia's high savings rates were largely a product of incentives and the coercive power of the state, which was deployed to mobilize resources through various forms of forced savings. Among the key elements were restrictions on consumer credit, financial restraint, mandatory pension contributions and the encouragement of postal savings. In the Republic of Korea, a culture of private savings was promoted by the regime of Park Chung-Lee by establishing multiple interest rates – with high interest rates for savers and cheaper rates for borrowers – and a number of campaigns were launched to encourage thrift.¹⁴ The mobilization of savings was also very successful in Taiwan Province of China. Indeed, unlike the Republic of Korea, which combined domestic savings and large loans from Japan to finance its industrialization, Taiwan Province of China financed its industrial investment almost entirely from domestic savings.¹⁵

TABLE 10.2: Resource mobilization and growth in developing countries: Regional comparisons

Regions	Per capita GDP growth ^a	Tax revenues [% of GDP] ^b		Gross savings [% of GDP] ^c		
	1985–2002	1985–1988	1997–2000	1980–1990	1990–2000	1990–2002
Sub-Saharan Africa	-0.4	21.7	16.3	13.9	12.5	12.7
South Asia	3.3	12.8	12.2	13.5	16.7	16.8
East Asia and Pacific	6.1	15.0	15.6	30.8	31.6	31.2
Latin America	0.8	15.2	15.9	21.7	18.9	18.9

Notes: ^a World Bank, World Development Indicators. ^b IMF Government Financial Statistics and calculations done by the author. ^c World Bank 2004b. Source: Di John 2008.

In Singapore, high savings were achieved through a compulsory social security savings plan established in 1955 that originally focused on retirement benefits but was subsequently extended to cover housing and health needs. The Provident Fund mandates every Singaporean wage earner to save a portion of his or her monthly income in an individualized account as social security savings, with a proportional contribution from the employer. The fund is managed as a statutory board of the government, which provides a fixed annual interest. This was only 2 per cent before being raised to 3 per cent in 2008. The savings rate peaked in 1984, with savings of 25 per cent of the monthly wage and an equivalent contribution from the employer. However, the employer's contribution was radically reduced to 10 per cent during the 1997 Asian financial crisis. Since that time, savings rates for both parties have been adjusted and are now graduated according to age. The fund was used to finance infrastructure and other administrative expenditures in the early years of independence and has evolved into an instrument to control wages and to maintain global market competitiveness.¹⁶ Singapore's gross national savings, which reached almost 50 per cent of GDP between 1991 and 2000, is the highest in the world.

The high savings accumulated in authoritarian developmental states raised the capacities of those states to exercise autonomy in policy making, avoid capture by powerful groups, provide leadership in the development process, and nurture and sanction the behaviour of economic and social groups in pursuing development goals. Savings rates have also been high in some democracies that have achieved good welfare outcomes, such as Costa Rica and Mauritius, suggesting that resource mobilization can be achieved if regimes enjoy broad support, the prevailing economic and political environment is favourable, and savings instruments are easily accessible. Costa Rica and Mauritius have highly developed financial sectors that have been instrumental in mobilizing savings. Savings have been generated not only through the banking system, but also through insurance companies and, like Singapore, through social security funds such as pensions. The gross domestic savings rates of Costa Rica and Mauritius averaged above

20 per cent of GDP during the 1990s and compare favourably with other countries in their respective regions.

Building state-citizen relations through taxation

A key feature of developmental states – whether authoritarian or democratic – is the way resource mobilization strategies facilitated the territorial and social reach of the state and the building of effective state-citizen relations. Tax strategies often brought the state into direct contact with citizens, thus allowing the state to influence behaviour and providing benefits for taxes collected. Chapter 8 has shown that East Asia collects more direct taxes than most developing countries. Land and property taxes enhanced the reach of the state. The Japanese colonial all-embracing land-tax policy and post-colonial land reforms reduced landlord power, developed smallholder agriculture, and deepened the state's presence in the countryside. State services – such as infrastructure, subsidized fertilizers and improved seeds – given in return for land taxes, increased the growth of agricultural productivity.¹⁷

In developmental states, resource mobilization strategies helped build effective state-citizen relations

In the case of Mauritius, export taxes on sugar, the main export commodity in the nineteenth and most of the twentieth centuries, had several positive effects on state-society relations and in increasing the productive capacity of the sugar sector.¹⁸ First, the tax was an effective substitute for income taxes, and was generally progressive, since it shifted the burden of taxation and redistributive spending to the upper and middle classes. This contributed to a public sense of fairness and solidarity and thus built up state legitimacy. Second, the tax was used by the state to finance research and development, infrastructure and marketing, which enhanced production and productivity growth in the sugar sector. Third, the tax helped the private sector organize, and it built its capacity to interact with the government

over time. Moreover, it helped both the state and society to solve collective action problems they faced in building skills and in supporting research on sugar. Finally, the export tax helped develop the territorial reach of the state since the tax affected the main employer in the countryside and promoted mutually beneficial rights and obligations between the state and farmers, both large and small. Much of this occurred within a democratic context.

Expanding state reach through agricultural marketing boards

During the period of state-led development in Africa, part of which was associated with high growth rates, agricultural marketing boards attempted to play a similar role in resource mobilization, expanding the territorial reach of the state and linking rural interest groups to the state. Marketing boards were an important mechanism of resource mobilization, monopolizing the purchase of cash crops below world market prices and selling them abroad at world market prices. The surplus generated was often of similar magnitude to the level of formal tax collection in the 1960s and 1970s. Marketing boards were effective in some countries because the state provided something in return to producer groups, such as services, infrastructure and research. By the 1980s, however, marketing boards were being criticized in the wake of worsening agricultural performance.¹⁹ The idea took hold that the system worsened terms of trade by paying farmers less than the state received for products on the world market. This often created disincentives for farmers to produce, and/or led to smuggling – both of which reduced the resource mobilization capacity of African states. Economic liberalization of agriculture was promoted as the cure for the growth-retarding effects of marketing boards in many contexts.

The surplus generated by agricultural marketing boards in Africa was often of similar magnitude to the level of formal tax collection in the 1960s and 1970s

However, in the rush to dismantle marketing boards, there was much less analysis as to why some marketing boards performed better than others or how the operations of the boards were intertwined with other public policy goals and institutions. The historical evidence suggests that the political power of the state and the nature of the political coalitions underpinning the state are significant factors determining the effectiveness of marketing boards.²⁰ For instance, in Taiwan Province of China, where the power of the landowning class was curtailed in the 1960s, the state was able to tax rice farming in return for financing inputs that improved the productivity of rice production.

In Africa, the Kenyan coffee board in the 1970s and 1980s was more effective than the Tanzanian coffee board because the nature of the coalition in power differed in the two countries. In Kenya, large- and medium-sized coffee farmers were a powerful interest group, whereas in the United Republic of Tanzania, coffee farmers were not powerful in the government's support base. As a result, policies in Kenya were developed in ways that extracted fewer net resources from coffee producers than in the United Republic of Tanzania. The boards were used to target certain public policy goals: to provide foreign exchange for industrialization and economic development; to protect the incomes of farmers against world market fluctuations; and to provide agricultural extension and social services to farmers and the wider public. The failure of adjustment policies to comprehend the interconnectedness of the marketing boards to wider institutions and goals exposed gaps in the institutional setting supporting peasant livelihoods and national development.

The experience of mineral-rich countries

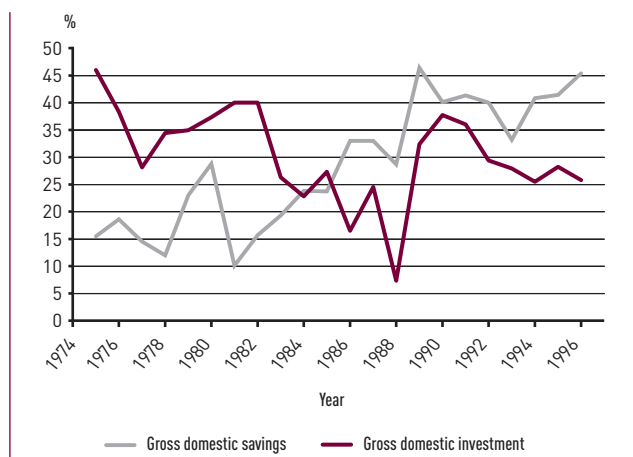
Mineral-rich countries should be expected to do well in resource mobilization, especially when commodity prices are high (see chapter 8). Some countries, such as Botswana, Chile, Indonesia and Malaysia, have been able to extract and manage revenues from the mineral sector fairly well. Democratic Botswana, for instance, has one of the highest savings rates in the world, rising from 16 per cent of GDP in 1975 to 45 per cent in 1995/1996 (see figure 10.1). Until very recently, the major source of such high savings

was the state. While the business sector's contribution to the savings rate has improved substantially since the mid-1990s, household savings are still minuscule, accounting for less than 5 per cent of GDP. The state established several reserve funds to protect the revenue generated by the mining sector: the Domestic Development Fund, which is the key source for funding development projects; the Revenue Stabilization Fund, which helps even out fluctuations in revenue trends; and the Public Debt Service Fund, which became the largest source of loan funds for state enterprises. These reserve funds generate substantial profits in off-shore investments and now constitute a major source of government revenue.²¹

Saving mineral revenues in reserve funds can generate additional government revenue

They have allowed the state to manage distributional conflicts as well as build public trust and legitimacy. These savings have also given the state a good deal of autonomy in economic policy making. As a result, Botswana has managed to avoid aid dependence and the neoliberal policy reforms experienced in most African countries in the 1980s and 1990s that further weakened state capacity.

FIGURE 10.1: Gross domestic savings and investments in Botswana (% of GDP)



Source: Maipose 2008.

In many countries, the potential to generate revenue from the mineral sector is not being realized even under democratization, since regimes are adopting neoliberal policies to win the confidence of investors, the IFIs and bilateral donors. In Zambia, taxes as a percentage of GDP declined from 18.4 per cent in 1996 to 17 per cent in 2005. One of the main reasons is the extraordinarily low royalty the government set to attract copper mining investment. The economic policy reforms of 1991–2001 under President Frederick Chiluba included privatization of the large parastatal mining company, Zambian Consolidated Copper Mines, attracting large Chinese investments following the surge in copper prices starting in 2004.

The royalty of 0.6 per cent in the privatized mines is one of the lowest in the world, prompting even the International Monetary Fund (IMF) to suggest that the government consider renegotiating a royalty rate of 3 per cent. In 2006, the government received just \$25 million in copper royalties out of a \$2 billion turnover in copper sales. Mozambique, which is also highly aid dependent and pursuing neoliberal economic policies, had a similarly disappointing experience following the failed economic policies of the 1970s and 1980s. Growth has been generated by foreign-owned mega-projects in mining and natural resource-based industrialization. The leading project is Mozal, an aluminium smelter, which accounts for nearly half of total manufacturing output. Mozal was given Free Industrial Zone status, and corporate income taxes are limited to 1 per cent of sales.²² The low resource base of these countries limits their capacity for autonomous policy making. As box 11.2 in chapter 11 shows, donor intrusion in policy making is pervasive in Mozambique.

In many mineral-rich countries, potential revenue is not being realized since regimes are adopting neoliberal policies and granting enormous benefits to foreign companies

The capacity to put resources to effective use is the core of state power

The ability to channel financial resources to investors, provide public services and enforce rules about resource use is at the core of state power.²³ States that are effective in enforcing rules for generating growth and structural change are often effective in enforcing rules on how public services are delivered. This is because, as we have seen, resource extraction even in authoritarian developmental regimes involves redistribution. States that are effective in mobilizing resources for economic development also provide benefits to taxpayers and savers and, in the process, earn legitimacy. This compels governments to strengthen service delivery institutions leading to good social outcomes, as chapters 5 and 6 have shown. Strengthening public service institutions in democratic developmental states is almost a routine process, given the active role of subaltern groups in governing coalitions. Governments that ignore the development imperative and focus only on welfare may be unsustainable and often fail to craft effective institutions for both accumulation and welfare provision. Those that focus primarily on stabilization and liberalization may empower certain types of institutions, such as central banks and finance ministries, and neglect social service institutions, which are usually the first to be downsized or cut.

States that are effective in mobilizing resources for economic development also provide benefits to taxpayers and savers and, in the process, earn legitimacy

Building allocative and enforcement capacity

Building allocative and enforcement capacity requires that states have some measure of control or influence in the financial system. It also requires bureaucracies that are internally coherent and committed to development goals, have

adequately paid and trained staff, well-developed information systems that facilitate effective monitoring, and political commitment to achieve results. Political commitment can be enhanced and the cost of enforcement reduced when citizens are provided with accurate information about resource allocation and participate in the monitoring of resource use.

During the early period of transformation the East Asian developmental regimes had state-led financial systems, allowing the state to combine subsidized credit with other policy instruments to influence the general growth trajectory

Where the financial system is dominated by capital markets, as in the liberal market economies of the United States and the United Kingdom, the capacity of the state to intervene in the economy and influence the flow of financial resources is limited.²⁴ Where the financial system is credit based, states have more leverage in shaping investment outcomes, especially if they control the key banking institutions. The financial systems of the East Asian developmental regimes were state led. During the early period of transformation, all banks in the Republic of Korea and Taiwan Province of China were state owned. This allowed the state to take a lead role in coordinating investment, although Taiwan Province of China had a flourishing informal credit market for small- and medium-sized enterprises.²⁵ The East Asian developmental states did not grant banks the kinds of autonomy they enjoyed in the credit-based financial systems of European coordinated economies. Credit control in East Asia allowed the state to select beneficiaries and influence their investment decisions. The state combined subsidized credit with other policy instruments, such as tariff and tax exemptions as well as export subsidies, to influence the behaviour of firms and the general growth trajectory.

Until the 1980s, most developing countries followed growth-enhancing strategies that had many common elements. In all countries, two primary goals of developmental interventions were (i) to accelerate resource allocation to growth sectors, and (ii) to accelerate technology acquisition in these sectors through a combination of incentives and directives. To achieve the first, a variety of policy instruments were used, including licensing of land use, licensing of foreign exchange use, preferential tariffs and taxes, and allocation of bank credit. The state sought to play a lead role in the financial system through the creation of development banks, although the private sector continued to enjoy a good deal of autonomy in the financial system. In some cases, price controls and fiscal transfers were used to accelerate the transfer of resources to particular sectors. To achieve the second goal, incentives for technology acquisition included tax breaks or subsidies; protection of particular sectors for domestic producers in infant industries; licensing of foreign technologies and subcontracting these to domestic producers; and setting up investment zones for high-technology industries and subsidizing infrastructure for them. For both types of policies, growth-enhancing governance required monitoring resource use and withdrawing resources or support from sectors or firms that proved to be making inadequate progress.²⁶

Allocative and enforcement capacities are enhanced when the state is knowledgeable about the sectors in which it intervenes. This calls for systematic collection, storage and analysis of economic and social data of value not only to government, but also to business and citizens.²⁷ The priority areas for business are technological development, quality standards, raw materials and changing market conditions. Having this capacity enables governments to identify new opportunities and constraints, and urge firms to act upon them, upgrade their activities and climb up the value chain. Knowledge is enhanced when the state undertakes research to identify sectors that need upgrading.²⁸

The East Asian developmental states. The East Asian developmental states invest heavily in industry-based information gathering and research. This activity is often carried out by a lead agency entrusted with directing the

industrial transformation – the Ministry of International Trade and Industry in Japan, the Economic Planning Board in the Republic of Korea and the Council for Economic Planning and Development in Taiwan Province of China. The Republic of Korea mandates all industries to report regularly on export and other types of business performance. In Taiwan Province of China, a network of publicly funded research institutes, such as the Industrial Technology Research Institute, the Electronics Research Service Organization and the Computing and Communications Laboratory, perform the role of knowledge generation.²⁹

The East Asian developmental states invest heavily in industry-based information gathering and research

These nodal agencies, which are insulated from special interest groups, help to create coherence and direction within the bureaucracy. Such insulation is crucial, since it provides the agencies an encompassing or national character and institutional mission to achieve the state's goals. The nodal agencies decide which industries to support and which to phase out or allow to disappear, based on their understanding of a country's industrial structures and international competitiveness. They also build support in the private sector for the state's plans and facilitate private sector ties with foreign investors and trading companies.³⁰ Monitoring and enforcement were effective partly because the nodal agencies eschewed comprehensive state planning or wide-ranging discretionary powers of the type that were prevalent in the former Soviet economies. However, there were clearly price distortions and potential for rent seeking,³¹ since government planners, who might not have been infallible in deciding what was best for the economy, favoured certain sectors.

With regard to the macroeconomy, prices did not deviate substantially from market-clearing levels, and protections and subsidies tended to be time-bound. The result is that the

bureaucracies for monitoring and enforcement were often not very large, and were staffed by well-paid and trained individuals recruited through highly competitive examinations. The switch to export-oriented industrialization also strengthened the enforcement capacity of the state. Local firms needed state support to attract foreign – especially Japanese – capital, break into the US market and maintain standards. The survival of firms came to depend largely on increasing their efficiency and export performance, since they were now competing in a global market, and the state was reluctant to bail out non-performing companies.³²

Poorly performing developing countries. The difficult part of the allocation process is to enforce decisions about resource withdrawal when performance is poor. Many developing countries have failed abysmally on this score, for a number of reasons.

- The political capacity required to pursue growth-enhancing strategies has been weak.
- Preferential credit and other incentives have tended to be generalized and not directed to any sector or group of firms identified as the growth sectors.
- Countries have lacked a steering agency with the requisite technical expertise to guide and be responsible for economic transformation.
- Bureaucrats have often lacked the economic information needed by business to facilitate a healthy state-business relationship.
- Finally, since most countries have failed to make the transition to export-led growth, the discipline provided by international market competition has not been available. Firms often enjoyed huge rents, but refused to comply with agreed-upon targets. In fact, in many countries, they have succeeded in capturing the bureaucrats who were supposed to track progress.

