Chapter VII
Labour-market and social policies and poverty reduction

The present chapter provides a critical assessment of labour-market and social policies since the 1980s and their impact on poverty, the working poor and vulnerable groups in society. During these three decades of structural adjustment and macroeconomic conservatism, the emphasis has been on labour-market flexibility, and social policy has been reduced to a limited series of measures intended to compensate for the negative effects of structural adjustment among certain sectors of the population.

Since the publication of the groundbreaking 1987 report *Adjustment with a Human Face* (United Nations Children's Fund, 1987), the negative impact of structural adjustment programmes on social indicators, especially for health and education, is now widely recognized. Later, the World Bank and the International Monetary Fund (IMF) were forced to abandon the various failed generations of structural adjustment programmes in favour of Poverty Reduction Strategy Papers (PRSPs) for countries seeking assistance. The Poverty Reduction Strategy Papers have also been heavily criticized, not least for being structural adjustment programmes in disguise and for neglecting employment generation, generally deemed to be necessary for sustainable poverty reduction. Nevertheless, the operational guidelines of the World Bank now require analysis of the impact of adjustment programmes on people living in poverty, and in many countries compensatory measures have been introduced. Critics argue that its "social safety net approach" generally involves temporary institutions responding to market failure with costly targeting methods which tend to miss many of those in need.

Labour-market policies: counting the cost for the working poor

The promotion of full and productive employment was proclaimed as one of the three pillars of social development by the Copenhagen World Summit for Social Development in 1995. The centrality to poverty reduction of productive employment and decent work for all is widely recognized and accepted, as evidenced by the inclusion of target 2, "Achieve full and productive employment and decent work for all, including women and young people", under Millennium Development Goal 1 of halving poverty by 2015.[1]

1 At the World Summit for Social Development, held in Copenhagen in 1995, world leaders acknowledged the link between the creation of productive employment and poverty reduction and committed to taking national and international actions to promote full and productive employment. The 2005 World Summit revived this commitment with a

However, the creation of productive and decent jobs has failed, in the past three decades, to receive the prominence it deserves in the development agenda. Hence, full employment has not been among the targets of macroeconomic policies. As discussed in chapter V, international organizations that dominate macroeconomic policymaking have focused their efforts on helping countries achieve and maintain low inflation and balanced budgets on the assumption that stability of nominal macroeconomic variables would generate rapid growth. Economic liberalization has been promoted on the assumption that it would improve efficiency in resource allocation and enhance international competitiveness which, in turn, would spur growth. Employment creation was supposed to follow economic growth, as long as the labour market remained flexible, unhindered by measures that increased hiring and firing costs. Thus, the structural adjustment programmes typically included programmes for labour-market flexibility.

As highlighted in chapters V and VI, the implications of this logic were not borne out by economic reality. Rapid economic growth, not to mention job growth, did not necessarily materialize in many developing countries after the achievement of low inflation, low budget deficits or surplus, and structural reforms. Even during the period of prolonged economic expansion prior to the onset of the current global financial and economic crisis, the pace of job creation was very slow. This gave rise to the term "jobless growth", which captures the disappointing performance on the employment front in a period of reasonably high economic growth.

A growing body of research shows that a major reason for jobless growth has been the lack of structural change owing to market-oriented policies based on the theory of "comparative advantage" (see chap. VI). Yet, the response to the phenomenon remained guided by the development paradigm of the Washington Consensus, and the priority was to increase national labour-market flexibility. Labour-market policies—such as provision of a minimum wage and employment protection—are seen as barriers to employment growth, especially in the formal sector. The wisdom of the Washington Consensus with regard to labour-market policy was summarized in the *World Development Report 1990* (World Bank, 1990, p. 63):

> Labour-market policies—minimum wages, job security regulations, and social security—are usually intended to raise welfare or reduce exploitation. But they actually work to raise the cost of labour in the formal sector and reduce labour demand... increase the supply of labour to the rural and urban informal sectors, and thus depress labour incomes where most of the poor are found.

Furthermore, economists at the international financial institutions worried that labour institutions would undermine structural adjustment programmes

renewed sense of urgency. In 2008, a new employment target was added under Millennium Development Goal 1 on poverty reduction.

designed to cure balance-of-payments deficits or other economic problems. In their analysis, elimination of a balance-of-payments deficit required that a country shift resources from non-traded goods and services to traded goods sectors. In advocating against selective trade and industry policies as instruments for structural change, they argued that the least costly way to achieve this was to devalue the currency, which raises the price of tradable goods and services relative to non-tradable goods and services and thus attracts resources into the traded sectors. Since devaluation is likely to cause inflation due to high import prices, organized unions were expected to resist devaluation in an attempt to protect real wages from falling, which would then offset the impact of devaluation in moving resources in desired directions. Resistance to reforms was also feared as a result of the job losses arising from adjustment.

