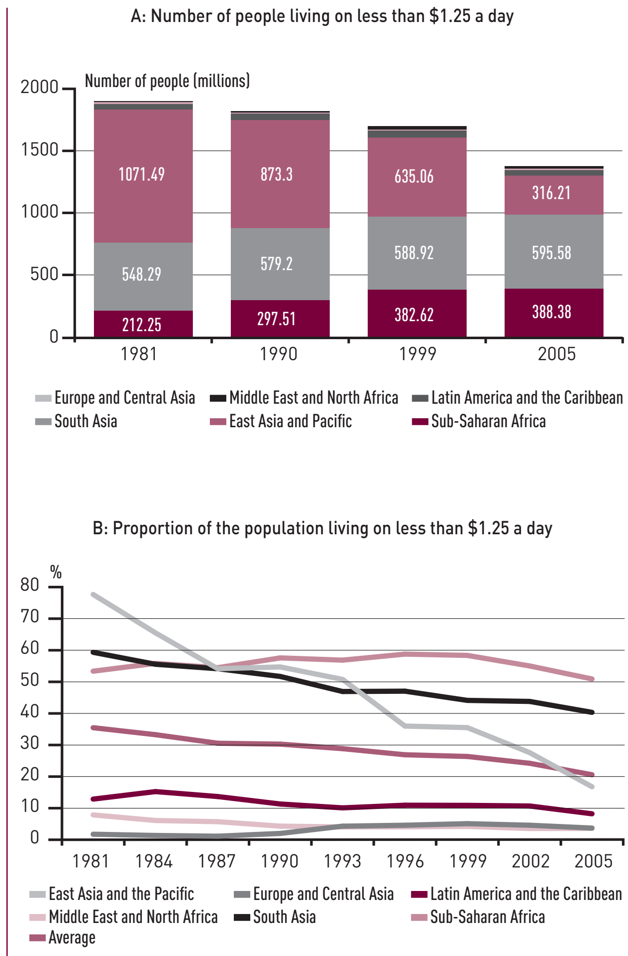
Overview

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 2005[1] (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 macroeconomic 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 polices 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 reports[10] 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 dimension[14] 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 countercyclical 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 polices 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.