In India, industrialists actively supported the expansion of subsidies and other protectionist schemes, but resisted efforts to create a strong planning commission that would monitor and enforce targets.³³ The poor development of enforcement capacity for industrial transformation was replicated in the social policy field. Despite the rhetoric of land reform, the retreat of the state was even more

dramatic than in the industrial sector.³⁴ Land reform was declared the responsibility of individual states, not the central government; and once at the state level, it was allowed to slowly fizzle out as state legislatures were largely dominated by representatives of landed interests. The state thus failed to develop the requisite capacity for land reform and service provision.

Allocative and enforcement capacity is enhanced by the systematic collection and analysis of economic and social data, for use by government, business and citizens

Improving allocative capacity through civil society participation

As explained in chapter 9, allocative and enforcement capacities can be improved by involving citizen groups in regulating development agents and service providers in discussing the conditions under which business can contribute to progressive social outcomes. This requires that governments make available information required by citizens to hold business groups and providers accountable. The involvement of informed citizens and non-state actors in articulating citizen claims and monitoring resource use reduces the cost to government of allocating resources and enforcing policies.

Participatory budgeting – a process involving a range of civil society actors who deliberate with state officials on how government revenues should be spent – along with citizen charters, can help strengthen state-society relations and improve the capacity to enforce rules, especially in democratic contexts. They have been shown to improve allocative and enforcement capacities and redistributive outcomes in situations in which governing elites resolve to change power structures in favour of the poor and marginalized and where there is a dense network of civil society groups that can engage government authorities in policy making (see box 10.2).

BOX 10.2: Decentralization and participation: Porto Alegre, Kerala and West Bengal

Decentralization has produced redistributive outcomes in settings where governing elites seek to change local power structures in favour of low-income populations and where there is a dense network of civil society groups that can engage local authorities in policy making. These two conditions inform the experiences of the city of Porto Alegre in Brazil and the states of Kerala and West Bengal in India.

One of the most celebrated cases of decentralization is participatory budgeting at the municipal level in Brazil. The process originated in Porto Alegre in 1989, and has since spread to more than 250 municipalities in Brazil and 40 other countries. This form of local governance arose from the strong ties between civil society organizations and the Partido de Trabalhadores or Workers' Party, which espoused a social democratic agenda. Brazil's decentralization involves real devolution of resources and authority over basic social service provision to local governments. Fifteen per cent to 18 per cent of government spending, or 7 per cent of GDP, is controlled by local governments.^a Participatory budgeting involves the division of a municipality into regions, each of which elects voluntary delegates. Throughout the year, government-sponsored meetings are held to discuss the budget, and final projects are submitted to a vote by delegates. The plans for the municipality are then included in the budget presented to the municipal legislative chamber.

In Porto Alegre, participatory budgeting has led to considerable increases in the number of households with access to water and sewerage, children in public schools and paved roads; it has also led to the expansion of local government revenues.^b The main factors contributing to the success of the process include the willingness of mayors to delegate authority to citizens; the extent to which the rules of participation give genuine authority to residents to make decisions; and the ability of civil society organizations to cooperate in the programme through a politics of contestation.^c In Porto Alegre, participatory budgeting has changed the decision-making process and expanded political rights and accountability to low-income citizens: 78 per cent of participants earned less than \$400 per month, 75 per cent had less than a high school diploma, 71 per cent were women, and 80 per cent were active in civic associations. Since the Workers' Party initially enjoyed only a minority of the popular vote in the cities it governed, mayors saw participatory budgeting as a tool to extend their reach to the electorate, bypass conservative patronage-dispensing elites, and reorder the way the local state was governed. However, in other cities governed by other parties, this has not been the case. In Blumenau, influential groups co-opted the participatory process and the mayor limited the delegation of authority because of party differences with groups that had taken control of the process. Similarly, in São Paulo, factional fights resulted in the mayor centralizing authority, with participants unable to hold the municipality accountable. These contrasting cases show that where participatory budgeting has been implemented from above – rather than as a result of claims made on local governments by well-organized civil society organizations – the outcomes are often less impressive.

Kerala and West Bengal present similar dynamics. In West Bengal, decentralization was introduced by the Communist Party as a tool to undermine the hold of the rival Congress Party and landowning classes on rural politics and to facilitate land redistribution in favour of the poor. About half of local government councils, or *gram panchayats*, are either small farmers, sharecroppers or farm labourers,^d although the quality of their participation in meetings remains low. In Kerala, decentralization led to the transfer of political, fiscal and administrative powers with the result that 35–40 per cent of all planned expenditures are directly allocated to 1,214 panchayats and municipalities.^e The communist-led state government supported decentralization because it wanted to maintain its redistributive agenda, despite the state's fiscal problems. It tried to bypass the clientelistic bureaucratic structures by giving greater control to civil society and grassroots movements.^f It is estimated that more than 1.7 million people have participated in the biannual meetings of the panchayats, including low-caste groups and women, both of whom have traditionally been marginalized.^g Again, the success of the decentralization programme in Kerala highlights the importance of real accountability of local governments to their citizens.

Notes: ^a Wampler 2007. ^b Wagle and Shah 2003. ^c Wampler 2007. ^d Crook and Sverisson 2001. ^e Heller 2005. ^f Heller 2005; Kohli 2008. ^g Sandbrook et al. 2007.

Citizen charters seek to ensure that citizens are consulted and offered adequate information about the quantity and quality of public services. Service delivery or user surveys are an important source of information and have been promoted in many countries in Africa, Asia and Latin America. With government support, the surveys aim to measure how consumers or citizens feel about a range of services provided by local and central governments. Results are disseminated among civic groups and the print media and given to governments for action. The expectation is that governments will improve their performance based on the survey findings. One of the most advanced applications of this instrument of accountability is the Public Affairs Centre's Report Card, pioneered in the Indian cities of Ahmedabad, Bangalore, Calcutta, Madras and Pune,³⁵ which solicits citizens' views on services such as telephones, electricity, water, health, the postal system, public transport, the police, public banks and food distribution systems.

Enforcement capacity also requires provision of adequate remuneration to public-sector employees. One of the attributes of developmental states in East Asia is their ability to pay competitive salaries to their employees. In Singapore, for instance, civil servants earn salaries that are superior to

those of employees in the private sector. However, the real incomes of public servants in many low-income countries have fallen sharply over the years. Table 10.3 shows that pay declined somewhat as a proportion of per capita GDP in developing countries as a whole between the early 1980s and early 1990s. The ratio of the average central government wage bill to per capita GDP is estimated to have fallen in Africa from 6.1 per cent in the early 1980s to 4.8 per cent in the early 1990s; in Latin America it fell from 2.7 per cent to 2.3 per cent; and in the Organisation for Economic Co-operation and Development (OECD) countries from 1.7 per cent to 1.6 per cent. The data for Asia show an increase from 2.9 per cent to 3.8 per cent over the same period. The IMF reports that during the 1990s, real wages declined in half of the countries with an Enhanced Structural Adjustment Facility, although a few countries, such as Bolivia and Uganda, showed increases. The complex ways in which many public servants have responded to the pay crisis – diverting time and resources to private ends and sideline activities in the informal economy – have further eroded the administrative capacities of these states.³⁶ The effects on employees at the service delivery end of the bureaucracy, such as teachers and nurses, have been most telling, provoking mass migration from the public sector or a weakening of the public ethic.

TABLE 10.3: Changes in central government employment and wages, early 1980s and early 1990s

Region	Central government employees as % of population		Wage bill as % of GDP		Average government wage: Per capita GDP	
	Early 1980s	Early 1990s	Early 1980s	Early 1990s	Early 1980s	Early 1990s
Sub-Saharan Africa	1.8	1.1	10.8	7.9	6.1	4.8
Asia	2.6	1.1	7.5	4.9	2.9	3.8
Latin America and the Caribbean	2.4	1.5	7.3	4.7	2.9	2.3
OECD countries	2.9	1.9	5.5	4.4	1.7	1.6
Average	2.5	1.5	7.7	5.4	3.5	3.2

Notes: Data for early 1990s are limited to the Heller and Tait sample. In Latin America and the Caribbean, and also to some extent in Asia, reduction in central government employment was offset by growth in local government. Particularly in Africa, total government employment fell relative to both population and in real terms. Source: McCourt 2006, using Schiavo-Campo et al. (1997) and Heller and Tait (1983).

Governments have addressed the pay crisis partly through retrenchment in order to be able to pay living wages to the remaining small number of employees, as well as to offer attractive salaries to senior officials. Often these reforms have not positively affected employees at the lower strata of the public service or those responsible for delivering services – such as health care and education – directly to the poor. They may create some measure of professionalism in the upper echelons of a bureaucracy, while the lower end may remain mired in inefficiencies. Typically, the overall effect is to constrain the capacity of bosses who are well remunerated at the top to translate their policies into real outcomes.

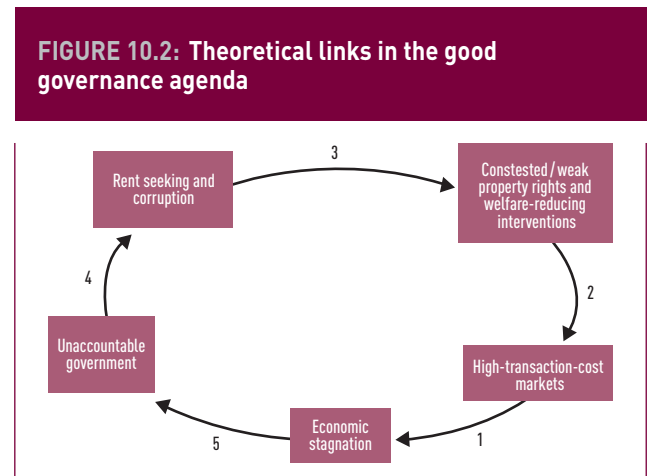
2. Market-Enhancing Institutional Reforms

The state's role in promoting development came under sustained attack during the 1980s and 1990s, as some regions experienced crises and turned to the IFIs for help. Under the prescribed SAPs, governments were forced to liberalize their economies, privatize state-owned enterprises and reduce the size and role of the state in the economy. The following sections discuss the potential and limits of three sets of institutional reforms that came to dominate the policy agenda: good governance, managerial reforms (New Public Management) and decentralization.

The link between good governance and growth is weak

Governance reform now occupies a central position in international development strategies.³⁷ With the failure of structural adjustment to deliver growth and reduce poverty in the 1980s, a new focus emerged in the 1990s on the types of governance capabilities needed by states to promote efficient market economies. These emphasize enforcement of property rights and the rule of law, as well as a reduction in corruption and a commitment not to appropriate assets.

Figure 10.2 summarizes the major links on which this market-enhancing governance agenda is based.



Notes: Link 1 claims that economic stagnation is ultimately due to high-transaction-cost markets or market failures (North 1990). Link 2 highlights the underlying causes of market failure, which are weak property rights, rule of law and arbitrary interventions (North 1990; Knack and Keefer 1995; Kauffman et al. 1999; Acemoglu et al. 2004). Instead of addressing market failures individually, it focuses on making markets across the board more efficient. The assumption here is that markets are essentially systems of contracts; market failure will follow by definition if the absence of clear expectations and rights prevents contracting. Link 3 states that unstable property rights, poor rule of law and expropriation by states occur because small groups engage in rent seeking and corruption (Krueger 1974; Olson 1982; Mauro 1997). Link 4 asserts that these small groups can profit at the expense of the majority because government accountability is weak or non-existent (North 1990; Olson 2000). Link 5 completes the cycle because economic stagnation can, in turn, prevent the poor from mobilizing and enable autocracy to continue. Source: Khan 2008.

Many of these governance goals are desirable, and civic groups have often pressured public authorities to provide or respect them. The key issue is whether they can form the basis of a poverty reduction and development agenda. While growth is likely to be more rapid if markets mediating resource allocation are efficient, a key question is whether maximizing the efficiency of markets is sufficient to maximize the pace of development. In East Asia and other regions with effective states, governance capacities typically did not focus on the capacities needed for ensuring efficient markets. In fact, in terms of the market-enhancing conditions prioritized by the good governance approach, East Asian states performed poorly. Instead, they had effective institutions that could accelerate growth in conditions of technological backwardness and imperfect markets. Developing countries do not generally satisfy the market-enhancing

governance criteria at early stages of development, even in high-growth cases. This applies also to now-developed countries at the early stages of their development.³⁸

Many governance goals are desirable; the key issue is whether they can form the basis of a poverty reduction and development agenda

Empirical tests carried out by Khan³⁹ on each of the good governance indicators – property rights, regulatory quality, corruption, and voice and accountability – demonstrate that the role of market-enhancing governance conditions in explaining differences in growth rates in developing countries is weak. Countries are divided into three groups: advanced, converging and diverging. Advanced countries are members of the OECD; converging countries are those whose per capita GDP growth rate is higher than the median advanced country rate; and diverging countries are

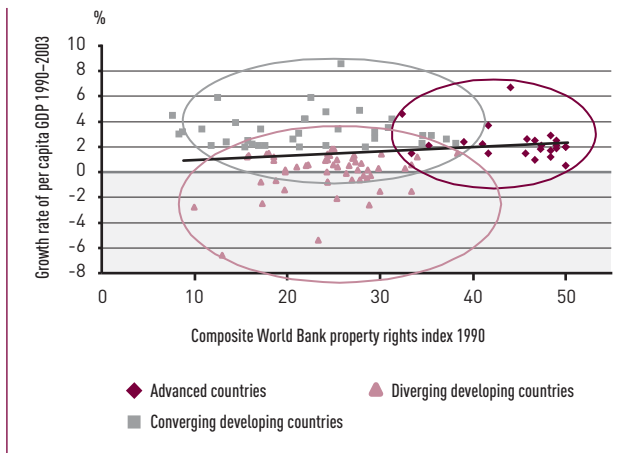
those whose per capita GDP growth rate is lower than the median growth rate of the advanced country group.

Table 10.4 and figure 10.3 report the findings for property rights. They show that there is no significant difference in the median property rights index between converging and diverging developing countries. The absence of any clear separation between these groups of developing countries also applies to the other indicators of good governance not reported here. The very weak, albeit positive, relationship between good governance and growth in many econometric studies depends to a great extent on a large number of advanced countries having high scores on market-enhancing governance (the countries represented by diamonds in figure 10.3) and the majority of developing countries being low-growth and low-scoring on market-enhancing governance (the countries represented by triangles in the same figure). However, market-enhancing governance is likely to improve in countries with high per capita incomes. The critical countries for establishing the direction of causality are the converging developing countries (the countries represented by squares in the same figure). By and large, these countries do not have significantly better market-enhancing governance scores than diverging developing countries.

TABLE 10.4: Market-enhancing governance: Composite property rights index and economic growth, 1990–2003

	Advanced countries	Diverging developing countries	Converging developing countries
Number of countries	24	53	35
Median property rights index 1990	47.0	25.0	23.7
Observed range of property rights index	32.3–50.0	10.0–38.3	9.5–40.0
Median per capita GDP growth rate 1990–2003 (%)	2.1	0.4	3.0

Note: The property rights index used here is an aggregate of the corruption, rule of law and bureaucratic quality indices on a 10-point scale, together with the index of repudiation of government contracts and expropriation risk. Source: Khan 2008.

FIGURE 10.3: Market-enhancing governance and growth, 1990–2003

Source: Khan 2008.

The policy implications are important.⁴⁰ Given the large degree of overlap in the market-enhancing governance scores achieved by converging and diverging developing countries, there is a need to qualify the claim that an improvement in market-enhancing governance quality in diverging countries will lead to a significant improvement in their growth performance. Nevertheless, the significant differences in the growth rates of converging and diverging countries suggest significant differences in the efficiency of resource allocation and use among these countries. And these differences are very likely related to significant differences in other types of governance capabilities ignored by the good governance agenda.

The good governance agenda overlooks many important governance capabilities

It is also important to note that most of the indicators of good governance are based on perceptions rather than on direct observation. Nor do they throw much light on how countries differ in terms of political, bureaucratic, resource mobilization and enforcement capacity – all key issues in understanding developmental state capacity.

Market-enhancing managerial reforms were part of a second wave of reforms

A second set of reforms focus on improving the management of the state.⁴¹ Prior to the 1980s, reform strategies in most developing countries were concerned with strengthening Weberian-style public administration systems. These tended to be characterized by meritocratic systems of recruitment, promotion and performance monitoring. The triumph of neoliberalism led to calls for public management reforms to incorporate private sector techniques in the delivery of basic services. Market-enhancing managerial reforms, known as New Public Management, first emerged in New Zealand and the United Kingdom in the 1980s. Starting in the mid-1980s, governments of low- and middle-income countries around the world began adopting such reforms in response to pressure from the IMF and World Bank, and the influence of some bilateral donors.

The triumph of neoliberalism led to calls for public management reforms to incorporate private sector techniques in the delivery of basic services

The argument for the new managerial focus rests on two key ideas derived from public choice and principal-agent theories. According to public choice theory, bureaucrats are exclusively motivated by self-interest (rent seeking), rather than the public good assumed by Weberian principles of public administration. This leads to sets of proposed reforms aimed at overcoming rent-seeking behaviour inside the state apparatus. The first set of reforms involves a change in public sector employment practices – from career tenure towards a preference for limited-term contracts for senior staff, locally determined pay rather than uniform fixed salaries, and the introduction of performance-related pay. The second involves marketizing service provision – through instruments such as contracting out, franchising, developing internal markets, vouchers and user charges or fees – to promote efficiency in service delivery and to give

choice and voice to users of public services. The resulting competition among service providers is intended to promote cost-savings and responsiveness to customers. There is also an emphasis on the quality of service provision, which aims to make public services more demand- rather than supply-driven.