It was claimed that the removal of regulations would enhance labour-market efficiency as well as international competitiveness, leading to employment growth. In short, the creation of "flexible" labour markets was seen as a requirement for boosting domestic and foreign private sector investment. Thus, the World Bank, in its most influential flagship publication, *Doing Business*, included the Employing Workers Indicator (EWI), withdrawn on 27 April 2009, which ranked countries on the basis of information pertaining to such issues as minimum wage levels, maximum hours per workweek, requirements for advanced notice for layoffs, and severance pay. This ranking of countries created a strong incentive among Governments in developing countries to compete in dismantling labour regulations, even if they had acceded to the various conventions of the International Labour Organization (ILO) on labour standards and decent work. Another outcome was a growth of export processing zones (EPZs) which attempted to entice foreign investors through a scaling back of regulations and exemptions from national labour laws. The recent financial and economic crises notwithstanding, the dilution of labour standards and regulations has been a contributing factor to the increase in the working poor and growing earnings inequality, particularly in developed countries.[2]

There have been, however, several challenges mounted against the orthodox view of labour-market regulations. For example, "efficiency wage" theory argues that higher-than-equilibrium (or average) real wages can reduce worker shirking (Shapiro and Stiglitz, 1984), reduce labour turnover (Salop, 1979) and increase labour productivity. An influential study showed that the introduction of minimum wages had no negative effect on employment levels in the United States of America (Card and Krueger, 1995). A rigorous review of previous cross-country studies claiming a strong relationship between unemployment and institutions found that their results were not robust (Baker and others, 2002). It also did not find any strong evidence that further erosion of social and

2 See Levy and Temin (2007) and Mishel, Bernstein and Shierholz (2009). In developing countries, owing to a high degree of informality, labour regulations and protection do not apply to informal economy workers. Thus, deregulation of the labour market had little impact on them, if any.

collective protections for workers—such as unemployment insurance, minimum wage and employee rights in cases of dismissal—would have significant positive impacts on employment prospects.

An extensive recent survey of the literature on the impact of government regulations and collective bargaining on labour outcomes in developing countries revealed that, although most studies found modest adverse effects of a minimum wage on employment, it also raised the total income of low-paid workers (Freeman, 2009). Other mandated benefits had similar effects on employment and workers' incomes. There was not much difference in the adjustment responses of countries to economic shocks—such as balance-of-payments problems—attributable to the strength of labour institutions. On the other hand, labour-market institutions were found to be critical at those times when countries experienced great change, as during China's growth and Argentina's economic collapse in 2001-2002. In the 1980s and 1990s, the labour share fell or remained stagnant in most developed and developing countries (Giovannoni, 2008). Weakened labour-market, social security and economic liberalization policies since the 1980s explain most of the international patterns observed.

Such theoretical challenges and empirical findings did not, however, stop the policy drive to increase labour-market flexibility. In many countries, increased labour-market flexibility has resulted in insecure work status, employment and income (Standing, 2007). This trend has been accompanied by increasing informalization of work, especially in developing countries. Offshoring and outsourcing have also created a heightened sense of fear and insecurity among workers in industrialized countries. Economic insecurity—and hence vulnerability to poverty—increased for workers over this period, even during the boom years (see *The Employment Imperative: Report on the World Social Situation 2007* (United Nations, 2007) for more details). Now, given the economic and financial crises, worker insecurity has risen dramatically, with global unemployment projected to increase by 50 million from 2007 to the end of 2009, and an estimated 200 million workers could be pushed back into extreme poverty (International Labour Organization, 2009c).

The informal economy has always been significant in developing countries, particularly in Latin America and sub-Saharan Africa. Owing to the failure of labour-market deregulation to accelerate job creation in the formal sector, the informal economy accounts for the dominant share of employment in most developing countries. For example, in Indonesia, the informal economy's share in total employment is about 70 per cent. This creates an enormous challenge for those countries in their efforts to reduce poverty. Jobs in the informal economy usually entail low skill and low productivity, often pay below-subsistence wages (wages are 44 per cent lower, on average, than in the formal economy), have poor working conditions and typically offer no legal or social protection (see box VII.1). Although not everyone in the informal economy is poor, there is a high likelihood that the working poor are concentrated in the informal economy in very low productivity activities.

Box VII.1

Urban waste pickers

A significant number of men, women and children in developing countries make a living collecting, sorting, recycling and selling materials recovered from waste dumps, kerbsides and dumpsters. In some of the world's larger cities, thousands of people live and work in municipal dumps—an estimated 20,000 in Calcutta, 12,000 in Manila and 15,000 in Mexico City.

According to the World Bank, 1 per cent of the urban population—many of these being women and children—earn a living from waste collection and/or recycling. In the least developed countries, up to 2 per cent of the urban population make their living in this manner.

Waste pickers are often treated, at best, as a nuisance by public authorities and at times as if they were criminals. Moreover, they tend to have low social status and face public scorn, harassment and sometimes violence. Waste pickers are also vulnerable to exploitation by the middlemen who buy their recovered material. It has been noted that in some cities of Colombia, India and Mexico, waste pickers can receive as little as 5 per cent of the prices that industry pays for the recyclables, with the rest going to middlemen (Medina, 2005).

On account of their low earnings, waste pickers tend to live in deplorable conditions, lacking water, sanitation and other basic infrastructure. Their poor working and living conditions also make them vulnerable to health and safety risks, including exposure to dangerous waste, and various illnesses and disease.