The influence of principal-agent theory is seen in the case made for the reassignment of roles to the different actors involved in the process of service delivery. It involves a split between the purchaser (the central ministry) and the providers (the rest, either in the public or private sector). When service delivery is retained within the public sector, this entails breaking up large bureaucracies by means of disaggregating functions. A distinction is made between the strategic policy core within a ministry (the principal) and the operational arms of ministries that are separated off to form individual executive agencies (the agents). Executive agencies have four major characteristics that distinguish them from a traditional unified bureaucracy: decentralized management and associated financial autonomy, specialization for specific operational tasks, a focus on outputs, and performance-related contracts. Each agency is no longer related to the parent ministry through the traditional departmental hierarchy, but by an arm's-length performance agreement of a contractual nature that has specified performance targets. In cases in which service delivery is transferred to the private sector, this involves a contractual agreement between the central ministry (the principal) and the private service deliverer (the agent).

The global spread and impact of New Public Management reforms

Market-enhancing managerial reforms were a central feature of a second wave of reforms associated with the Washington consensus and structural adjustment. The New Public Management toolbox became a major example of policy transfer in the field of public management. However, the evidence suggests that the global spread of these reforms has been uneven and patchy. They have been more prominent in liberal market-driven policy regimes, such as the Anglo-Saxon societies of Australia, Canada, New Zealand, the United Kingdom and, to a lesser extent,

the United States. By 2007, for instance, 75 per cent of the United Kingdom's civil service was employed in executive agencies. In contrast, the public sectors of societies with coordinated market economies in Continental Europe have been more resistant to the introduction of such reforms.

The New Public Management toolbox became a major example of policy transfer in the field of public management

In Latin America, attempts to introduce managerial reforms have proved to be unsustainable, despite a series of initiatives in Brazil, Colombia and Mexico. In Africa, the adoption of managerial reforms reflects countries' relations with principal donors, with less support for these reforms in Francophone countries and more in countries with closer ties to the United Kingdom. In the United Republic of Tanzania, for instance, the 1997 Executive Agencies Act provided the framework for the creation of executive agencies modelled on those of the United Kingdom. Driven from the heart of government by the Civil Service Department, it envisaged the creation of 46 executive agencies by 2004. By 2001, only nine agencies had been created. Ironically, the slow implementation of the programme was attributed to its capture by the bureaucracy, which viewed it primarily as a mechanism to respond to donor pressure, led by the IMF, to downsize the civil service while raising real incomes of senior staff. Between 1992 and 2000, public sector employment in that country fell by 27 per cent – from 355,000 to 260,000. “Agencification” contributed considerably to that decline, with agencies reporting a drop in their staff numbers from 20 per cent to 50 per cent.⁴²

In general, the global spread of the complete set of New Public Management-type reforms has been limited. Instead, reforms in most low- and middle-income countries remain primarily focused on establishing the core features of a Weberian bureaucracy. Implementing market-enhancing managerial reforms is especially challenging in countries where markets

for the delivery of services are highly imperfect and where the danger of regulatory capture by powerful groups is likely. For such reforms to succeed, they require good monitoring, inspection and information systems, sound budgetary control systems, development of reliable performance indicators and measurements, and the capacity to regulate the behaviour of private providers, as well as to manage relations among central ministries and a multitude of decentralized agencies.⁴³ Instead of improving public management performance, New Public Management-type reforms risk increasing the core problems of administrative coordination and corruption. They also tend to undermine the ethic of public service, a problem that is acute in health systems of developing countries that have been commercialized.⁴⁴ These problems suggest that Weberian-style “old” public administration must first be created before introducing New Public Management. As box 10.3 shows, some developmental states (Singapore and the

Republic of Korea) have introduced features of New Public Management in their state systems, but they first established effective Weberian bureaucracies.

One study⁴⁵ examined the impact of managerial reforms on government in four core sectors (urban water, agricultural marketing, basic health and business development) in four developing countries (Ghana, India, Sri Lanka and Zimbabwe). It identified a number of constraints on governments’ capacities to perform new managerial roles. It concluded that the new managerial approaches – regulating markets, enabling other providers, managing service delivery through decentralized structures, contracting out and charging users – are more complex and taxing on government capacity than previous systems. Often, it was basic administrative failures (record keeping, financial control, enforcement of sanctions and clarity of authority relations) that undermined performance.

BOX 10.3: Managerial reforms in developmental states: Singapore and the Republic of Korea

The experience of Singapore provides support for the argument that a functioning Weberian bureaucracy provides the best basis for introducing New Public Management. Although a classic developmental state, Singapore has carried out managerial reforms, known as PS21 (Public Service for the 21st Century), since 1989. These reforms were introduced on the basis of an existing public administration system that was already characterized by meritocracy, high status and professional ethics among the senior cadre of the civil service, and an uncompromising attitude towards corruption.^a Executive agencies now cover the bulk of the civil service, personnel functions such as recruitment and promotion have been delegated to individual ministries, and a culture of service excellence in meeting the needs of the public with high standards of quality and courtesy has been nurtured.^b

Nevertheless, Singapore remains wedded to a state-directed system of governance via a wide range of recently corporatized utilities and other publicly owned bodies. The selective introduction of New Public Management reforms has not sought “to reduce the role and importance of the state as such, but has rather been aimed at maintaining the same strong administrative state by means of refining its role to keep it in step with the latest developments and future challenges”.^c Clearly, Singapore is experimenting with New Public Management in a manner akin to the neo-Weberian state approach found in Germany.

Since the 1997 financial crisis in Asia, the Republic of Korea has also experimented with managerial reforms inspired by the New Public Management paradigm. Under the Kim Dae-jung administration (1998–2003), the Civil Service Commission established an open position system to attract talented candidates from outside government to 20 per cent of the posts in the top three grades of the civil service. It also introduced performance-related pay for senior managers. Most government agencies and public enterprises adopted service charters and introduced a Public Customer Satisfaction Index. By December 2005, there were 23 executive agencies in operation reporting to 16 different ministries. However, there has been widespread informal resistance to the implementation of these reforms, considerably restricting managerial autonomy in executive agencies.^d

Notes: ^a Jones 2002. ^b Quah 2003. ^c Cheung and Scott 2003:155. ^d Chang 2006. Source: Nickson 2008.

Resort to user charges without exemptions for those with limited ability to pay also produced undesirable outcomes.

The effects of New Public Management reforms on developmental states

New Public Management reforms may, in fact, be counterproductive to the building of developmental states by thwarting the need for a unified and coherent bureaucracy, high-level strategic planning and trust-based relations with the private sector. The reforms have an innately static quality in promoting development. For example, they rely on competition to improve efficiency, equity and effectiveness, rather than more dynamic means, such as providing incentives for expanding the productive base and technological level of the economy. Concern for these issues is only indirect, based on the view that improvement in the allocation of public sector resources can encourage dynamism by the private sector. This distant relationship between the actions of the state and the wider process of economic transformation is in sharp contrast to the interventionist nature of the developmental state, which has an explicit interest in dynamic change.

This difference between the static New Public Management approach and the dynamic approach of the developmental state comes sharply into focus in education. Here, a notable feature of the developmental state has been the priority it attaches to qualitative change in promoting technical and scientific education, which seeks to transfer and root technological advances from the global economy to the domestic arena. By contrast, the more quantitative approach of New Public Management-type reforms has prioritized the use of blunt and general indicators, such as classroom size, teacher qualification levels, school autonomy and examination results – important issues that have been detached from the larger goal of economic and social transformation. The promotion of high-quality university education is a major feature of the developmental state, and this has had a positive impact on strengthening the professionalism and *esprit de corps* of the core civil service.

Even in the United Kingdom, there has been concern with the negative effect that agencification is having on the

capacity of the state for strategic planning. In the words of one observer, “So many experts have moved into management in the agencies that there are too few civil servants involved in policy making. Core Whitehall departments are in danger of becoming departments of administrators rather than policy makers”.⁴⁶ This poses an even greater danger in low- and middle-income countries where the strategic capacity of the state is much weaker.

The managerialist and the developmental state perspectives differ fundamentally in the nature of the relationship between central government and other actors in the development process. Under the New Public Management paradigm, the strategic role of the state is facilitated by distanced principal-agent relationships of a contractual nature with other major actors. Contracting out involves an arm’s-length relationship between the state as purchaser (principal) and the private company as provider (agent). This institutional rearrangement for service delivery is essentially adversarial in nature. It often introduces a semi-autonomous regulatory body to arbitrate over contractual disputes with the regulator acting as a sort of referee. On the other hand, the developmental state advocates a much closer, discretionary and flexible relationship with the private sector, one that is essentially based on a complex web of trust and coercion. In the urban water sector, where New Public Management-type contractual arrangements have been introduced in many low- and middle- income countries, there is a growing recognition of the failure of this adversarial relationship, focused exclusively on the contract, to deal with the multiplicity of conflicts that can arise during the long time period (up to 25 years) of such contracts. In France, there has long been recognition that a legal contract can never incorporate all possible conflicts that may arise in the future; thus, relational or trust-based contracting has become the norm.

Progress in decentralization is uneven

Decentralization features prominently on donor agendas for public management reforms. It is also a feature of good governance. It seeks to reduce rent-seeking behaviour and inefficient resource allocation associated with centralized

power by dispersing such power to lower levels of government, where the poor are likely to exercise influence and a variety of actors may participate in the provision of services. The key services affected by decentralization are public works, education, health, sanitation, waste management and water. However, decentralization also has a political imperative, since it is linked to processes of democratization in which citizens demand more involvement in the way the public space is governed. It can also be used as a tool to resolve conflicts in deeply divided societies.

Decentralization is more entrenched in advanced democracies than in developing countries. In the 1980s, local governments in OECD countries accounted for, on average, 11 per cent of public employment, reaching 25 per cent in some countries. In contrast, local government in developing countries accounted for an average of 4.5 per cent of public employment, ranging from 2.5 per cent in Africa to 8 per cent in Asia. Data from the late 1980s and early 1990s indicate that the local government share of total government spending averaged around 32 per cent in OECD countries, compared to 15 per cent in the developing world. Decentralization expenditure ratios are even higher in countries such as Denmark (45 per cent) and Finland (41 per cent). Current data suggest that the gap is narrowing, but is still substantial.⁴⁷

Democratization in most low- and middle-income countries has been accompanied by some form of decentralization. However, the extent and quality of decentralization is uneven. In many countries, what passes for decentralization is simply deconcentration, that is, the delegation of administrative authority to field units of the same department. Some central authorities have been willing to devolve administrative powers to local authorities but retain fiscal control. In Kenya, the Local Government Act imposes strong constraints on local authorities, which cannot make substantive decisions without approval from the Ministry of Local Government.⁴⁸ A comparative study of Côte d'Ivoire, Ethiopia, Ghana, Nigeria and Uganda⁴⁹ found greater willingness to transfer responsibilities than financial powers. In general, commercial cities or state capitals enjoy more fiscal capacity than small town and village councils,

which may not function without financial support from the central state. On the other hand, decentralization, including transfer of fiscal responsibilities, has progressed in more established democracies, especially middle-income countries (in Latin America, South Africa and European Union members in Eastern and Central Europe), even if outcomes vary in terms of capacity and service delivery.

The potential and limits of decentralization

Decentralization raises a number of problems for developmental state strategies and equity. It can complicate strategic planning and lead to a reduction in the meritocratic basis for civil service recruitment, especially in countries where the independence of the central public service commission is already limited. An additional problem is interregional redistribution, which cannot be effected in a highly decentralized system with substantial disparities in fiscal capacity across local governments. This can be a serious problem in highly unequal societies. The responsibility for interregional redistribution should always rest with the central government through the pursuit of appropriate national tax, transfer and expenditure policies. Interregional disparities have worsened in some East Asian countries that have decentralized.⁵⁰ In addition, many low-income countries are characterized by weak state capacity, which is likely to be particularly accentuated at local levels and in poor regions. Decentralization that is unsupported by capacity-building programmes may simply reproduce or intensify the inefficiencies of the central state at the local level. A lack of administrative capacity may lead to an increase in corruption and elite capture of decentralization.

However, some democracies with decentralized structures have been successful in promoting development and redistribution. As decentralization takes root in low- and middle-income democracies, it may be difficult to reverse it and adopt more centralized arrangements associated with successful developmental states. The challenge is how to improve upon the quality of decentralization and democratization. National compacts and coordination mechanisms may be required in decentralized polities to ensure that growth-oriented and redistributive strategies pursued at the central level of government are supported, or at least not

undermined, across jurisdictions. Box 10.2 discusses three cases of successful decentralization – in the city of Porto Alegre, Brazil, and the Indian states of Kerala and West Bengal. They suggest that the impact of decentralization on poverty outcomes may be positive in contexts where governing elites seek to change local power structures in favour of low-income groups, and where there is a network of civil society groups that can engage local authorities in policy making. In situations where local elites are deeply patriarchal or oligarchic, decentralization may produce undesirable outcomes.

3. Building State Capacity for Structural Change and Poverty Reduction: Implications for Policy

Poverty reduction requires effective states that are both developmental and redistributive. Countries that have reduced poverty in relatively short periods of time had purposeful, growth-oriented and welfare-enhancing political systems; they also built and maintained competent bureaucracies. Successful developmental states often lacked the appropriate bureaucracies when they embarked on their development path. They subsequently built them.⁵¹ As this chapter has shown, building state capacity for structural change and poverty reduction requires a focus on three crucial dimensions: the building of political coalitions needed to set and carry out policy; the mobilization of resources with which to implement development objectives; and the ability to allocate resources to productive and welfare-enhancing sectors, and enforce rules governing their use.

Strategies for constructing these three dimensions of state capacity differ in authoritarian and democratic regimes. Authoritarian strategies are top-down, whereas democracies may be forced to engage citizens more actively in the building of capacity. Authoritarian strategies were lauded in much of the development literature in the 1960s as a necessary condition to accelerate the growth process,

achieve modernization, and build nation-states out of complex ethnic cleavages and loyalties that tended to undermine stability and cohesion. Yet authoritarian strategies of state building in most countries turned out to be unstable and non-developmental, and provoked pressures for democratization. A few countries, largely those in East Asia, did succeed in transforming their economies and breaking out of poverty in a sustained way. This chapter has shown that even for these authoritarian developmental states, coercion alone was not sufficient in constructing effective state capacity. Rather, they share with democratic developmental states an ability to provide wide-ranging and good quality services to broad sections of the populace. This suggests that the developmental outcomes that define successful authoritarian regimes can be achieved without recourse to authoritarian practices, which ultimately become unsustainable. Moreover, democracy is now accepted as a core value of the international community, and strategies for developing state capacity should therefore be grounded in democratic principles.

Forge political settlements for redistribution

Democratic societies that are committed to structural change and poverty reduction must forge political settlements that allow the political leadership to design public policies and to create the necessary bureaucracies to implement them. Social transfers or redistributions are an indispensable part of such settlements. Both the political base and the organizational effectiveness of governmental power are variables that help explain differences in state capacity and success in poverty reduction strategies. States with a broad power base, well-organized ruling parties, competent bureaucracies and an activist citizenry have effectively implemented redistributive policies.⁵² This underscores the importance of redistributing social and political power in favour of subaltern groups in order to build bureaucratic capacities that support both growth and redistribution. The active inclusion of subaltern groups in the political process can empower states to overcome pressures from dominant groups, which often resist policies that are oriented towards redistribution.

Improve domestic resource mobilization and encourage citizen involvement in the allocation and monitoring of resources

This chapter has also shown that high levels of domestic resource mobilization are necessary for state capacity. Governments must aim to improve their domestic revenue base in order to have more policy space and be able to set agendas, strengthen their links with citizens, and influence the orientation and strategies of business groups and service providers. Governments must also be able to enforce decisions about resource use. What distinguishes successful from unsuccessful states in directing development is the latter's failure to generate governance capacities to enforce rules on how the resources allocated are used and construct mutually supportive state-society relations. Allocative and enforcement capacities can be improved through citizen participation in regulating development agents and service providers. But in order for this to happen, governments must provide the necessary information and support that can help citizen groups to hold business agents and providers accountable. The participation of informed citizens and non-state actors in monitoring resource use can reduce the cost involved in enforcing policies.

Tackle the three dimensions of state capacity directly rather than rely on good governance reforms to improve delivery of services

Current approaches to state building have focused largely on market-enhancing governance strategies of good governance, managerialism and decentralization. Aspects of these strategies are desirable goals for all countries. However, they should not be confused with the institutions required for generating and sustaining growth and producing socially equitable outcomes. Governments must focus directly on building political, bureaucratic, resource mobilization and enforcement capacity rather than expect such capacity to emerge from implementation of good governance reforms. As this chapter has shown, the large degree of overlap in the good governance scores of converging and diverging countries suggests that growth is not likely to be sustained in poor countries by simply implementing market-enhancing

reforms. However, the high disparity in growth rates between converging and diverging countries also suggests major differences in the efficiency of resource use, which may be due to significant differences in other types of governance capabilities ignored by the good governance agenda.

Create the foundations of a Weberian bureaucracy to improve service delivery for the poor

Governments must aim to build the foundations of a Weberian bureaucracy before adopting more complex managerial reforms. This is because managerial reforms that improve service delivery to the poor require high levels of regulatory capacity, which can be achieved when countries have succeeded in building modern bureaucracies. Market-enhancing managerial reforms are complex and taxing on government capacity. Bureaucratic capacity can be substantially improved if governments address basic administrative failures, such as record keeping, financial control, enforcement of rules and clarity of authority relations. Bureaucratic performance in poverty reduction can also be improved if public sector employees, especially those at the service delivery end of the bureaucracy – teachers, nurses and extension workers – receive adequate remuneration for their work.

Improve the quality of decentralization by involving low-income groups in local decision-making processes

For decentralization reforms to support effective delivery of services to the poor, governments must commit to changing local power structures in favour of the poor, and allow citizen groups to engage local authorities in policy-making processes. Efforts should also be made to prevent decentralization from creating or reinforcing regional inequalities by entrusting central governments with the responsibility for interregional redistribution through pursuit of appropriate national tax, transfer and expenditure policies. Governments must also support capacity-building programmes to prevent decentralization from simply reproducing or intensifying the inefficiencies of the central state at the local level.

Notes

- 1 Leftwich 2007; Kohli 2004.
- 2 Leftwich 2007.
- 3 Leftwich 2007:13.
- 4 Mann 1986.
- 5 Evans and Rauch 1999.
- 6 Evans 1995; Wade 2004; Kohli 2004; Huang 2008.
- 7 Huang 2008.
- 8 Kohli 2008.
- 9 Potter 1997; Kang 2002.
- 10 Kohli 2004; Kay 2002.
- 11 Kohli 2008.
- 12 Bangura 2006.
- 13 UNCTAD 2007a; Mkandawire 2001b.
- 14 Kohli 2004.
- 15 Huang 2008.
- 16 Chua 2008.
- 17 Di John 2008.
- 18 Bräutigam 2008; Di John 2008.
- 19 Bates 1981.
- 20 Di John 2008.
- 21 Maipose 2008.
- 22 Di John 2008.
- 23 Woo-Cummings 1999; Skocpol 1985; Weiss 1998.
- 24 Zysman 1983.
- 25 Huang 2008; Wade 2004.
- 26 Khan 2008.
- 27 Weiss 1998.
- 28 Amsden and Chu 2003.
- 29 Weiss 1998.
- 30 Wade 2004.
- 31 Gomez 2002.
- 32 Chibber 2003.
- 33 Chibber 2003, 2008.
- 34 Chibber 2008.
- 35 Paul and Sekhar 1997.
- 36 Olukoshi 1998a; Bangura and Larbi 2006.
- 37 This section draws on Khan (2008).
- 38 Chang 2003b.
- 39 Khan 2008.
- 40 Khan 2008; Meisel and Aoudia 2008.
- 41 This section draws substantially on Nickson (2008).
- 42 Nickson 2008; Therkildsen 2006.
- 43 Nickson 2008; Larbi 2006.
- 44 Mackintosh and Koivusola 2005.
- 45 Batley and Larbi 2006.
- 46 Bogdanor 2002.
- 47 Smoke 2006.
- 48 Oloo 2008.
- 49 Olowu 2006.
- 50 Smoke 2006.
- 51 Kohli 2004; UNCTAD 2009b.
- 52 Kohli 2008.

Democracy and the Politics of Poverty Reduction

The types of development strategies states pursue and the possibilities for achieving a redistribution of income, wealth and social benefits depend substantially on politics. Politics refers to processes of cooperation, conflict and negotiation that shape decisions about the production, distribution and use of resources. Outcomes from the political process further depend on the way power is configured or distributed, the types of relationships governments establish with different groups in society, and the institutions that structure relations and mediate conflicts among competing interests. Organization, contestation and claims-making by groups with strong ties to the poor are crucial in producing redistributive outcomes that reduce poverty. However, interest groups or social movements concerned with the welfare of the poor rarely organize around issues of poverty per se. Instead, they frame their discourse around rights, asset distribution, services, or earnings and benefits derived from work. This opens up the possibility of addressing the structural roots of poverty, social rights and issues related to redistribution.

Even though poverty has been eradicated under certain types of authoritarian rule, the aim of this chapter is to convey an understanding of how it can be eliminated within a democratic context, given that democracy, rights, freedom and choice are essential components of development.¹ Although democracies offer opportunities for participation and contestation in policy making, redistributive outcomes cannot be taken for granted, given differences in the capacity of groups to organize, contest and influence public policy in different contexts. The challenge lies in forging democratic states that are both developmental and socially inclusive.

Current democracies face two types of constraints. The first, underscored vividly by the financial crisis of 2008–2009, is the capture of economic policy by investors, financial institutions and donors through various types of conditionality.

This has tended to favour stabilization and liberalization policies that are detrimental to welfare-enhancing structural change. The second constraint relates to the limited nature of industrial transformation in most new democracies, the uneven quality of their democratic institutions and processes, and ethnic cleavages in many that shape choices and capacity for collective action. All of these factors affect the formation and growth of interest groups, social movements and parties necessary for holding leaders accountable and for constructing pacts with redistributive agendas.

Although democracies offer opportunities for participation and contestation in policy making, redistributive outcomes cannot be taken for granted

Although the World Bank and IMF-led Poverty Reduction Strategy Papers (PRSPs) support the participation of civil society groups in programme design, the process has mostly been reduced to consultation rather than participation to effect real change. The type of participation associated with the social pacts that produced rapid poverty reduction in the past differs substantially from the bargaining regime of the PRSPs, which relies heavily on non-governmental organizations (NGOs), and where the balance of power is strongly weighted against non-governmental groups.

This chapter shows that democracies have been able to deliver outcomes that are beneficial to the poor under certain conditions – when:

- rights are institutionalized, which allows the poor to exercise political choice, build alliances with others and hold leaders to account;

- groups with strong ties to the poor develop capacity for independent organization and mobilization, transcend or reconcile horizontal divisions, and establish structural links with actors involved in policy making, leading, at times, to social pacts. Some success can be achieved without formal group ties to state actors, but this usually requires high levels of contestation and continuous mobilization to sustain gains; and
- elections are competitive and there is a high probability that governments may lose office, which can serve as an incentive for redistribution. However, electoral competitiveness without effective group organization and contestation may produce weak redistributive outcomes.

The poor suffer when interest groups and social movements are weak and the electoral system is not sufficiently competitive. Technocratic styles of policy making – in which macroeconomic policy is insulated from public scrutiny – and aid conditionality also limit the scope for contestation and effective participation of civic groups with redistributive agendas in the policy process.

Although growth and redistribution may at times appear to be in conflict, they have been reconciled in industrialized democracies when employment levels and rates of unionization are high, allowing unions to project an encompassing or national stance in bargaining that transcends narrow union interest. In welfare democracies with lower levels of industrialization, redistributive politics may also be encompassing or inclusive when groups forge rural-urban alliances that incorporate wide segments of the working poor. Rural-urban alliances make it possible to extend welfare rights to all categories of citizens. In such democracies, leading parties tend to embrace a discourse of social rights, and groups engage the state as rights-bearing citizens rather than as clients. Fiercely contested elections, sometimes leading to changes in government, encourage parties to retain their social movement characteristics, which are essential for sustaining proactive links to the poor.

In sum, the chapter draws three main conclusions:

- Power relations are at the core of development. Strategies that aim to reduce poverty and inequality must also consider ways to tip the balance of power.
- Although democracy tends to produce redistributive outcomes, such outcomes should not be taken for granted. Group activism of various kinds – including voting power, bargaining and direct action – is important in generating shifts in power and ensuring that governments respond to social needs.
- Reducing poverty requires an expansion of the bargaining power of the poor and those who represent them. This entails action on several fronts: rejecting technocratic styles of decision making, which limit the involvement of citizens and their representatives in policy-making processes; widening the participation of civil society in the policy process; institutionalizing civil and political rights to encourage broader participation in policy making; and supporting organizations that seek to protect the rights of both formal and informal workers.

Section 1 of this chapter highlights recent trends in democratization and conceptualizes the links between democracy and redistribution, including the roles of interest groups and social movements in the politics of redistribution.

Section 2 discusses the constraints of technocratic styles of governance and aid conditionality on policy space.

Section 3 examines three types of domestic constraints to pursuing redistributive policies: limited industrialization, the uneven quality of democratic institutions, and ethnic diversity.

Section 4 analyses the conditions under which democracies deliver redistributive outcomes by examining five cases involving activism by interest groups and social movements.

Section 5 draws conclusions and spells out implications for policy.

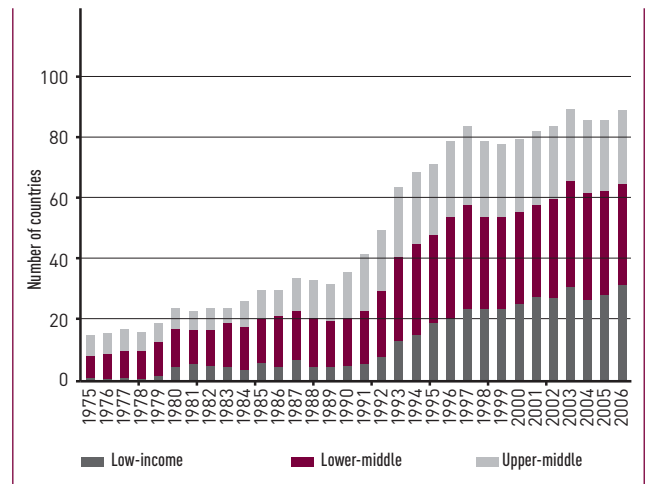
1. Democracy and Redistribution

The 1980s and 1990s witnessed a strong wave of democratization that affected most regions of the world. This was driven in part by societal pressures to force governments to correct the failed policies of growth and redistribution associated with structural adjustment (in Africa and Latin America) and inefficient central planning (in Central and Eastern Europe), or to improve political and economic choices as economies matured (in East Asia). Added pressure came from multilateral and bilateral aid agencies, which expected that democratization would compel governments to formulate and implement what they perceived to be better economic policies and cut down on corruption.

Over the past 25 years, countries across all categories of national income have held competitive elections

There is a good deal of disagreement about the number of countries that can be classified as democratic, although all datasets point to a sharp increase in the last 25 years. Polity IV reports an increase from about 40 democratic countries in 1980 to more than 90 by 2006, and a corresponding decrease in authoritarian regimes from more than 80 to about 25 over the same period. According to Freedom House, over 60 per cent of countries could be classified as democratic by 2000. Figure 11.1 indicates an increase in the number of low- and middle-income countries that held elections from 1975–2006 and in those in which the winner received less than 75 per cent of seats in the lower chamber. Interestingly, since the mid-1990s, the number of countries holding competitive elections has been evenly distributed among all categories of national income.

FIGURE 11.1: Competitive elections in low- and middle-income countries



Source: Sheingate 2008, drawing on Beck et al. (2001).

Democracy tends to produce redistributive outcomes, but is subject to group influences

Democracy is defined as a system of government in which leaders periodically renew their mandates through free, fair and competitive elections. In addition, it is a system that acknowledges a set of rights – such as those of expression, organization and collective action – that allow citizens to exercise political choice and hold leaders accountable. Despite the centrality of elections in democracies, this chapter argues that redistribution requires additional mechanisms of interest representation in the policy process.

A positive association between democracy and redistribution is posited by the median-voter theorem. According to the theorem, under universal suffrage, the median voter will earn the median income. However, when income is unequally distributed, the median income falls below the mean income. Redistribution is expected to follow democratization because the mean income in pre-democratic societies is universally higher than the income of the median voter. Since the decisive voter earns a below-average income, it is assumed that he or she will favour a higher tax rate and redistributive

policies. In sum, democracy brings more people with below-average incomes to the polls, and they collectively press the government to redistribute income downwards.²

This way of conceptualizing democracy and redistribution is devoid of group influences, since it assumes that all voters earning incomes below the median are a homogenous group that will automatically vote for redistribution. However, behaviour is shaped by other factors, including relationships in the workplace, by social and cultural settings, and by the political environment. Voting itself is a collective action mediated by organized groups with competing preferences and requires concerted effort for effective outcomes. It needs to be combined with other modes of organization to affect redistributive outcomes.

In the nineteenth and early twentieth centuries, the extension of the vote to non-propertied groups was strongly associated with redistribution. Democratization was contested by the rich, who saw it as a process that would facilitate tax increases by parliaments controlled by the rising working-class majority.³ Indeed, studies suggest that social spending, social programmes and taxation in major European countries increased and inequalities declined after countries embarked on democratization.⁴ These redistributive outcomes and subsequent expansion of welfare were, however, based on specific types of group action, as represented by union activism, cross-class collective action, the strength of Leftist parties and their participation in government.⁵ How individuals organize into groups and affect public policy is therefore important in understanding the politics of redistribution.

The organization of groups

Group organization may take three broad forms: as social movements, as interest-based associations and networks, and as political parties. Social movements emerge when protests against specific issues are linked to other efforts to address similar concerns and are sustained over time and across different locations. They are often diffuse and may not always be formally organized. Interest-based associations, which may emerge from, or support, social movements, include trade unions, farmers associations, professional and business organizations, neighbourhood groups, women's

organizations and advocacy groups. The politics of production-based interest associations have, in some contexts, created a bargaining regime that places them firmly within the institutions of policy making rather than as lobbyists operating from the outside. Groups may combine voting power, bargaining and direct action to improve welfare.

How individuals organize into groups and affect public policy is important in understanding the politics of redistribution

Relatively few social movements or associations emerge specifically around the issue of poverty.⁶ Rather, they tend to focus on issues such as rights, asset protection or redistribution, access to services, or work-related earnings and benefits. However, the fact that movements emerge around issues that drive poverty and address them through political action means that they have the effect of politicizing poverty, placing it in its broader relational context. It also means that in certain contexts, the processes that can serve to deepen poverty might also serve to create the demand for movements contesting these same processes. Social movements may require interest-based associations to keep them active and mobilized.

In advanced industrialized democracies, movements, associations and parties tended to cluster according to the basic capital-labour cleavage associated with industrialization.⁷ Indeed, many political parties and interest associations were a product of social movements.⁸ In developing country contexts, the three forms of organization do not cluster according to the basic industrial cleavage, although social movements and interest-based associations have provided a foundational base for parties that have embraced redistributive policies.

Current democracies face certain external and domestic constraints in pursuing redistributive policies. The external constraints have two dimensions. The first involves pressure by investors and financial institutions to narrow economic

policy making to a limited set of market-enhancing objectives, which elected governments and organized groups find difficult to challenge even when they participate in defining poverty reduction strategies. The second relates to the power of bilateral donors in the policy-making systems of aid-dependent democracies exercised through various types of conditionality. Both constraints limit policy space for alternatives. The domestic constraints relate to the nature of industrial transformation and restructuring, the uneven quality of institutions and processes, and ethnic divisions. The next two sections describe these constraints before discussing group activism for redistribution.

2. External Constraints to Pursuing Redistributive Policies

Welfare states were formed when governments enjoyed relative autonomy in using fiscal and monetary instruments to compensate losers for external shocks and facilitate redistribution as economies grew. However, current patterns of globalization exert pressure for cuts in social expenditures and taxes and for more restrictive monetary policies. Firms in tradable sectors often pressure governments to lower taxes and reduce budget deficits, and they perceive social programmes as additional costs that will undermine international competitiveness. Similarly, capital mobility gives firms, especially those in the financial sector, the freedom to shift funds around or punish governments that pursue fiscal policies that are inconsistent with business interests. In some countries, the structural change associated with liberalization has weakened firms that enjoyed a good deal of protection under import-substituting industrialization, including the social actors and welfare entitlements that underpinned such a regime.⁹

Government capture by technocrats insulates decisions from the will of the people

Although the actual effects of globalization on welfare spending and outcomes are still being debated,¹⁰ governments

are under considerable pressure to limit policy options to a narrow set of objectives that emphasize fiscal restraint, privatization and liberalization. In order to meet these objectives, governments often prefer to limit policy making to technocrats, or those with expertise, whose decisions are insulated from political processes. This, in effect, renders parliaments and social groups ineffective players in the policy-making process. Technocrats are mostly found in central banks and finance and trade ministries, which are integrated into global financial and trade systems and increasingly adopt a less developmental and redistributive stance in policy making. They have gained strength at the expense of social and production-sector ministries.

Technocratic styles of policy making distort structures of accountability since governments tend to answer more to multilateral agencies and investors than to representative institutions and the wider public. This affects the way governments respond to issues of employment and social policies, which may be sidelined or forced to conform to predetermined policy objectives that emphasize fiscal stability. In democracies, legislative institutions are expected to articulate the choices of citizens, scrutinize government policies and provide legitimacy for policy outcomes. But economic policies affect social groups and institutions differently, and democratic processes and accountability suffer when important decisions about trade-offs are entrusted exclusively to technocrats. Central bank chiefs, for instance, whose institutions now enjoy a good deal of autonomy in new democracies, may be beholden to special-interest groups in the financial world. This may give added privilege to strategies for reducing inflation, as well as financial and trade liberalization, over those of generating employment or more inclusive social policies.

UNRISD research¹¹ suggests that countries that are dependent on multilateral financial institutions show high levels of policy capture by these institutions. Those with a longer history of democracy in which policy making reflects compromises between politicians and citizens have pursued more heterodox policies. In some cases, the rise of technocratic behaviour in the executive branch can serve as an incentive for legislators to become more technically

competent. This may check the growth of technocracy if it is accompanied by improved levels of accountability to citizens, and if the latter also become more aware of the technical issues involved in policy making.

Relations between the executive and legislative branches in the economic policy field in low-income democracies are often lopsided, a problem that is compounded by the lack of expertise of most legislators. For instance, more than 60 per cent of members in Malawi's first democratically elected parliament had qualifications below a college diploma, and only about 15 per cent had a first degree or more. While donor interventions have strengthened the technical knowledge of the executive branch, those of the legislature remain severely underdeveloped, making it difficult for lawmakers to properly represent the interests of their constituents and hold the executive branch to account. In many aid-dependent countries, multilateral financial institutions have played important roles in identifying, supporting and recruiting technocrats for vital economic institutions. In Malawi during the 1990s, tensions existed between the government's views on poverty alleviation and the demands of its structural adjustment programme (SAP). The poverty alleviation programme launched in 1995 was never implemented because of the subsequent introduction of cash budgeting, the need to control expenditures, and the transfer of the technical staff entrusted with implementing the poverty alleviation programme from the National Economic Council to the Ministry of Finance and Economic Planning.