Not surprisingly, life expectancy rates are low in waste-picking communities. In Mexico City, for example, dumpsite waste collectors live an average of 39 years, compared with an average of 69 years for the general population.

Source: www.wiego.org.

Social policies

Several elements of social policies are discussed briefly below in connection with the developments in social policy over the past three decades.

Social protection[3]

Social protection refers to a group of policy measures and programmes that reduce poverty and vulnerability and seek to protect society's more vulnerable members against livelihood shocks and risks, enhance the social status and rights of the marginalized, protect workers and diminish people's exposure to risks associated with ill health, disability, old age and unemployment.

Social pensions and insurance

Social insurance and pension schemes seek to enable the working-age population and older persons to smooth consumption over their lifetimes. Social insurance programmes can be either employment-based or universal. In devel-

3 A more detailed discussion of social protection can be found in the *Report on the World Social Situation 2007* (United Nations, 2007), chap. V.

oping countries, the proportion of poor households covered by employment-based social insurance is usually small, reflecting the dominance of informal labour markets. These programmes usually require that beneficiaries make at least partial contributions and involve risk-pooling.

Non-employment-based old-age pension schemes are increasingly common in developing countries, existing in countries such as South Africa, Namibia, Nepal and Mauritius, where the amount paid rises with the age of the pensioner (Johnson and Williamson, 2006). Advocates point out that social pensions reduce old-age poverty and are affordable, and typically account for a small percentage of gross domestic product (GDP). For example, in 1999, State pensions accounted for 0.3 per cent of GDP in Costa Rica and for 0.1 per cent of GDP in Zimbabwe (Coady, Grosh and Hoddinott, 2004).

Social assistance and transfers

These include support programmes for vulnerable groups, such as the unemployed and persons with disabilities. They are redistributive measures, mainly funded through progressive taxation. In this regard, the pattern of poverty has been closely related to inequality, and countries with larger redistributive systems have tended to be more equal, with lower poverty rates (Giovannoni, 2008).

Social protection in a time of crisis

The world economy has witnessed a series of economic crises over the past four decades, including the two oil price shocks in the 1970s, the Latin American debt crisis in the 1980s, and the financial crisis in East Asia and the Russian Federation during 1997-1998. These crises had enormous impacts on poverty. For example, in Indonesia, the poverty rate had shot up from about 11 per cent prior to the crisis to over 30 per cent in 1998. The recent food and energy price hikes pushed over 100 million people into poverty. Millions of people have already lost their jobs owing to the current global financial and economic crisis.

To minimize the impact of the crisis on the poor and vulnerable, countries adopt different strategies that offer immediate relief to those in distress. However, most of these programmes are time-bound, being designed to provide emergency support until the economy recovers. They are also, in most cases, donor-funded.

The emphasis, however, should be on the need to provide economic security to all citizens, regardless of where they work and live, and of the state of the business cycle (see box VII.2 and Islam, 2009). The objective should be to achieve a holistic approach to social protection which uses complementary instruments to cater to the particular needs of different groups in the formal economy, the informal economy and rural areas. Studies by ILO and other organizations show that incentive-compatible unemployment compensation

Box VII.2

Are unemployment compensation programmes feasible in developing and emerging economies?

Critics usually contend that unemployment compensation or unemployment insurance programmes are not suitable for emerging market economies, as they are not fiscally affordable, lead to an increase in the incidence and duration of job searches and can be abused by recipients.

These concerns are exaggerated. In the wake of the Asian crisis, most middle-income Asian economies would have been able to operate an unemployment insurance programme of "average Organization for Economic Cooperation and Development (OECD) generosity" using effective payroll tax rates of 1.0-2.0 per cent, with the former tax rate applicable to unemployment rates of about 4 per cent and the latter to those of about 8 per cent (Vroman, 1999; Lee, 1998).

Thus, the key issue regarding unemployment compensation programmes in middle-income developing and emerging economies is not really fiscal affordability but rather disincentive effects, expressed most notably in the view that unemployment compensation programmes induce more and longer unemployment.

The debate over unemployment insurance has overlooked the consumption smoothing channels by which this particular instrument of social protection motivates job searches and overemphasizes the disincentive effects (Chetty, 2008). Unemployed workers are often short of money (cash) and are likely to become even more so during recessions. Thus, unemployment insurance prevents the consumption level of unemployed workers from falling below a certain minimum or floor and enhances the net welfare of unemployed workers, if the positive consumption smoothing effect outweighs the negative disincentive effect, which seems to be the case.

Policymakers in developing economies have tried to respond to the disincentive effects through the enactment of restrictive statutory provisions and measures, such as social investment funds (SIFs) and severance payments (SPs), as substitutes. Both these types of provisions have been ineffective. In the Plurinational State of Bolivia, for example, the benefits of social investment funds barely reached 1 per cent of total employment in the crisis years and 0.1 per cent of employment in normal years. The evidence from Latin America and the Caribbean shows that severance payments are ubiquitous. Yet, they only cover about 20 per cent of the formal sector workforce and are likely to be paid mainly to those least likely to experience unemployment. In Indonesia, severance payments are now among the most generous in the developing world.