If a democratic transition is preceded by an authoritarian regime with success in delivering some economic outcomes, or one that has imposed restrictions on radical constitutional change, as in Chile in the 1990s, the new government may be forced to accept the former regime's policy-making parameters, limiting the extent to which redistributive policies can be pursued. Elite consensus on economic policies may also emerge if past approaches to policy making are discredited, and parties and voters demand a new beginning. In the Czech Republic and Hungary, widespread distrust of central planning, along with strong faith in the market and membership in the European Union as vehicles for reversing economic decline,

served to bring elites together across the political spectrum during the transition period. Parliamentary oversight of the executive branch mainly entailed acquiring information about the branch's activities rather than contesting its policy choices. In Hungary, the consensus broke down in 1995 following a hard-hitting stabilization programme that led to party splits and intense parliamentary debates on the budget. In the Czech Republic, the crisis in 1996–1998 led to government criticism of the central bank's monetary policy. When the government later collapsed, it was replaced by a caretaker administration headed by the central bank governor. Parliamentary oversight of the executive branch improved when a new parliament was constituted in which no party had a majority.

Strengthening the accountability of parliaments

Parliamentary accountability can be enhanced when ruling parties engage in critical support of government policies – rather than rubber-stamping them – and opposition parties develop expertise in bargaining with the executive branch and dispense with strategies of non-cooperation. A technocratically inclined executive cannot be held accountable if the legislative branch lacks comparable levels of technical expertise. And if parties fail to strengthen members' technical capacity, their parliaments will remain equally uninterested in doing so. Until the early 1990s, very few efforts were made by the president of Argentina to consult parliament, and a record number of decrees were used to push through tough reforms that affected welfare adversely. The rise of technocracy in the executive branch coincided with a decline in the operational budget, staff size and competence of the parliament. Unable to scrutinize the executive on the basis of the technical merits of policy, opposition parties in parliament adopted strategies of non-cooperation. However, the technical knowledge and expertise of parliament improved between 1995 and 1997,¹² when it emulated the executive branch by incorporating more legislators who had been trained as economists. Subsequently, there was more willingness to question the executive, introduce bills and modify government-proposed legislation. In Chile, the number of economist-legislators has grown dramatically since the 1990s, and by 2000 they dominated the finance committees of both the Senate and Chamber of Deputies.

These economists have played an important role in moderating executive dominance in economic policy. However, parliament still lacks sufficient expertise, information and resources to scrutinize all economic policies.

One of the issues that has been raised with respect to the inability of women legislators (brought into parliament through quotas) to defend women's issues in public policies

relates to their frequent lack of technical expertise, especially with respect to economic and fiscal policies. However, efforts are being made by some women parliamentarians (in South Africa, for example) to use their expertise in gender budgeting to strengthen their work. Box 11.1 discusses the extent to which women in India and South Africa have been able to use their presence in parliament to bring the issue of gender equality into policy making.

BOX 11.1: Translating women's political representation into outcomes that promote equality

Indicators of women's political empowerment have improved considerably since the advent of democratization. Starting in the 1970s, the creation of gender machineries fostered the idea of women as a constituency for policy makers to consider. More recently, deliberate strategies such as quotas and reserved seats have facilitated women's political access to parliaments. South Africa, for example, has adopted national and local quotas, leading to significant increases in women's political representation. India has resisted national quotas, but does have a system of reserved seats that is being implemented at the local level of *panchayats*. At the national level, female representation remains below 8 per cent despite 60 years of democracy. At the local level, the introduction of reserved seats triggered dramatic results, with nearly one million women entering representative institutions in the first round of panchayat elections (1994 and 1995).

Yet, while women have gained significant access to state bureaucracies and legislatures, institutional access has not automatically translated into political voice, and voice has not led to redistributive policy outcomes. Whether or not women's inclusion in representative institutions leads to public policy that enhances equality depends on the overall political context. Three factors warrant mention.

- The design of institutions has a bearing on whether citizens are able to exercise control over spending of public resources. Low levels of citizen control reduce incentives for participation and limit the potential for pro-poor decision making.
- Competitive electoral systems are more likely to create opportunities for women's organizations to insert their claims on processes of public deliberation by leveraging differences among political parties. Similarly, strongly institutionalized parties with a high degree of legitimacy can be pre-eminent vehicles for policy influence. Where parties are closed systems of patronage, the inclusion of women on party lists will have little effect on policy outcomes.
- Civil society plays a crucial role in ensuring legitimacy for women political representatives and holding elected leaders accountable. The presence and autonomy of women's organizations is thus an important variable for equality outcomes. Especially where women's organizations see their interventions as going beyond inclusion to encompass accountability, their impact on those institutions is likely to be considerable. If they are successful in building accountability and shifting spending patterns, women's organizations can build trust in formal institutions. Without such trust, it is unlikely that poor women will expend much energy in articulating their interests through the state and that quotas will kick-start long-term sustained participation.

In South Africa, the combination of a single-party-dominant political system, limited devolution of financial decision making and a weakly autonomous civil society has limited the impact of the large number of women who have been elected to political office since 1994. In India, by contrast, stronger decentralization and deeper histories of independent organizations of women and poor people have created political space for newly elected women to re-shape spending priorities.

Source: Hassim 2009.

Aid conditionality limits the policy options of governments

A second, related type of external constraint applies mainly to aid-dependent democracies.¹³ Such democracies are exposed to various types of conditionality and high levels of donor involvement in policy making, which limits the space of national actors to shape development agendas. The most well-known, and criticized, is that of policy conditionality, which multilateral donors deployed to push through the SAPs of the 1980s. Under policy conditionality, recipients commit to certain policies before aid is granted. Problems of national ownership and slippage in implementation encouraged donors to turn to other aid modalities, though not necessarily to abandon policy conditionality altogether.

Aid conditionality and high levels of donor involvement in policy making limit the space of national actors to shape development agendas

Process conditionality

Process conditionality has gained influence as an alternative aid modality, along with democratization and donor-financed poverty reduction strategies. Under this type of conditionality, the policy-making process, rather than a particular policy, is the subject of donor concern. It seeks to change the balance of interests in policy making so that the general population, especially groups that represent the poor, have a greater say. Process conditionality is evident both in direct interactions between donors and recipients, as well as in the PRSP process. It can be seen as an effort to democratize economic policy making. However, the outcomes in most countries suggest that donor influence has greatly increased through process conditionality, and the space for policy initiatives by national actors has narrowed.

The PRSPs call for the participation of civil society groups in their preparation, on the assumption that such participation will result in pro-poor policies. Considerable debate has subsequently been focused on who is included in the participatory process and their credentials as representatives of the poor. In practice, this role has usually been taken on by NGOs, rather than associations of informal and formal workers, farmers or artisans, whose livelihoods are likely to be directly affected by the macroeconomic policies favoured by donors. Research in many countries, in fact, has found that important issues are often left out of discussions. One common omission has been that of macroeconomic frameworks, which are largely based on the International Monetary Fund's (IMF) Poverty Reduction and Growth Facility and negotiated between governments and the IMF. As a result, the macroeconomic framework that constitutes the foundation of a country's development strategy is subject to little or no debate. Moreover, though countries are required to involve civil society groups in the preparation of the PRSPs, there are no specific requirements as to the form that involvement should take.¹⁴ Participants' recommendations often do not affect the final form of the PRSPs, which depend on the approval of the international financial institutions (IFIs) for funding. In many cases, civil society involvement is limited to taking part in consultations, rather than playing a more meaningful role in influencing the actual content of policies. As described in more detail in section 4, this form of participation departs fundamentally from the bargaining regime historically associated with improvements in the welfare of subaltern groups.

In many cases, civil society involvement in PRSPs is limited to taking part in consultations, rather than playing a more meaningful role in influencing the content of policies

Outcome-based conditionalities

Another type of conditionality that is gaining influence, especially among bilateral donors, is aid selectivity. This calls for aid allocation to be based on demonstrated success in policy implementation or achievement of development goals. The World Bank's *Assessing Aid* report¹⁵ has been extremely influential in this regard. It concludes that aid can be effective in reducing poverty, but only in strong institutional settings and when governments implement "good" policies. It argues that rather than forcing governments to change their policies using policy conditionality, donors should instead target poor countries that already have relatively good governance records and that are following favoured policies.

Aid selectivity can be linked to outcomes such as the achievement of poverty reduction targets specified in the Millennium Development Goals (MDGs). This kind of outcome-based conditionality allows aid recipients greater freedom regarding what policies to pursue, as long as they keep meeting development targets. This use of targets and outcomes is a feature of General Budget Support arrangements, which seek to ensure that countries in receipt of unallocated aid stay on track. It is also a feature of the HIPC-2 initiative (for highly indebted poor countries), which requires preparation of a PRSP and a record of adherence to macroeconomic policies defined by the IFIs. The final result, however, as the case of Mozambique suggests (see box 11.2), is more intensive donor involvement in policy-making processes.

BOX 11.2: Aid dependence narrows policy options in Mozambique

One aid modality that has been found to be extremely influential in Mozambique is General Budget Support. Under this mechanism, 19 donors coordinate their activities with the government through the Group of Donors for Budget Support to Mozambique (known as G19). The group holds regular meetings to discuss progress in the country, measured using a performance assessment framework, which identifies targets from Mozambique's PRSP. This outcome-based conditionality is closely aligned with the MDGs and includes targets on universal primary education, provision of basic health services and success in fighting HIV/AIDS.

Mozambique has more donors supplying General Budget Support than any other country.^a In fact, the funds generated through this channel accounted for 27 per cent of aid to that country in 2004–2006. Not surprisingly, many observers have described the relationship between donors and the government of Mozambique as highly unequal.

General Budget Support was intended to increase national ownership and limit the role of donors. However, in reality it has meant an increase in donor involvement, with the entire policy process thrown open to donor influence. Communication between donors and recipients at all levels of government is conducted on a daily basis. This has given donors the ability to influence policy from within.^b In addition, donor coordination has increased the power imbalance between donors and the government since all foreign aid rests on their collective conditions.^c

Notes: ^a De Renzio and Hanlon forthcoming. ^b De Renzio and Hanlon 2008:17. ^c Batley 2005; Hodges and Tibana 2004.

3. Domestic Constraints to Pursuing Redistributive Policies

New democracies must also contend with a number of domestic constraints to pursuing redistributive policies. The first is the limited nature of industrial transformation and class formation. As table 11.1 shows, the labour force characteristics of low- and middle-income countries differ substantially from those of high-income democracies. Union density (meaning union membership as a percentage of the labour force) and coverage levels are also lower in low- and middle-income countries than in high-income democracies. A labour market structure that is dominated by agriculture and micro-scale informal enterprises may act as a constraint on the formation of interest group organizations and parties of the type that historically affected public policies for redistribution. Recent trends in informalization and subcontracting in large firms (see chapter 9) further complicate the problem.

An additional constraint is the quality of democracy in many newly democratized countries. Even though figure 11.1 suggests a rise in the number of elections for all coun-

try groupings, elections in many countries are of questionable quality, and rights are not fully institutionalized or protected. Since 1990, more than 40 countries that have held elections have been consistently classified as anocratic – meaning, according to Polity IV, that they are not fully democratic. Freedom House has also listed, on average, more than 50 countries that are not fully free in its yearly ratings of countries for the period 1990–2008. Many elections return incumbents to power and, especially in least developed countries, parliaments are largely dominated by single parties. Data on African parliaments for 2005 suggest that there was only one effective party in 21 countries. In 15 parliaments, the largest party controlled 70 per cent or more seats.¹⁶ The low quality of democratic transitions suggests that voters may be unable to pressure leaders to deliver on their promises, since the threat of losing office tends to be weak. Furthermore, the politics of most parties in new democracies are not driven by programmes, making it difficult to place them on a Left-Right axis.¹⁷ Governments rely less on parties for policy guidance and more on the state bureaucracy, bilateral donors and multilateral agencies. Parties are often elite creations for access to state power, rather than instruments for aggregating voter preferences or the welfare interests of organized groups.

TABLE 11.1: Labour force characteristics of low-, medium- and high-income countries

Country ^a	% part of the urban formal labour force*	% in agriculture** ^b	% in industry**	% in services**	% who live in urban areas (2002)**	Union density*** ^c
Low-income	n.a.	51.85	13.27	31.81	33.36	10.94
Middle-income	49.95	19.54	24.96	53.99	59.13	24.37
High-income	82.94	4.68	25.96	65.92	76.09	32.72

Notes: n.a. = not available. ^aAll countries are grouped according to World Bank classifications in 2002: high-income (per capita gross national income of \$9,076 or more), middle-income (\$736–\$9,075) and low-income (\$735 or less). ^b Sectoral data for high-income countries are from 1998–2000, middle-income countries from 1995–2000, and low-income countries from 1995–2000. ^cUnion membership as a percentage of the non-agricultural labour force, 1995. Sources: *ILO 2003. **World Bank 2004a. ***ILO 1997.

If parties are not programmatic and voters do not place a premium on programmes in their voting preferences, it is difficult to hold leaders to account, and incumbents have no incentive to translate promises into effective policies. The outcome is likely to be targeted provisioning.¹⁸ Since voters may not believe that any party is credible, they may opt for individually targeted welfare or “electoral bribes” during election cycles. Targeted welfare may include assistance with jobs, loans, cash and goods for individual voters. While these may benefit some individuals, they release leaders from the obligation to provide services that will benefit the majority. It is not surprising that new democracies have been associated with large political budget cycles. One study¹⁹ finds that the fiscal deficits of 44 African countries where multiparty competitive elections have been held increased by 1.2 per cent of gross domestic product (GDP) during election years. Significantly, it finds no cycles in countries with non-competitive elections.

Elections in many countries are of questionable quality, and rights are not fully institutionalized or protected

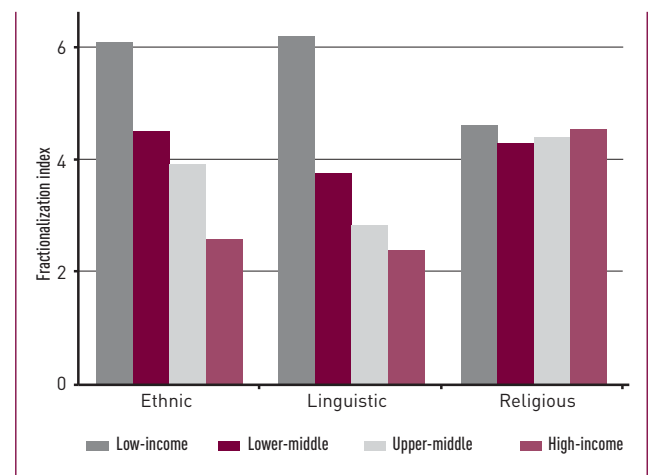
A third constraining factor is ethnicity. As figure 11.2 shows, low- and middle-income countries are much more ethnically diverse than high-income countries. A common assumption is that the development of democracy, support for public goods and welfare development more broadly rest on trust and solidarity, which mainly thrive in societies with common values.²⁰ Observers contend that governments in ethnically diverse societies underprovide public goods and redistribute less for a number of reasons: because cross-cultural exchanges are less common than exchanges among members of the same group; differences exist in group preferences for distinct types of public goods;²¹ inequalities among groups may encourage individuals from richer groups to opt for private provision or oppose redistribution; and it may be difficult to apply social sanctions or punishments across ethnic divides.²² This implies that even if voters are well informed about public policies, parties or politicians can only be credible to one segment of

the voting public at best. And, if parties seek to be credible across ethnic divides, voters may be inflexible, rewarding only parties that are perceived to be led by co-ethnics.

Observers contend that governments in ethnically polarized societies tend to underprovide public goods and redistribute less

The first scenario encourages targeted provisioning and patronage politics. In the second, the vote loses its significance as a sanctioning device against bad performance. Politicians may then perceive the ethnic vote as a vote bank that cannot be claimed by rival politicians or parties from other groups. This may also affect the formation of cross-ethnic interest group organizations and social movements or weaken the effectiveness of these groups when they embark on collective action. However, as box 11.3 shows, these kinds of pathological outcomes are more likely to occur in societies where the ethnic structure is polarized, not in countries with high levels of ethnic fragmentation.

FIGURE 11.2: Ethnic, linguistic and religious cleavages by income level



Note: The fractionalization index measures ethnic, linguistic and religious cleavages. Source: Sheingate 2008, drawing on Alesina et al. (2003), and World Bank (2008a).

BOX 11.3: High levels of ethnic fragmentation may be good for democracy and redistribution

The effects of ethnic diversity on behaviour are complex. In a 15-country UNRISD study on ethnic inequalities and the public sector, for example, it was found that a high level of fragmentation – meaning that no group was large enough to dominate the public sphere – encourages good inter-group cooperation.

Ethnic structures assume various forms. They vary from cases in which one ethnicity is overwhelmingly dominant and coexists with numerous small groups (as in Botswana and Lithuania), to cases where two or three groups or two or three large and relatively equal groups predominate in a multi-ethnic setting (as in Belgium, Bosnia and Herzegovina, Fiji, Latvia, Malaysia, Nigeria, Switzerland and Trinidad). A third possibility includes cases in which the ethnic structure is very diverse and may take two forms: cases of high levels of fragmentation (as in Papua Guinea and the United Republic of Tanzania), and cases where fragmentation is interspersed with a few large and relatively equal groups, which may encourage polarization (as in Ghana, India and Kenya).

The findings suggest that in cases where one ethnicity is overwhelmingly dominant and co-exists with many small groups, ethnicity is less likely to be important in determining how the public sector is governed. Electoral competitiveness may open up conflicts within the dominant ethnicity, allowing individuals from minority groups to participate actively in parties led by individuals from dominant groups. In Botswana, even though most Tswana vote for the ruling party, a sizeable percentage also support opposition parties; and minorities have not formed separate parties from those led by Tswana. Candidates from the three dominant Tswana subgroups and the second largest group, the Kalanga, have occupied more than two-thirds of the cumulative parliamentary seats of the main political parties since 1965. Although the Tswana constitute 70 per cent of the population, they accounted for only 58 per cent of cabinet posts in 2000, 50 per cent of top civil service posts in 2003, and 61 per cent of parliamentary seats in 2000, suggesting strong representation of minorities in the public sector. Voting patterns have assumed an urban-rural divide, with the opposition winning most urban votes and the government winning rural ones. A multi-ethnic elite pact at independence that granted the Tswana language official status (along with English) was made in exchange for equal distribution of resources among all groups. Only the small pastoral San group feels strongly excluded.

In highly fragmented settings with relatively small ethnic groups, as in the United Republic of Tanzania, ethnic-based behaviour in the public domain is also likely to be less virulent, since it is difficult for a single group to be hegemonic under free, fair and competitive conditions. Since political parties may have to appeal to a cross-section of groups to be electorally viable, they are bound to be multi-ethnic. No single ethnic group dominates the United Republic of Tanzania's public sector in terms of their share of posts. The largest ethnic group (which makes up 13 per cent of the population) and the second largest group (4 per cent of the population) were not represented at all at the top layer of the civil service in 2006. This is not surprising, since it is rare for an ethnic group to have more than one member at the top cadre of the civil service and cabinet. In the 1990 cabinet, for instance, the largest group had only 7 per cent of posts, the second largest had none, and the third largest (4 per cent of the population) had 4 per cent. A similar distribution was found in the 1995 and 2000 cabinets, except that the second largest group increased its share from 0 to 4 per cent. The third largest group was not included in the 1995 cabinet, but got 7 per cent of the total in 2000.

The more difficult cases are countries with bipolar and tripolar ethnic structures or cases where ethnic fragmentation is interspersed with a few large and relatively equal groups that may form selective ethnic coalitions. Countries with these types of ethnic structures that are relatively stable and cohesive have introduced institutions and policies that are sensitive to ethnicity in order to influence the way in which the public sector is governed.

Source: Bangura 2006.

4. When Democracies Deliver Outcomes That Are Beneficial to the Poor

Some democracies have been able to overcome these constraints and deliver outcomes that are beneficial to the poor. This section discusses five broad types of cases involving interest group and social movement activism. It makes four arguments:

- Democracies deliver outcomes that are beneficial to the poor when groups with strong ties to the poor demonstrate the capacity for organization and mobilization, transcend or reconcile horizontal divisions, and create structural links with actors involved in policy making. This leads, at times, to social pacts.
- Some success can be achieved without formal group ties to state actors, but these require high levels of contestation and continuous mobilization to sustain gains. Contestation may block unpopular policies or may lead to the adoption of some popular demands in public policy. However, institutionalization can be a problem without continuous mobilization.
- Electoral competitiveness in which there is a high probability that governments may lose office can act as an incentive for redistribution and progressive reforms. However, electoral competitiveness without effective group organization and contestation may produce weak redistributive outcomes.
- The poor suffer when interest groups and social movements are weak and when the electoral system is not sufficiently competitive.

In high-income democracies, organized interest groups spurred redistribution

In high-income democracies, contestation by organized interest groups produced institutional regimes that allowed groups to bargain with state authorities and influence the direction of public policies. In these countries, democracy

and welfare development were driven by similar processes in which trade unions, acting through social democratic and clerical parties, played a substantial role. Socialist/labour voting in the early period of democratization correlated highly with welfare programme consolidation (meaning that countries adopted at least three of the four main social insurance programmes relating to work accidents, health, pension and unemployment).²³ However, labour needed allies, since it was unable to effect democratic change and welfare development on its own. Though workers were in the majority in all countries, working-class parties could not obtain electoral majorities. Socialist parties' share of the vote averaged 30 per cent.²⁴

In the Nordic countries, workers collaborated with segments of the middle class and small farmers, who defended their interests through agrarian parties. The preferences of agrarian parties for flat-rate, universal, tax-financed benefits came to define the welfare policies of social democratic regimes. Despite the importance of small farmers in democratization and social policy development, early agrarian democracies or those with no strong labour participation (such as Canada, France, New Zealand, Norway, Switzerland and northern and western parts of the United States) were laggards in welfare development. In Belgium and the Netherlands, unions and working-class organizations worked through clerical parties whose ideology was critical of free-market capitalism. However, while social democratic parties provided platforms for women's groups to mobilize for the incorporation of gender issues in welfare policies,²⁵ clerical parties were not so accommodating to gender interests. In the Netherlands, for instance, women perform poorly on labour force participation, unpaid care work and the provision of childcare facilities.²⁶

The bargaining regime of countries with superior social outcomes took the form of social pacts. The key features of such pacts included the recognition granted to representatives of labour and employers in negotiations over wages, employment, working conditions and welfare; the ability of group representatives to ensure members' compliance when decisions were reached; and the mutual recognition of each actor's importance in achieving goals, including the

relative capacity of parties to obstruct outcomes that were not based on consensus. Social pacts were not confined to the industrial sector. Agrarian pacts were also constructed

in many countries. These improved farm incomes and narrowed rural-urban inequalities in many countries where farmers' votes were important (see box 11.4).

BOX 11.4: Social pacts between farmers and the state improve well-being

Historically in industrialized democracies, close links among farmers, politicians and bureaucrats were a key feature in the evolution of agricultural policies that insulated farmers from the vagaries of market forces. These policies took the form of direct cash transfers, minimum support prices and various other subsidies. They also included policies that increased opportunities for non-agricultural employment and environmental policies that provided transfers in connection with conservation or environmental protection measures.

The agricultural welfare state depended on corporatist, or quasi-corporatist, arrangements between producers associations and agricultural bureaucracies. Often this took the form of a single peak association that enjoyed a representational monopoly in the policy process, although not necessarily so. In the United States, for example, commodity-based organizations carry greater influence in policy discussions than broader farmers organizations. In many European countries, multiple producers associations organized along regional, religious or economic lines represent farmers in policy discussions. In political terms, farmers eventually became important electoral constituencies. Sometimes, these political ties linked farm organizations to parties of the Centre Right, as in Japan and France. Other times, farmers organizations became core constituencies of the Centre-Left, as in many Nordic countries. Although the specific policies, organizations and political components varied, the agricultural welfare state provided farmers with a steady stream of benefits, access to policy and attention from politicians. Today, in fact, these close relations between farmers and the state are a major obstacle to reaching political agreement on the reduction of agricultural subsidies in wealthy countries.

In the developing world, relations between farmers and the state look very different. Not many examples can be found of political incorporation of producers or stable arrangements of policy coordination built around agricultural associations. However, exceptions do exist, which suggest the conditions under which agrarian social pacts might emerge. In parts of India, for example, policies designed to increase dairy farming helped to promote producers cooperatives. The programme has been a success, contributing to a pronounced increase in per capita milk production over the past decades. But there are also indications that cooperative members, many of them women, have become politically influential as a source of votes in local, state and national elections. In Eastern Europe, agrarian political parties have been influential players in the post-communist transition in several countries. In Poland, where 20 per cent of the labour force is employed in farming, agrarian parties have competed successfully for the rural vote, frequently earning a place as a junior coalition partner in the government. Finally, in Senegal, peasant organizations, producers cooperatives and other farmers associations came together in the early 1990s to create the Conseil national de concertation et de coopération rurale (CNCR). With a membership that reached more than 3 million farmers by 1995, the CNCR plays a central role in the elaboration of government policies towards agriculture.

How do such relationships take shape? Historical legacies matter a great deal, especially with regard to the character of agricultural policies, the development of rural organizations, and the structure of macro-political institutions. In addition, however, relationships forged in industrialized countries, as well as those cited in India, Poland and Senegal each occurred in a context of democratic politics. Although generalizations are difficult, it can be argued that competitive elections are conducive to the emergence of agrarian social pacts. This is because the capacity for agricultural associations to shape sectoral policies depends on the political value of farmers as an influential source of votes. However, an important caveat must be noted as well: farmers do not always or necessarily vote as farmers. Where regional, ethnic or religious cleavages are the basis of political identities, it will be more difficult for producers to become influential in politics and, accordingly, influence policy.

Source: Sheingate 2008.

High levels of unionization and coverage rates in social democratic regimes encouraged unions to support policies that reconciled wage and welfare demands with the goals of profitability and growth. Unions supported policies of wage compression and equal pay for equal work across sectors, which spurred employers to raise labour productivity and avoid the option of cheap labour and segmentation.²⁷ Unions were also able to restrain the short-term interests of their members because of their encompassing position in the economy: deals that arose from bargaining had wide worker coverage, and bargaining took place at the national, not industry, level. An important social policy innovation that took place in Sweden in the 1960s and 1970s was bringing women's particular interests (publicly supported childcare, employment) into the policy agenda. This may have been facilitated by union preferences for women's labour versus immigrant labour to solve the labour shortage problem. But it also involved considerable bargaining and brokering by feminists with men in the Social Democratic Party, who were lukewarm towards feminism, and with men in the blue-collar trade unions who were even less sympathetic to many of their demands.²⁸ Although sector-level bargaining may encourage union federations to be concerned primarily with the narrow interests of their own members, some countries with such labour market institutions, such as Germany, have been able to coordinate deals across sectors to produce relatively stable economic outcomes.²⁹ The deflationary policies of independent central banks in periods of wage-push inflation may force unions to moderate their claims. However, these countries score less on welfare outcomes than those with peak-level bargaining institutions and central banks that are relatively accommodating.

As chapter 5 shows, although social transfers have reduced poverty in all high-income democracies, countries classified as social democratic have been more effective in reducing poverty, followed by countries classified as Christian democratic. Those characterized as liberal regimes, which have weak labour movements and pluralistic institutions of interest representation in policy making, are the least effective.

In welfare democracies in the South, subaltern groups were the main catalysts for change

In a few established democracies in developing countries, subaltern interest groups are fairly well organized and are part of broad social movements that have influenced the policies of political parties.³⁰ The most well-known cases are Costa Rica, the Indian states of Kerala and West Bengal, and Mauritius. Because these were largely agrarian societies when democratic politics were introduced, peasant movements and organizations were much more active in the construction of the alliances that produced welfare-enhancing policies. In Costa Rica and Mauritius, smallholders displayed remarkable organizational abilities because of the absence of powerful land-owning elites. In Kerala and West Bengal, revolutionary parties implemented land reforms during the early stages of democratization.

In Costa Rica, although the dominant coffee elite owned a few large farms, the bulk of its income was derived from processing and external trade, and not from the exploitation of farm labour. There were many unions representing landless peasants and defending land invasions between 1970 and 1990.³¹ In Mauritius, although agriculture was dominated by merchant capital and an agrarian bourgeoisie, there was also a large class of small landholders and rural farm workers. In Kerala, highly unequal agrarian land ownership, discriminatory caste structures, and growth of a rural proletariat that followed land commercialization in the south spawned a range of peasant movements for land reform, wage increases and social reforms, which enhanced the role of smallholders and the rural proletariat in the political economy.³²

In these societies, subaltern groups were sufficiently organized to influence the orientation of politicians without reliance on intermediaries. In Costa Rica, farmers formed the National Association of Coffee Producers to defend smallholders' interests on prices, taxes, credit and welfare. In Mauritius, the peasantry collaborated with the growing agricultural labour force, which had formed the Mauritius Agricultural Labourers' Association, and urban trade unions, such as the Engineering and Technical Workers' Union, which waged active campaigns for labour rights,

wage increases and improved working conditions. These organizations played a role in the formation of the first nationalist party, the Mauritius Labour Party, which spearheaded social reforms. Significantly, these interest-based organizations and parties bridged the Indian-Creole ethnic divide that threatened to undermine social peace.³³ In Kerala, because of the twin problems of land alienation and social discrimination, the main social movements were the anti-caste reformist movements in the south, and the land reform movements in the more feudalistic north. All three cases involved a dense network of civil society organizations. In Kerala, unionization often extended to informal sector workers. Social pacts involving the participation of government, labour and business were institutionalized in Kerala and Mauritius. This helped to reduce strikes and improve wages and working conditions.

In these societies, subaltern groups were sufficiently organized to influence the orientation of politicians without reliance on intermediaries

The main political parties embraced a discourse of social rights and equity. In Kerala and West Bengal, the main parties of reform were communist parties, which embraced a parliamentary route to transformation and established strong ties with the peasantry and, especially in Kerala, a small working class. In Costa Rica, although the main parties were not strongly linked to social movements, the elite adopted a social democratic orientation. A reformist communist party (later banned), with ties to a small labour force, helped shape the discourse on social rights when the welfare state was established in the 1940s. In Mauritius, all the major parties define themselves as social democratic and consistently regard social rights as acquired rights by citizens.³⁴ The deepening of democracy and extension of social rights eroded clientelistic relationships.³⁵

In Costa Rica, Kerala and Mauritius, parties routinely alternate in government. No single party accounts for all the votes of subaltern groups. In Kerala, despite its transformative agenda, the Communist Party has never ruled for two consecutive terms, and competes with the Congress Party for the votes of the peasantry and rural workers. This has forced the Communist Party to retain much of its social movement character – constantly organizing its base, building alliances with new groups, and making demands that address the interests of its base.³⁶ Electoral competition and active citizenship have also forced the Congress Party to imitate the strategies of the Communists by responding to the needs of the electorate. The failure to build permanent winning coalitions suggests that competitive elections play a more substantial role in forcing leaders to pursue redistributive policies than in the social democracies of advanced industrialized societies where social democrats governed for long periods through the electoral alliance of workers, small farmers and the middle class. Some scholars have argued that power alternation in Kerala explains its superior social outcomes when compared to West Bengal, where Communists have been in power for more than 20 years.³⁷

Interest-group politics have tended to be inclusive, rather than sectarian, because groups forged rural-urban alliances that incorporated wide segments of the population. This has been favourable to both growth and redistribution. Although the growth rates of these welfare democracies did not reach the levels of the East Asian developmental states, they were respectable for much of the period of the 1960s–1990s (with growth in Mauritius reaching 6 per cent; in Costa Rica, it averaged 5.3 per cent in 1963–2000, and 7.6 per cent in 1963–1973). This ensured some economic transformation and funding of extensive social programmes, although Kerala relies substantially on overseas remittance income. Rural-urban alliances also facilitated extension of welfare rights to all citizens. Welfare protection in Costa Rica initially covered non-skilled and semi-skilled workers, and later those who were not considered poor. Social insurance coverage in that country was eventually extended to informal sector workers and farmers (see chapter 5).³⁸

Remarkable strides in social development have been made in all four cases. Costa Rica spends 16 per cent of its GDP on the social sector. And, unlike dualist regimes with highly regressive welfare policies, social expenditure is shared almost equally among education (31 per cent), health care (31 per cent) and pensions (28 per cent). Social policy is oriented towards increased coverage of the population under a unified system (see chapters 5 and 6). Similarly, in Kerala, a large proportion of the population enjoys social protection and has access to food subsidies; the coverage of health care and primary education is universal. In Mauritius, there is a universal basic retirement pension, free primary and secondary education, comprehensive free medical care and subsidized basic foodstuffs. The overall effect is that poverty rates have been drastically reduced in these cases, and literacy and life expectancy rates are comparable to those of industrialized countries.

In Costa Rica, the Indian state of Kerala and Mauritius, poverty rates have been drastically reduced, and literacy and life expectancy rates are comparable to those of industrialized countries

In dualist countries leaning towards welfare democracy, social pacts have been key

In the context of current democratization, a few other countries appear to be leaning towards a social democratic path, especially some of the dualist or highly unequal regimes in Latin America and in South Africa. Because of their high levels of industrialization, unions in these economies are often well organized and have been able to protect members' welfare benefits, often at the expense of those with weak or no links to the formal labour market.³⁹ This section focuses on Brazil, South Africa and Bolivia.

Brazil

During Brazil's first decade of democratic rule from the mid-1980s to the early 1990s, the new leaders were not strongly committed to redistribution. However, under presidents Fernando Henrique Cardoso and Luiz Inácio Lula da Silva, there was a reversal of trends, representing a move towards more broad-based and expansive social programmes.⁴⁰ The nature of the coalition underpinning the presidency is one of the key explanatory factors for the change. Cardoso mounted an effective alliance of Left-wing and social democrats (the Brazilian Social Democratic Party) and the Centre Right (represented by the Liberal Front Party and part of the Brazilian Democratic Movement Party). In turn, Lula represented the rise to power of the Workers' Party, with strong ties to the industrial working class and a commitment to the cause of redistribution and welfare policies. Civil society organizations that campaigned for the impeachment of a former president (Fernando Collor de Mello) through the Movement for Ethics in Politics later turned their attention to the issue of poverty, which gained prominence in policy circles as the democratic regime was consolidated.

There appears to be a virtuous cycle linking comprehensive social assistance programmes to electoral competition. The programmes with the highest redistributive impact – conditional cash transfers – have generated a politically efficacious constituency. The comprehensive nature of the programmes reflects the dynamics of electoral politics in which presidents respond to the demands of the rural poor that were empowered when the vote was universalized in the mid-1980s. While there is an overlap between the beneficiaries of one of the most important cash transfer programmes, Bolsa Familia, and the rural pension programme, the clientele of Bolsa Familia in 2008 included 11 million families, affecting probably about 18 million voters; the clientele for rural pensions included 8 million beneficiary households, representing a constituency of some 12 million voters.