This has led to a good deal of debate about the likely deleterious consequences of such labour-market regulations. One fallacy is to regard severance payments as a substitute for unemployment compensation programmes. The unemployment compensation programmes respond to a particular type of labour-market risk for particular groups in society that cannot be met by other measures. Hence, unemployment compensation and other forms of social protection should be seen as complements; when creatively combined, they enable workers in developing economies to have access to a range of risk-mitigating provisions.

Finally, the recent policy emphasis seems to be on targeted social protection programmes—such as conditional cash transfer programmes, public works employment and subsidization of the consumption of inferior goods—that focus on "bailing out the poorest" households.

Source: Islam (2009).

programmes for formal sector workers are technically feasible and fiscally affordable (financed with 1-2 per cent of payroll taxes) for developing economies (Lee, 1998; Vroman, 1999; Vroman and Brusentev, 2005).

A basic social security package for all is also technically feasible and fiscally affordable for developing economies, and in many cases requires investment of about 4 per cent of GDP.[4] Greater effort directed towards domestic resource mobilization, in conjunction with transitional assistance from the donor community, can make such a basic social security package attainable in all developing countries. Once a social security protection system is in place, it is much easier to pursue enterprise-level flexibility and to cope with global economic downturns.

Active labour-market policies

Given that job losses disproportionately affect the poor and those at risk of slipping into poverty, active labour-market policies that focus on training programmes and employment services for displaced workers must be integral to a comprehensive social protection system. The World Bank (2009d) argues that well-designed training programmes in more than 90 countries have had a significant impact on the livelihoods of displaced workers. In the long term, active labour-market policies should aim to develop an education and training system that enhances the productive potential and employability of the workforce.

Education and poverty reduction

Education can play a key role in poverty reduction. Research shows that education and human resource investments promote economic growth. Workers with higher levels of education boost productivity, both directly and by enabling efficiency-enhancing technological change (Hanushek and Woessmann, 2008). Thus, education can have a positive impact on poverty reduction owing to its growth-promoting effects. However, there can be instances where the relationship between education, growth and productivity is weak, as observed in the Arab region where increases in the supply of skilled labour have been largely independent of output and productivity growth. In Egypt, for example, adults with secondary education account for 42 per cent of the population, but 80 per cent of the unemployed (World Bank, 2008c). Complementary demand-side policies are needed to ensure employment creation in order that the productivity-enhancing potential of education may be realized.

Research shows that individual rates of return to education are generally high. Learning benefits individuals by facilitating their entry into higher-earning occupations leading to a rise in earnings. Returns to education are found to be higher in low-income countries for lower levels of schooling and for

4 An ILO (2009d) simulation exercise for Nepal, for example, shows that nearly 100 per cent of the basic social security package can be financed from domestic resources, provided that the Government of Nepal can partly reallocate social expenditure, increase the goods and services tax rate marginally, improve income tax collection and introduce modest health insurance contributions.

women (Psacharopoulos and Patrinos, 2004; Heckman, Lochner and Todd, 2006). In rural areas, education can enable farmers to improve technology, with schooling strongly associated with higher wages, agricultural productivity and incomes (Appleton and Balihuta, 1996).

Education also impacts poverty through its effects on health. Improved education, especially of a mother, is associated with lower levels of child and maternal mortality as well as better nutrition and health, as emphasized by the United Nations Educational, Scientific and Cultural Organization's (UNESCO) Education for All (EFA) movement and the Millennium Development Goals.[5]

Progress by developing countries in the last decade on many education indicators has been impressive. Sub-Saharan Africa raised its average net primary enrolment ratio from 54 to 70 per cent between 1999 and 2006—representing an annual increase six times greater than that during the previous decade. In South and West Asia, the net primary enrolment ratio rose from 75 to 86 per cent over the same period. In developing countries, the total number of primary school staff employed rose by 5 per cent between 1999 and 2006 (United Nations Educational, Scientific and Cultural Organization, 2008). Between 2001 and 2006, South Asia almost halved the number of out-of-school children (World Bank, 2008a).

Despite these gains, however, serious gaps in progress remain. In 2006, some 75 million children (55 per cent of them girls), almost half in sub-Saharan Africa, were not in school, suggesting that millions of children will still be out of school in 2015—the Millennium Development Goal target date for ensuring universal primary education. Quality of education is extremely important and often overlooked because it is not easily measured. It is not enough for children to be enrolled and to attend school: they must also gain basic literacy and numeracy skills and complete primary education in a timely manner. In developing regions, 19 per cent of children of secondary school age are still enrolled in primary education compared with 4 per cent in developed regions: clearly students are not progressing as well as they should. The fact that a large number of children of secondary school age are in primary school also adds stress to the primary school system and strains resources that should be allocated to new students.