Before the introduction of cash transfer schemes, credit for social programmes was mostly claimed by the political elite at the subnational level. Historically, funding for education, health and, most notably, social assistance was

determined by patronage games and clientelistic networks, typically involving local elites. However, the current cash transfer programmes operate in a fairly transparent manner, with minimum corruption or patronage by powerful politicians. Under the new dispensation, presidents have a strong incentive for poverty reduction because they have become accountable for social policy for the first time. Because the constituency of presidents is the whole country, they tend to develop a strong interest in programmes that are not focused on narrow groups of the population.⁴¹ However, inequalities remain very high, despite recent progress in reducing them, raising serious questions about the extent to which the project of welfare democracy can be advanced.

In South Africa, democratic processes have driven the expansion of social assistance, which has become the main vehicle for addressing the plight of the poor

South Africa

In South Africa, democratic processes have also driven the expansion of social assistance, which has become the main vehicle for addressing the plight of the poor in the light of a growth strategy that has failed to generate investment and employment.⁴² In part, this failure was due to the racially repressive labour regime that created extremely high income differentials during the apartheid era. The subsequent struggle for democracy produced an alliance between the main trade union organization, the Congress of South African Trade Unions (COSATU), and the African National Congress (ANC), which resulted in a joint programme for reconstruction and development. The new ANC government established a multipartite body to reach consensus on economic and social policy among organized labour, organized employers, community groups and

the government. However, consensus on macroeconomic issues proved elusive as the government's policy shifted in a more liberal direction. Meanwhile, the labour movement pressed relentlessly for improved wages and often backed up its demands with strikes. Employers failed to invest profits and expand employment, preferring to transfer capital overseas.

Despite these tensions, the pact between the labour movement and the government has survived; when combined with electoral pressures, it has tended to push the government in a social democratic direction on social policy. Government spending on social assistance programmes has grown rapidly – from 2 per cent to about 3.5 per cent of GDP between 1994 and 2006. Expenditure doubled in real terms between 1994 and 2004. By mid-2006, about 11 million grants were being paid each month. One in four South Africans receives a pension or grant financed out of general taxation (see chapters 5 and 8). However, the very high levels of inequality inherited from the apartheid era act as serious constraints on the development of social democracy. The record of social movements in pushing through progressive agendas is mixed. For example, social movements such as Treatment Action Campaign have collaborated with COSATU to change the government's policy of neglecting the AIDS epidemic. However, rural social movements have been unable to affect public policy on land reform, which remains wedded to a market-friendly willing buyer–willing seller framework. Only 3.5 per cent of the area designated as commercial farmland had been redistributed by 2005.

Bolivia

Bolivia represents a mineral-rich country in which a government with strong ties to social movements has attempted to change the country's welfare trajectory in favour of redistribution.⁴³ In countries with extractive industries, by far the most significant channels through which they can finance programmes for poverty reduction are tax and royalty payments to government. The extent to which these contributions are made, and how they are used, has become a particularly conflictive axis of activity for social movements, and one that brings such movements and states closer together. The current governing party (Movimiento

al Socialismo, or MAS), grew out of social movement processes, especially among coca producers and the more historic syndicalist highland peasant movements. These origins inevitably gave the movement/party a heavy anti-imperialist ideology. There was a clear resonance between these movement processes and the two major “resource wars” in Bolivia over the last decade (over water in 2000, and over gas between 2003 and 2005), each of which contested the control of strategic national interests by international companies. Not surprisingly, within the first year of its election, MAS passed decrees to nationalize ownership of hydrocarbons and refineries.

Bolivia represents a mineral-rich country in which a government with strong ties to social movements has attempted to change the country’s welfare trajectory in favour of redistribution

Issues of social protection and targeted support to the elderly and to mothers became an issue for the movement when it came into power (see chapter 8). However, the need to fund programmes such as these generated other challenges, both within submovements of the MAS as well as with opposition movements. Lowland indigenous groups, which generally support MAS, perceive expansion of hydrocarbon production as compromising the security of their livelihoods. The fact that MAS tried to retain some of the revenues from hydrocarbons usually returned to the departments from which they were extracted has led to tensions with the opposition movements. This has renewed dynamism within the older separatist movements among non-indigenous (and politically conservative) populations in the lowland provinces, who complain that this policy change is taking assets away from them. During 2008, movements harnessed this concern and were able to initiate civil disobedience and direct action

on a massive scale that, for a short while, called into question the viability of the MAS government. Ultimately, the government survived and emerged strengthened. However, the more general point can be made that one movement’s efforts to use the instruments of government to appropriate resources for poverty reduction can – depending on where those resources come from – elicit responses from other movements resisting them. Deeply entrenched inequalities across a number of economic and social dimensions constrain efforts to pursue a unified and progressive social agenda.

Gains are possible, even if interest groups lack ties to power

Some gains can be achieved even in contexts where contestation has not produced strong ties with ruling parties or institutionalized regimes of bargaining. Much group activism in the context of top-down democratization is of this type. Although unions were less effective in shaping the ideologies of the main parties in the Republic of Korea and Taiwan Province of China, contestation and electoral competitiveness propelled the interests of subaltern groups onto the public agenda. Social movement activism in developing countries often takes the form of direct action by relatively autonomous groups, with positive outcomes for livelihoods in some cases. This section focuses on the cases of the Republic of Korea, Taiwan Province of China and Peru.

Republic of Korea and Taiwan Province of China

Democratization in the successful developmental state of the Republic of Korea and the equally successful Taiwan Province of China was associated with inclusive welfare policies. In both cases, democratization occurred in the context of a major financial crisis that required reform of the labour policy of life-long employment. The rise in unemployment and part-time work generated calls for the expansion of welfare benefits. However, despite high levels of industrialization, the policies of political parties did not reflect the classic capital-labour cleavage, and unions were less effective in influencing the policies of the main parties. Korean parties were driven by charismatic leaders who eschewed links with labour unions, preferring instead to mobilize votes on the basis of regional calculations and

selective social concerns. A social pact involving government, labour, employers and party leaders was constructed at the height of the 1997 Asian financial crisis and helped rebuild business confidence and expand social assistance.⁴⁴ Despite the establishment of a tripartite commission, commitment by both government and labour to this mode of interest intermediation has remained weak. Taiwanese parties maintained ties with labour unions; however, these were pragmatic rather than ideological, since the basic cleavage was between parties that advocated national independence and those that preferred reunification with the mainland.

The developmental regimes in both the Republic of Korea and Taiwan Province of China were based on wage repression, labour acquiescence and officially sanctioned, government-dependent unions, which operated mainly in large enterprises: the *chaebols* in the Republic of Korea and government-owned enterprises in Taiwan Province of China. This may partly explain why, despite their level of industrial development and democratization, both places have very low levels of unionization (13.6 per cent of the labour force in the Republic of Korea and 10.5 per cent in Taiwan Province of China). The bulk of the labour force is employed in medium and small enterprises (87 per cent in the Republic of Korea and 78 per cent in Taiwan Province of China) and is not unionized.⁴⁵ However, patterns of government-labour relations differ. Labour has some ties with political parties in Taiwan Province of China because democratization started at the local government level, where unionized workers' votes were often decisive. The two main union federations, the Chinese Federation of Labour and the Taiwan Confederation of Trade Unions, are each allied to the two main parties, the Kuomintang Party and the Democratic Progressive Party respectively. Unions have taken advantage of the single non-transferable vote system, in which voters choose candidates in multimember constituencies, to punish candidates, including those supported by their respective labour federation, if they ignore labour demands. Unions' electoral power at the central level is, however, rather weak.

In the Republic of Korea, difficulties in consolidating the party system (party splits and mergers are common) have

resulted in less effective links between parties and unions and account for the high levels of labour militancy, including formation of a labour party by the Radical Union Federation. The relative autonomy of unions and social movements in the country encouraged formation of broad advocacy coalitions for social policy reform, which focused on unemployment insurance; public works, training and basic income schemes that did not require means testing; family policies; and a universal health service system.⁴⁶ As social conditions deteriorated in the face of the 1997 financial crisis, welfare reform became a vote-winning issue, which the opposition party was able to exploit to win office for the first time. In Taiwan Province of China, even though unions and social movements were attached to the main parties, they played virtually no role in setting the agenda for social policy reform.⁴⁷ The national health system, for instance, was established by the previously authoritarian government, anxious to shore up its legitimacy and win bitterly contested elections, even though the main advocate of reform was the opposition party.

In both the Republic of Korea and Taiwan Province of China, electoral competition introduced conditions of uncertainty for the ruling authorities and opposition parties and forced them to implement redistributive policies

In both places, electoral competition introduced conditions of uncertainty for the ruling authorities and opposition parties and forced them to implement redistributive policies. However, weak union-party links in the Republic of Korea, or lack of a policy stance that reflects subaltern interests in parties with union links in Taiwan Province of China, act as a limit on the extent to which these now democratic developmental regimes can push the redistributive agenda along more social democratic lines.

Peru

The case of Peru⁴⁸ represents social movement activism in a highly unequal and less industrialized society. Movement activism involves direct action without an institutionalized regime for bargaining. Interactions between social movements and the state may be characterized more by recurring cycles of conflict, which in some contexts have produced pro-poor outcomes. Over the last 15 years, Peruvian governments have increasingly tied their development strategy to a rapid expansion of mineral, oil and gas extraction, affecting over half of the country's peasant communities and spawning a movement dedicated to the defence of livelihoods of communities affected by mining. The response to hydrocarbon extraction has also been led by existing indigenous peoples' organizations under the umbrella of the Association of Indigenous Peoples for the Development of the Peruvian Jungle.

Despite their weaknesses, these movements have made the extractive industry and its links to poverty, the environment and indigenous peoples a topic of public debate. Techniques have often been confrontational, and sometimes violent, and have prompted clamp-downs and repression. While justification of such techniques remains questionable, it is also true that neither government nor companies paid attention when direct action was not used. Moreover, the use of direct action has opened political space in which negotiations over policy, though not institutionalized, have occurred. Negotiations have allowed for more protection of the asset bases of local populations, including the introduction of water monitoring programmes around mining sites, and greater recognition of land rights. They have also contributed to an increase in revenue transfers to mine-affected areas: in 2004, the government ruled that 50 per cent of the taxes paid by mining companies to central government would be returned to the regions of extraction. Negotiations also called into question the adequacy of existing public institutions for ensuring that growth results in poverty reduction – an issue that became prominent in the 2005–2006 presidential election campaigns. In each of these instances, however, these changes have come about because other actors (including those from industry) have also come to support them, partly as a result of protests.

In countries with weak civil societies, electoral competition can bring leaders to account

The structure of labour markets in agrarian economies can act as a constraint on interest-group pressure for welfare development, although, as an earlier section of this chapter showed, these constraints have been overcome in some cases through well-organized civil societies and broad-based parties. In many low-income agrarian societies, NGOs and donors play active roles in poverty reduction. However, their capacity to effect real change has been limited because of weak links with broader groups in society. In these types of democracies, electoral competitiveness can be an important instrument for extracting accountability from leaders. One study⁴⁹ provides evidence for the ways in which democracy has affected government priorities and shifted pro-urban biases in educational provision in Africa. Democratization made governments more responsive to the needs of the rural poor, who constitute the majority of voters. However, as section 3 has shown, the electoral system in most agrarian democracies is not competitive enough. Governments enjoy huge parliamentary majorities and retain the capacity to immunize themselves from electoral defeat. The lack of electoral competitiveness and low density and strength of associations and movements often make it difficult to sustain gains outside of electoral cycles.

In many low-income agrarian societies, despite the limited nature of the wage economy, unions have, on numerous occasions, been able to pressure governments and employers to act on the livelihoods of workers

Despite the limited nature of the wage economy, unions have, on numerous occasions, been able to pressure governments and employers to act on the livelihoods of workers.

In alliance with other groups, they have also managed to resist policies such as price increases on basic commodities and services.⁵⁰ However, unions' resistance to adjustment programmes exposed them to attack from reforming governments and their international backers, who argued that rural poverty was a product of discriminatory trade and pricing policies favoured by an urban coalition that included the working class. Authoritarian measures were supported to free markets and release the grip of the so-called urban coalition on public policy.⁵¹ While these measures weakened union power and undermined workers' livelihoods, they did not necessarily improve the incomes and power of farmers.

Despite their dwindling membership base, unions played an important role in the process of democratization because of their strategic location in the modern economy, although links with governing parties remain tenuous

Organizations of subaltern groups participated in the wave of democratization that swept through countries in the 1990s, although their capacity to subsequently influence the direction of policy has been limited. The role of unions in democratization was particularly significant because of their strategic location in the modern economy, despite their dwindling membership base.⁵² In some African cases, such as Zambia and Zimbabwe, unions provided leadership for a coalition of forces, although the links with governing parties have remained tenuous since elites and external actors dominate the reform agenda. In other cases, such as Ghana, unions have avoided formal ties with parties, preferring to exert pressure as independent actors. Such autonomy does not always guarantee success, since Ghanaian unions' hold on public policy remains weak.⁵³ In Senegal, a plurality of trade union federations are affiliated to different parties, although their influence on party policies is limited. In many other agrarian settings, such as Uganda and the United Republic of Tanzania, where the industrial

sector is small and crisis and adjustment have taken a toll on union membership, governments have ignored union pressures for redistributive policies.

Despite these constraints, there is evidence of gains at the micro and sectoral levels for groups in both urban and rural areas. The most notable has been the dramatic growth of producer organizations in rural settings. In Burkina Faso, the number of villages with at least one rural producer organization increased from 22 per cent to 91 per cent between 1982 and 2002; local associations increased in Senegal from 10 per cent to 65 per cent of villages over the same period.⁵⁴ There is also evidence of rapid increases in the number of producers organizations in parts of Benin, Cameroon, Chad, Ghana, Kenya and the United Republic of Tanzania.⁵⁵ Part of this growth can be attributed to international donors that helped promote such organizations in the 1990s. However, the effect of these organizations on poverty reduction is ambiguous.⁵⁶ It seems, however, that they have had some impact in countries where elections have been fiercely and fairly contested, such as Ghana and Senegal.⁵⁷

In the midst of Senegal's economic crisis in the 1970s, a number of peasant associations began to develop. Encouraged by a former extension service official who was president of a local NGO, and with support from international donors, a dozen associations formed a national federation in 1976. When SAPs ended most government interventions in the countryside, the associations provided agricultural services to their members. Membership expanded to 24 associations of 2,000 village groups representing over 400,000 members. Taking advantage of a national election in 1993, the federation organized a forum that included government officials and donors.⁵⁸ Seven organizations that had participated in the forum later created the Conseil national de concertation et de coopération rurale (National Council for Rural Dialogue and Cooperation), or CNCR. The Council became "a single, authoritative interlocutor . . . a full participant in a range of programs and policy forums".⁵⁹ The CNCR's decision to walk out of negotiations that had stalled over the Agricultural Structural Investment Programme in the mid-1990s forced the

country's president, who was worried about the rural vote, to convene a meeting with 150 CNCR representatives. The meeting resulted in an agreement to cut agricultural credit interest rates, remove import taxes on agricultural inputs, issue a five-year moratorium on farmers' debts, and institute a series of regular meetings between CNCR and the agriculture ministry.

5. The Politics of Poverty Reduction: Implications for Policy

Power relations lie at the core of development. They determine which actors are in a position to fashion and define policies, influence development processes, govern the actions of others and participate effectively in economic, social and political life. In this sense, power is important in understanding all social outcomes. Strategies that seek to bring about changes in poverty and inequality must also consider ways to shift the balance of power. Active citizenship or group activism is important in generating such shifts and ensuring that governments respond to social needs.⁶⁰

The driving forces that push democracies to deliver redistributive outcomes are complex. Although democracy has been embraced as a core value of development, there is little understanding of the politics and institutions that enable democracies to promote growth and reduce poverty. The strong wave of democratization that swept much of the developing world in the 1990s and enjoyed strong donor support occurred simultaneously with donor embrace of technocratic styles of policy making. This tended to create what have been described as choiceless democracies.⁶¹ Allowing economic policy to be formulated by small groups of experts is not only a reflection of the centrality of the economic problem, but also a deliberate attempt to get politics out of economic policy. It is informed by the belief that policy is best designed by insulated technocracies. And it is here that there is an obvious and serious contradiction between the politics of insulating technocracies and calls for greater accountability

and transparency in public affairs. Technocratic governance severely limits the development of a culture of dialogue and compromise by foreclosing debates on a wide range of issues that are relevant to poverty reduction, such as income distribution, taxation, employment expansion, and protection or non-protection of certain economic activities. Any economic programme has its trade-offs among which political choices and decisions must be made. Outcomes of such debates cannot be fixed a priori in democracies.

The introduction of PRSPs in low-income, aid-dependent countries represented an effort to transfer ownership of economic policies to national governments and democratize policy making through involvement of civic groups in designing and implementing anti-poverty strategies. However, participation in PRSP forums has taken the form of consultation without power to effect real change or to get policy makers to deliver on agreed goals. The macroeconomic issues that have a bearing on the livelihoods of the poor are not open to substantive discussion, and citizen groups often feel that decisions on important policies are made elsewhere.

Strategies that seek to bring about changes in poverty and inequality must also consider ways to shift the balance of power

Improving the bargaining regime for poverty reduction requires interventions on several fronts.

Abandon technocratic styles of policy making

The technocratic styles of policy making tend to eschew contestation and favour inflation control over the equally important goals of employment and welfare protection. In order to pursue strategies that are growth-oriented, employment-centred and redistributive, governments and citizen groups need a certain degree of autonomy and the policy

space in which to consider a broad range of approaches. The global financial and economic crisis, which has exposed the destabilizing tendencies of finance capital and de-legitimized neoliberal policies, offers opportunities for alternative styles of policy making. However, their outcome will depend on the resources countries are able to mobilize to pursue alternative policies and the balance of forces that will inform the content of those policies.

Go beyond NGO-centred PRSP forums and more actively engage associations and social movements

It is important to engage more actively with associations and social movements whose members' livelihoods are affected by government strategies and global change. This may require multiple pacts because of the fragmentation of interests associated with globalization. As already noted, social pacts are often needed to effect deep and long-term changes in the welfare of low-income groups, and have been formed in both industrial and agrarian settings.

Institutionalize rights to encourage effective group participation in policy making

As this chapter has shown, many new democracies are still fragile, civil and political rights are not fully institutionalized, and incumbents often have the capacity to frustrate the choices of voters by rigging elections. The institutionalization of rights will empower groups to exercise political choice and hold leaders accountable.

Support organizations that represent the views of diverse groups that include the participation of formal and informal workers

The existence of organizations that support the interests of producers is vital to success. Unorganized farmers, for example, are often forced to compete with one another to sell more in harvest time, which may lead to a fall in prices. A central

organization that represents their interests is able to monitor a large number of individual producers and draw up and enforce production and marketing agreements. Similarly, in an environment without unions, competition among individual workers may lead to lower wages and benefits. Peak organizations and coalitions enable groups to overcome collective action problems of free-riding or defection, and strengthen capacities to moderate claims or meet targets. They also help reconcile redistribution and growth. All parties in such a bargaining regime must have strategic goals and feel a need for cooperation.

Recognize the fact that not all groups can be incorporated into bargaining regimes

Accountability and progressive outcomes also require groups with sufficient clout and independence to engage the state and raise critical issues without the constraints of institutionalized pacts. Building expertise and organizational capacities is vital for group action that can promote progressive change in and out of social pacts. Taking interest associations and movements seriously in policy making may spur groups to develop institutional capacities and act responsibly – even in the context of limited resources.

Empower the general population to exercise influence on how policies are made

Empowering the general population to influence policies can often produce good anti-poverty outcomes. Conversely, policies that lead to a reduction in poverty and inequality improve social solidarity (a cornerstone of citizenship), lock in disadvantaged groups to the democratic regime by undermining violent alternatives, weaken clientelist social relations, and enhance the capacity of citizens to participate in public life as autonomous actors. In this way, democracy and poverty reduction can become mutually reinforcing.

Notes

- 1 Sen 1999.
- 2 Meltzer and Richard 1981; Melo 2008.
- 3 Therborn 1977.
- 4 Acemoglu and Robinson 1999; Boix 2003.
- 5 Stephens 2007.
- 6 Bebbington 2009.
- 7 Lipset and Rokkan 1967.
- 8 Schmitter 2006.
- 9 Segura-Urbiago 2007.
- 10 See the contrasting results of Segura-Urbiago (2007); Kaufman and Haggard (2008); Avelino et al. (2005); and Ross (2006).
- 11 UNRISD 2004a; Corrales 2004; Montecinos 2004; Ágh et al. 2005; Mansfeldová 2005; Chirwa and Munthali 2002; Akindes and Topanou 2005; Mkandawire 2004.
- 12 Corrales 2004.
- 13 This section draws on Lavers (2008).
- 14 Molenaers 2008.
- 15 Dollar and Pritchett 1998.
- 16 Bangura 2005.
- 17 Manning 2005.
- 18 Keefer and Khemani 2003; Robinson and Verdier 2002.
- 19 Block 2002.
- 20 Miller 1995; Miguel 2004.
- 21 Alesina et al. 1999.
- 22 Miguel 2004.
- 23 Hicks 1999.
- 24 Stephens 2007.
- 25 Huber and Stephens 2001.
- 26 Sainsbury 1996.
- 27 Huber and Stephens 2001.
- 28 Hobson 2006.
- 29 Iversen et al. 2000.
- 30 Sandbrook et al. 2007.
- 31 Cortes and León 2008.
- 32 Sandbrook et al. 2007.
- 33 Bunwaree 2007.
- 34 Bunwaree 2007.
- 35 Sandbrook et al. 2007.
- 36 Sandbrook et al. 2007.
- 37 Heller 2005; Harriss 2005; Mukhopadhyay 2000; Sandbrook et al. 2007; Chibber 2008.
- 38 Martínez Franzoni 2007.
- 39 Seekings and Natrass 2008; Melo 2007a.
- 40 This section draws on Melo (2007a).
- 41 Melo 2007a.
- 42 Seekings and Natrass 2008.
- 43 This section is based on Bebbington (2009).
- 44 Choi 2000.
- 45 Lee 2005.
- 46 Kwon 2005; Peng 2009.
- 47 Wong 2005a.
- 48 This section is based on Bebbington (2009).
- 49 Stasavage 2005.
- 50 Seddon and Zeilig 2005; Beckman and Sachikonye 2002; Atieno 2008; Olukoshi 1998b.
- 51 Beckman 1992; Toye 1992.
- 52 Beckman and Sachikonye 2009.
- 53 Beckman and Sachikonye 2009; Akwetey 2001.
- 54 Bernard et al. 2008:10.
- 55 Mercoiret 2006:3, 4.
- 56 Bernard et al. 2008:6.
- 57 Sheingate 2008.
- 58 McKeon 1999:3,4.
- 59 McKeon 1999:4.
- 60 Chronic Poverty Research Centre 2009; Green 2008; Kohli 2008; Wignaraja and Sirivardana 2005.
- 61 Mkandawire 2006.

Concluding Remarks

Reducing poverty and inequality is not just about having the right economic policies; it is also about pursuing appropriate social policies and types of politics that elevate the interests of the poor in public policy. The analysis in the various chapters of this report points to the importance of understanding the ways in which institutions and policies are interconnected in different spheres of the political economy. It suggests that efforts to tackle poverty through discrete and standardized policies unrelated to a country's production and macroeconomic systems, social policies and politics, are of limited impact, and may even be counterproductive. Policies and institutions in the economic, social and political spheres need to be consciously coordinated to achieve maximum impact.

Configuring Institutions So That They Are Complementary

In most countries, institutions tend to complement rather than substitute for one another. This means that one institutional arrangement may be able to correct the imperfections of another.¹ There are many examples of successful institutional configurations that are built on complementarities among diverse institutions. For instance, the report shows that poor countries that succeeded in combining reasonable levels of growth and structural change, good welfare measures and democratic politics demonstrate a configuration that involves an active citizenry and the incorporation of rural and urban subaltern groups as independent actors in the policy process. In this sense, democracy needs not just free and fair elections, but also organized citizens, special types of state-citizen relations and pacts to deliver on distribution.

Democracy needs not just free and fair elections, but also organized citizens, special types of state-citizen relations and social pacts to deliver on distribution

Aligning Labour Markets and Social Policy

Another important complementarity can be found between the structure of the labour market and social policies. The cost of social policy and the burden of universal coverage are reduced when the chosen development strategy delivers high levels of employment. Indeed, the labour market potentially provides the critical framework for integrating economic and social policies. For example, the manufacturing-led development path of East Asian countries generated low levels of unemployment. Together with the policy of life-long employment for many (largely male) workers in key industries, this strategy helped raise the majority of the population out of poverty. In these economies, there was a strong link between formal employment and social protection, which was provided by private firms with the state acting as regulator. Following the East Asian financial crisis, the dramatic growth in short-term employment contracts ruptured these complementary links between employment and social protection, leading to changes in social policy towards the inclusion of those not formally employed. The institutions of democratic politics were central to the dynamics that produced this policy change.

In countries with dualistic growth paths (such as Latin American economies), the failure of industrialization to deliver high levels of formal employment prevented the realization of positive complementarities between labour market participation and social protection as demonstrated in the East Asian cases. States committed to improving the welfare of the poor instead expanded social assistance schemes, such as cash transfers. While these schemes have helped to reduce poverty and inequality, the sharp divisions in labour markets and the failure of development strategies to generate formal jobs make it difficult to significantly reduce poverty and inequality. The lack of effective complementarity between labour market participation and social policy in poverty reduction is particularly marked in low-income service-based economies and agrarian economies that are characterized by low productivity. In these types of economies, an overwhelming proportion of the working population is employed in the informal sector and therefore lacks adequate coverage by social protection programmes.

Strategically Coordinated Markets Deliver Better Social Outcomes than Liberalized Markets

In the 1980s and 1990s, most developing countries embraced a development strategy that was oriented towards liberalized markets, fiscal stabilization, privatization and a limited role for the state in efforts to stimulate growth and reduce poverty. This neoliberal policy regime shares an affinity with the policy regime of advanced economies in which markets are the main drivers for coordinating activities across diverse spheres.² This regime is internally coherent, and has been effective in stabilizing economies and taming inflation, but is less successful in generating growth and employment-centred structural change, or reducing poverty in low-income countries.

The report shows that successful late-industrializing countries embraced more strategic forms of coordination, involving the state in multiple activities rather than merely

the minimal market-enhancing roles of rule setting, regulation and stabilization. Such countries pursued policies and established institutions that not only allowed things to happen but also caused things to happen.³ In general, these successful countries:

- mobilized resources for investment;
- created incentives that spurred entrepreneurs to adopt a long-term, integrated view of development;
- corrected market failures in credit markets by intervening to direct credit to weak but potentially productive investors;
- developed basic infrastructure as well as a trained, healthy and productive workforce;
- pursued strategies in industry, agriculture and trade that led to a healthy balance between these sectors; and
- ensured that development had a positive impact on the well-being of all sections of the population.

Successful late-industrializing countries pursued policies and institutions that not only allowed things to happen but also caused things to happen

Balancing Social and Economic Sectors in Resource Allocation

The report shows that significant progress can be made when economic and social sectors are effectively aligned around issues of growth, structural change, employment and welfare, and are underpinned by appropriate institutions in the political sphere. This suggests that strategies for allocating resources should aim to achieve the right balance between economic and social sectors for maximum effects. If governments allocate resources predominantly to the productive sectors, the productivity gains associated with investments in social policies, especially education

and health, will be missed, while individuals who are disadvantaged or excluded from labour markets may be adversely affected. Similarly, a disproportionate allocation of resources to the social sector may harm the development of productive capacity and over time make it difficult to finance social activities.

Donor policies equally need to emphasize these critical complementarities between the economic and social sectors in tackling poverty, particularly in the least developed countries. Spending on infrastructure and the productive sectors (including industry, agriculture, forestry and fishing) has declined since the late 1980s, in part reflecting the neoliberal consensus that such investments were market distorting. More recently spending on social sectors and governance has risen,⁴ a trend that has continued as the focus of development assistance has shifted to poverty reduction.

The transition away from spending aid on infrastructure and other productive activities is a more recent phenomenon. Aid for infrastructure remained roughly constant (between 20 per cent and 30 per cent of total aid) during the 1980s and early to mid-1990s. However, since the late 1990s, the proportion of aid invested in infrastructure has roughly halved. This shift appears to be directly related to a change in emphasis from economic growth to poverty reduction, as donors seek results in meeting the Millennium Development Goal (MDG) targets.⁵ There are signs, however, that the declining trend in aid for infrastructure and other productive sectors may be starting to change as donors heed the recommendations of the influential UN Millennium Project, which, in 2005, drew attention to the massive public investment that is required in the infrastructure of developing countries.

Clearly, in very poor countries with limited resources the need for investment across a range of sectors is severe. Weighing up the competing demands of social services, governance and the productive sectors to ensure that potential synergies created by spending in a variety of areas are exploited is a complex undertaking. The level of resources needed for both social and economic sectors needs to be

substantially raised to transform low-income economies and make significant inroads into reducing poverty. The benefits of improved social policy, such as producing a healthy and educated workforce, can be effectively exploited when levels of provisioning are high and corresponding investment is made in productive sectors to generate jobs. Conversely, as the report has shown, employment generation is a vital means of linking poor people into economic development processes and is essential for large-scale poverty reduction.

Creating Synergistic Relationships

This discussion on synergies and complementarities suggests that development strategies and reforms need to be sensitive to the ways in which institutions and policies are connected if they are to produce the desired outcomes. Institutional interconnectedness requires multiple instruments in order to be effective. For example, the much discredited marketing board systems performed multiple tasks in African development, but the reforms that dismantled them had only one focus and one instrument: price liberalization. Governments used the boards to appropriate peasant surpluses and pursue three public policy goals: provide much-needed foreign exchange for industrialization and economic development; cushion the incomes of farmers against world market fluctuations; and provide extension and social services to farmers and the wider public. The failure to comprehend the interconnectedness of the marketing board institutions with wider institutions and goals has been catastrophic in many countries.

Important complementarities also exist among different social services that may require coordinated and multiple instruments to maximize their effects. Universal access to health care, for example, enhances investment in education by ensuring that school enrolment and outcomes are not constrained by illness. Similarly, universal access to education enhances investment in health by increasing the use of information on health practices. Early childhood

care programmes can improve child health and education outcomes. Social service provision reduces the need for social protection or assistance if episodes of illness, and thus of unemployment and income, are reduced. Social protection mechanisms such as income transfers may in turn relax financial constraints that impede access to social services. And investments in basic infrastructure such as water, sanitation and transport can improve health outcomes, reduce time spent collecting water and travelling, and facilitate access to other services.

Politics Matters in Creating and Exploiting Synergies

The exploitation of synergies among different sectors and subsectors is important in overcoming poverty and inequality. However, such synergistic relationships are not automatic. They require conscious design of both economic and social policies, backed by sufficiently powerful coalitions to implement them. Institutional complementarities require, but should not be reduced to, policy coherence, which can degenerate into a technocratic exercise. Competing values on rights, differences in the roles played by markets and non-market institutions in coordinating activities, and differences in power structures that have evolved historically all determine variations in regimes or institutional complementarities.

Synergistic relationships among different sectors and subsectors are not automatic; they require conscious design of both economic and social policies, backed by sufficiently powerful coalitions to implement them

Notes

- 1 Boyer 2008.
- 2 Hall and Soskice 2001; Hall and Gingerich 2004.
- 3 Nayyar 2006:11.
- 4 Lavers 2008.
- 5 Lavers 2008.

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Acronyms



AIDS	acquired immunodeficiency syndrome
ANC	African National Congress
BP	British Petroleum
CCSS	Costa Rican Social Security Fund
COSATU	Congress of South African Trade Unions
CSR	corporate social responsibility
DAC	Development Assistance Committee of the OECD
DHS	Demographic and Health Surveys
EITI	Extractive Industries Transparency Initiative
EPA	Economic Partnership Agreement
FDI	foreign direct investment
FLA	Fair Labor Association
FTA	Free Trade Area
FUNDEB	National Fund for the Maintenance and the Development of Basic Education
FUNDEF	Fund for the Development of Primary Education and Teacher Development
GCov	group coefficient of variation
GDP	gross domestic product
GGDC	Groningen Growth and Development Centre
GNI	gross national income
GRI	Global Reporting Initiative
HDI	Human Development Index
HIPC	highly indebted poor country
HIV	human immunodeficiency virus
ICT	information and communications technology
IFI	international financial institution
ILO	International Labour Organization
IMF	International Monetary Fund
INGO	international non-governmental organization
JBY	Janashree Bima Yojana

KMT	Kuomintang
KNSO	Korean National Statistical Office
LSMS	Living Standards Measurement Study
MDG	Millennium Development Goals
MENA	Middle East and North Africa
NABARD	National Bank for Agriculture and Rural Development
NAFTA	North American Free Trade Agreement
NGO	non-governmental organization
NRHM	National Rural Health Mission
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
PAYG	pay-as-you-go
PNAD	National Household Sample Survey (Brazil)
PPP	purchasing power parity
PRGF	Poverty Reduction and Growth Facility
PRSPs	Poverty Reduction Strategy Papers
SAP	structural adjustment programme
SEWA	Self-Employed Women's Association
SEZ	special economic zone
SNA	System of National Accounts
SUSENAS	National Socioeconomic Survey
TNC	transnational corporation
TRIPS	Agreement on Trade-Related Aspects of Intellectual Property Rights
UK	United Kingdom
UN	United Nations
UNIDO	United Nations Industrial Development Organization
UNRISD	United Nations Research Institute for Social Development
US	United States
UTIP	University of Texas Inequality Project
VAT	value added tax
WHO	World Health Organization
WTO	World Trade Organization

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Poverty reduction is a central feature of the international development agenda and contemporary poverty reduction strategies increasingly focus on “targeting the poor”, yet poverty and inequality remain intractable foes.

Combating Poverty and Inequality argues that this is because many current approaches to reducing poverty and inequality fail to consider key institutional, policy and political dimensions that may be both causes of poverty and inequality, and obstacles to their reduction. Moreover, when a substantial proportion of a country’s population is poor, it makes little sense to detach poverty from the dynamics of development. For countries that have been successful in increasing the well-being of the majority of their populations over relatively short periods of time, the report shows, progress has occurred principally through state-directed strategies that combine economic development objectives with active social policies and forms of politics that elevate the interests of the poor in public policy.

The report is structured around three main issues, which, it argues, are the critical elements of a sustainable and inclusive development strategy:

- patterns of growth and structural change (whether in the agricultural, industrial or service sectors) that generate and sustain jobs that are adequately remunerated and accessible to all, regardless of income or class status, gender, ethnicity or location;
- comprehensive social policies that are grounded in universal rights and that are supportive of structural change, social cohesion and democratic politics; and
- protection of civic rights, activism and political arrangements that ensure states are responsive to the needs of citizens and the poor have influence in how policies are made.

The report seeks to explain why people are poor and why inequalities exist, as well as what can be done to rectify these injustices. It explores the causes, dynamics and persistence of poverty; examines what works and what has gone wrong in international policy thinking and practice; and lays out a range of policies and institutional measures that countries can adopt to alleviate poverty.