These gaps often indicate insufficient resources available and the failure of Governments to deal with persistent inequalities based on income, gender, ethnicity and other markers for social exclusion. With Governments under pressure to reduce budget deficits, social expenditure—on, inter alia, education and health—suffered the most during the past three decades of structural adjustment. Thus, these sectors have become increasingly dependent on donor fund-

5 The Education for All initiative grew out of the World Conference on Education for All, held in Somtien, Thailand, in 1990, and was given greater specificity at the World Education Forum, held in Dakar in 2000.

ing. Unfortunately, total aid commitments to basic education have also declined in the past few years. Although the period from 1999 to 2004 was marked by a significant increase in aid to education, rising from $7.3 billion to $11.0 billion (United Nations Educational, Scientific and Cultural Organization, 2008), total aid, including that to basic education, has stagnated since then.

Income-based inequalities

Table VII.1 reveals stark differences in educational attainment between the rich and the poor. Income disparities are mirrored by differences in the average years of education attained by persons aged 17-22. Moreover, across the developing world, educational attainment also differs by gender, ethnicity and location, with these disadvantages intersecting with income-based differences.

Gender-based inequalities

Improving the educational attainment of girls—and women—can reduce poverty in many ways. Higher levels of education for girls typically increase their labour-force participation rates and earnings (Psacharopoulos and Patrinos, 2004). Female education lowers infant and child mortality, as well as

Table VII.1
Average years of education for the poorest and richest quintiles in age group 17-22, selected countries, 1999-2005

	Poorest 20 per cent	Richest 20 per cent	Gap
Bangladesh, 2004	3.7	8.1	–4.4
Burkina Faso, 2003	0.8	5.6	–4.8
Ethiopia, 2005	1.6	7.4	–5.8
Ghana, 2003	3.2	9.2	–6.0
Guatemala, 1999	1.9	8.3	–6.4
India, 2005	4.4	11.1	–6.7
Mali, 2001	0.4	4.8	–4.4
Mozambique, 2003	1.9	5.0	–3.1
Nicaragua, 2001	2.5	9.2	–6.7
Nigeria, 2003	3.9	9.9	–6.0
Peru, 2000	6.5	11.1	–4.6
Philippines, 2003	6.3	11.0	–4.7
United Republic of Tanzania, 2004	3.9	8.1	–4.2
Zambia, 2001	4.0	9.0	–5.0

Source: United Nations Educational, Scientific and Cultural Organization (2008).

maternal mortality rates. It is estimated that an additional year of female schooling reduces the probability of child mortality by 5-10 percentage points (Schultz, 1993). Women's education also confers intergenerational education benefits, with each additional year of formal education completed by a mother seeming to correlate with her children's remaining in school for from an additional third to one half of a year (Filmer, 2000). Female education also reduces fertility rates, which in turn can increase labour-force participation and earnings.

The positive relationship between female education and earnings is, of course, contingent on labour-market opportunities. In both developed and developing countries, labour-market discrimination means that better education does not always translate into higher earnings for women. For female education to impact positively upon poverty, economic as well as social discrimination must be tackled.

Although there has been considerable narrowing of the gender gap in education over the past decades, significant barriers to female education still remain. For example, girls still constituted 55 per cent of all out-of-school children in 2006, down from 59 per cent in 1999. Worldwide, for every 100 boys out of school, there are 122 girls. In some countries, the gender gap is much wider. For example, for every 100 boys out of school, there are 270 girls in Yemen, 316 girls in Iraq and 426 girls in India (United Nations Educational, Scientific and Cultural Organization, 2006).

Health and poverty in developing countries

The current high-level focus on health by the international community recognizes the strong relationship between poverty and health. Three of the eight Millennium Development Goals call for specific health improvements by 2015: reducing child deaths, reducing maternal mortality and slowing the spread of HIV/AIDS, malaria and tuberculosis. The Commission on Macroeconomics and Health demonstrated the link between health and economic development, resulting in the coming together of Governments and the private sector to establish the Global Fund to Fight AIDS, Tuberculosis and Malaria in 2002.

Table VII.2 presents Government spending on health and education and defence. Government expenditures for defence in low- and lower middle income countries are generally much higher than for health.

Government spending on health care has risen moderately since the late 1990s, mainly making up for cuts in previous years (Goldsbrough, 2007). Given the low incomes and therefore small tax base in developing countries, even increasing budgetary allocations will not be sufficient to address pressing health concerns.

Table VII.2
Government expenditure priorities, country groups by income and selected regions, 2005 and 2006 (*percentage of total*)

	Health (2005)	Education (2006)	Defence (2006)
Low-income	6.9	..	18.3
Lower middle income	5.9	..	15.7
Upper middle income	..	14.1	..
High-income	10.9	12.5	10.6
East Asia and the Pacific	2.1	..	17.2
Latin America and the Caribbean	..	..	..
Middle East and Northern Africa	8.2	..	16.2
South Asia	3.5	..	18.4

Source: World Bank (2008c).

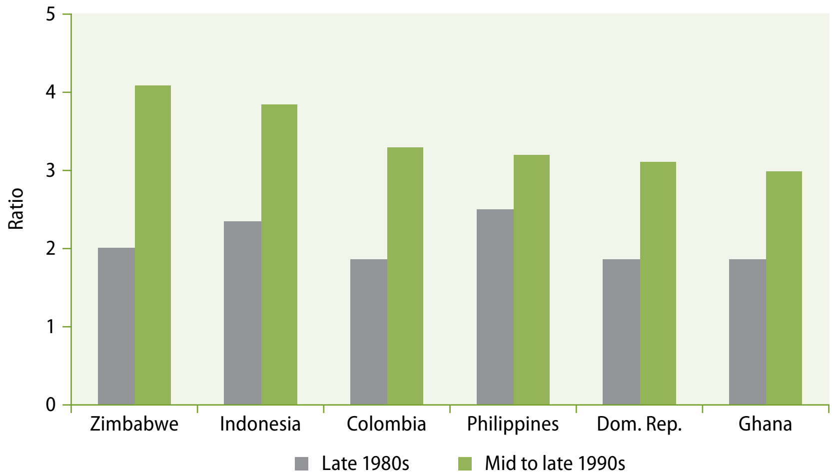
Note: Military expenditure is shown as a percentage of central Government expenditure, while health and education are shown as a percentage of total government expenditure. Central Government expenditures include the expenditures of all bodies that are agencies or instruments of a central Government authority. In countries with strong subnational authorities, these figures can substantially understate total government expenditures; thus, care should be taken in making national comparisons.

Pro-poor health policies

Increasing fiscal allocations for health is not sufficient to help the poor achieve improved health and to meet the internationally agreed health goals. Most health spending disproportionately benefits the better off in society. This is evident from the increasing inequality in respect of health. As can be seen in figure VII.1, the ratio of the under-five mortality rates for the bottom quintile to that for the top quintile increased in many developing countries. In both developing and developed countries, poor women are more likely to die in childbirth than rich women (Graham and others, 2004; Mayor, 2001). Clearly, therefore, achievement of the international development targets, including reducing infant and child mortality rates and improving access to reproductive health care, requires focusing on the health issues of the poor.

However, given the problems associated with targeting, making improvements in the health of the poor will also benefit others. Public expenditure on primary health care and public health is more pro-poor than spending on hospital-based curative care. Water and sanitation-related diseases are a major cause of ill health, particularly among children. In Ghana, Brazil and the Philippines, it was found that public investments in sanitation benefited households with the least education more than the well educated (Alderman

Figure VII.1
Ratio of under-five mortality rate for the bottom quintile to that for the top quintile, selected developing countries, late 1980s and mid to late 1990s



Source: World Health Organization, Regional Office for the Western Pacific (2002).

and Lavy, 1996). Therefore, public-health services are a key dimension of government services addressing the health of the poor. The critical issue will be how best to ensure that those services actually reach the poor (see box VII.3).

Social integration policies

Various social groups, including women, older persons, persons with disabilities and indigenous people, suffer multiple disadvantages and are generally more likely to suffer exclusion and live in poverty. Long-term exclusion may lead to chronic poverty. Hence, policies aiming at counteracting and preventing exclusion should be pursued in earnest at the normative, institutional and instrumental levels. The normative level encompasses legal provisions that ensure equal treatment of all citizens regardless of their personal attributes; that framework should ensure both individual and collective (group-based) rights. The institutional framework for inclusion promotes institutions that develop and execute inclusive policies for broad-based participation. At the instrumental level, specific policies are designed to promote integration. When such policies are being designed, concurrent changes and reforms may be required at all three levels, affecting laws, institutions and instruments, inasmuch as they are interdependent (Inter-American Development Bank, 2007).

Social integration policies should address physical security, including health and food security; investment in human resources, such as education and health; and social protection measures, social sector investments and spe-

Box VII.3

User fees: health and poverty effects

User fees were introduced in the 1980s and 1990s as part of structural adjustment programmes throughout the developing world. During the early to mid-1980s, a considerable amount of effort went into justifying user fees as an appropriate policy tool in view of limited government resources. User fees were considered necessary for cost recovery, mobilizing revenues and promoting efficiency.

In the past five years or so, however, there has been a policy shift regarding user fees, with the World Bank conceding through its research—though this has not necessarily been reflected in its operations—that there is no one approach to user fees in poor countries, and that alternative mechanisms for publicly funding health care need to be explored (see World Bank, 2003). Most key players in the health arena now recognize that user fees constitute a significant barrier to access to health services.

Even set at relatively low levels, user fees reduce access to health care. Even when user fee systems include waivers for the poor, in practice they are often difficult to access or tend to be abused by the relatively better off. It has been estimated that abolition of user fees could prevent between 153,000 and 305,000 child deaths annually—between 4 and 8 per cent of the total—in African countries (Gilson and McIntyre, 2005). Removing user fees has proved to be an effective strategy for increasing access to health care. In Uganda, fee removal combined with other health policy reforms has dramatically improved health service utilization (Yates, 2009). These reforms helped poor people, in particular, to gain access to health services, and contributed to better health equity.

Nor has the cost-recovery goal of user fees been achieved. It is estimated that user fees contribute, on average, to no more than 5 per cent of total health sector revenue (ibid.). At the same time, removing fees will entail additional resource requirements. It is therefore important to ensure that additional funding is available for countries that want to remove fees. To support the permanent removal of user fees and to ensure that the poor benefit from such actions, fee removal needs to be part of a broader package of reforms that includes increased budgets to offset lost fee revenue.

cific policies aiming at the equalization of opportunities for all. Ultimately, socially transformative policies are needed so that the socially excluded and marginalized can become part of the society they live in and intergenerational poverty and exclusion can be eradicated.

Different types of exclusion may require distinct forms of intervention. Thus, the promotion of economic inclusion requires broad support for the decent work agenda, while social inclusion efforts include, but are not limited to, fighting discrimination and inequality, redistributive measures and the promotion of participation.

Anti-discrimination policies

Discrimination, often firmly embedded in social structures and cultural norms, lies at the core of deprivation. Thus, anti-discrimination policies and anti-poverty efforts are essential for successful social integration. It is crucial to promote policies that explicitly prohibit discrimination based on race, colour, sex, language, religion, political or other opinion, national or social origin, property, birth or other status. There are several universal human rights instruments including the Universal Declaration of Human Rights,[6] the International Covenant on Civil and Political Rights[7] and the International Covenant on Economic, Social and Cultural Rights,[8] and the International Convention on the Elimination of All Forms of Racial Discrimination.[9] Many address the rights of particular groups and minorities, such as the Convention on the Rights of the Child,[10] the Convention on the Elimination of All Forms of Discrimination against Women,[11] the Convention on the Rights of Persons with Disabilities,[12] the International Convention on the Protection of the Rights of All Migrant Workers and Members of Their Families,[13] the United Nations Declaration on the Rights of Indigenous Peoples[14] and others.

They all address discrimination relating to different personal and group attributes. Since the Conventions are legally binding once ratified, they oblige Governments not only to remove any discriminatory provisions from national legal frameworks, but also to actively promote the rights of groups that face the worst forms of discrimination, including women, indigenous people, migrants and others.

The international community has developed comprehensive frameworks and action plans to advance the social integration of vulnerable groups, among them the World Programme of Action for Youth[15] and the Madrid International Plan of Action on Ageing (United Nations, 2002a, chap. I, resolution 1, annex II). National action plans have been developed to advance such frameworks. Nevertheless, their implementation poses a significant challenge, as they usually do not mandate the allocation of adequate public budgets for implementation.

Policies designed to reduce inequality in access to opportunities

Legal recognition of rights does not necessarily lead to a reduction in inequalities in respect of access to services, let alone in respect of social outcomes. The promotion of equality of rights and opportunities for disadvantaged groups requires redistribution of resources so as to reduce the disparities and advance both social inclusion and poverty reduction efforts.

Carefully designed redistribution approaches, promoting equal access to opportunities and improving income distribution are important for socially

6 General Assembly resolution 217 A (III).
7 See General Assembly resolution 2200 A (XXI), annex.
8 Ibid.
9 United Nations, *Treaty Series*, vol. 660, No. 9464.
10 Ibid., vol. 1577, No. 27531.
11 Ibid., vol. 1249, No. 20378.
12 General Assembly resolution 61/106, annex I.
13 United Nations, *Treaty Series,* vol. 2220, No. 39481.
14 General Assembly resolution 61/295, annex.
15 General Assembly resolution 50/81, annex.

inclusive policies. Progressive taxation and increased social spending also address inequality. However, more efforts should be made to bridge the yawning gap between wages and property income. Labour-market institutions (such as tripartite wage-setting systems involving workers, employers and the Government, and minimum wage and severance pay legislation) can play an important role in this regard. However, as noted earlier, labour-market reforms in the past three decades have significantly weakened these institutions and hence have contributed to income inequality.

Neoliberal economists claimed that low taxation and low social spending support growth and that income disparity offers incentives for effort and risk-taking and increases efficiency. Such claims are being increasingly challenged, with evidence showing that higher levels of taxation and public spending do not necessarily lead to lower growth (Social Watch, 2007). In OECD countries, high spending on well-designed social protection systems has not been negatively correlated with growth levels or GDP per capita. Similarly, in new member countries of the European Union (EU), higher social spending has not hurt growth. With one of the highest levels of public pension spending of the new EU members, Poland has had one of the strongest growth performances since 1989 (Jorgensen and Serrano-Berthet, 2009).

Ensuring access to productive assets (land and capital) for excluded groups may help to both combat poverty and promote inclusion. For instance, land reforms and land titling, particularly in agrarian societies, can benefit women, indigenous peoples and other minority groups. In addition, as shown by the experience of the Republic of Korea and Taiwan Province of China, radical land reforms in the early phase of development can contribute significantly to the reduction of inequality as well as to the promotion of growth, thus ensuring "shared" growth (Birdsall, Ross and Sabot, 1995).

Policies promoting participation

The promotion of participation, encompassing involvement in social, cultural, economic and political life for all members of society based on equality of rights and opportunities, is a basic element of many development efforts. The importance of participation for poverty reduction and social integration policies is based on the basic premise that people should be able to influence decisions that impact on their lives. Poverty itself is a tremendous barrier to participation, yet without promoting participation and inclusion, poverty reduction policies may simply never be well implemented. Hence, it is important to both remove barriers to participation and promote active participation. Social inclusion is impossible to achieve without a high degree of political inclusion, which entails democratic participation and a role for all in society.

The right to participation and representation of all groups can be ensured with affirmative action policies, such as proportionate representation in the political process, and through quota systems. For instance, gender quota systems have proved to be the most effective way of ensuring women's political representation. In 2006, countries with quotas nearly doubled the number of women elected, compared with countries without any gender quotas, which did not do so.

Many Governments have used affirmative action policies to promote greater access to public institutions. For instance, in India, certain numbers of parliamentary seats are reserved for Dalits (the lowest caste); there are also quotas for admission into secondary schools, colleges, and medical and engineering schools and for employment in government services (Kabeer, 2006a). In Chile, persons with disabilities get 10 extra points when applying for public subsidies or housing programmes, while Brazil has quotas for entry into university for black and indigenous people, and at least 11 countries in Latin America guarantee political representation by offering a number of seats in the national legislature on the basis of gender, race or ethnicity (Dani and de Haan, 2008, p. 134).

However, the affirmative action policies are not without problems. They can alienate other groups, and hence run the risk of generating conflict. This can happen especially when redistributive affirmative actions are implemented in the context of a stagnant economy or threaten the powerful and entrenched interests. Additionally, opposition can be acute if affirmative action policies are designed in an autocratic manner without broad consultation.

Effective social integration requires a broad vision

Combating social exclusion successfully depends not only on the commitment of government, but also on the attitudes of society as a whole towards those it excludes. In many societies, the very existence of the excluded is often denied or concealed. Before policies are formulated, the existence of exclusion and those who are excluded should be recognized.

The implementation of socially integrative policies is not the sole responsibility of Governments but should be shared by all sectors of the economy and society at large, together with the private sector and civil society organizations. It is vital to promote and encourage partnerships between the public sector, the private sector, and civil society in its broadest sense, including, among others, faith-based organizations, grass-roots movements and trade unions to implement social inclusion policies in the interest of the excluded. It is still the Governments, however, that must establish mechanisms that facilitate the involvement of all other important actors at the national and local levels.

Social policy and poverty reduction: from universalism to targeting and back

Over the last three decades, under the influence of the "trickle down" perspective, the concept of social protection—implying universalism—has given way to that of social safety nets, implying targeting. Universalism in social policy emphasizes the basic right of each and every citizen to the provisioning of social services; thus, the entire population is the beneficiary. Targeting, on the other hand, focuses on eligibility and hence involves means-testing to determine the "truly deserving". However, policy regimes are rarely based on purely universal or purely targeting principles. They normally operate somewhere on a continuum between these two extremes, "but where they lie on this continuum can be decisive in spelling out individuals' life chances and in characterizing the social order" (Mkandawire, 2007, p. 305).

With the rise of new economic and social philosophies in the late 1970s and early 1980s, the balance in social policy radically tilted towards targeting in both developed and developing countries. In the developed countries, the focus shifted from welfare to workfare; hence, there have been dramatic erosions of labour-market institutions aimed at increasing labour-market flexibility. At the same time, there have been cuts in welfare payments with higher eligibility criteria to force welfare recipients to join the workforce. It is claimed that, while higher welfare payments and easy access are disincentives to work, minimum wages and other employment benefits are deterrents for job creation. Thus, the two-pronged attacks on both labour-market interventions and welfare benefits are seen as solutions to unemployment and hence poverty. However, there is now mounting evidence linking these policy shifts to the rise in inequality and the prevalence of the working poor.

The rise in neoliberalism in developing countries has been associated with the structural adjustment programmes (SAPs) of the Bretton Woods institutions. Thus, the agenda of labour-market flexibility became part of the microeconomic reforms required by structural adjustment programmes, and social policy has been reduced to a set of temporary safety net programmes. After an initially painful phase, structural adjustment is expected to re-establish basic macroeconomic equilibrium and promote economic growth without inflation. It is argued that a strong economy will make permanent social policies unnecessary.

When Governments are required to operate within strict budgetary constraints and to improve the efficiency of resource allocation under structural adjustment programmes, social issues are considered a government expense, not an investment. This has led to massive declines in public expenditure on education, health, worker training and low-income housing and implementation of other social policies in both developed and developing countries. Low-income countries in sub-Saharan Africa, and South and West Asia, where some 80 per cent of the population are out of school, tend to invest very little in education. In sub-Saharan Africa, 11 of the 21 low-income countries with data spend less than 4 per cent of gross national product (GNP) on education. In South Asia, Bangladesh devotes only 2.6 per cent of its national income to education, India 3.3 per cent and Pakistan 2.7 per cent. For 40 out of the 105 countries with data, the share of national income devoted to education decreased between 1999 and 2006 (United Nations Educational, Scientific and Cultural Organization, 2008).

Furthermore, in many countries, social services were privatized to alleviate the fiscal crisis. It was argued that privatization would make service delivery more efficient and avoid the micro- and macroeconomic distortions that arise from the provision of free public services.

As part of balancing the government budget, user fees were introduced for public services previously provided free, particularly in former socialist transition economies. In many other economies, particularly in Latin America, user fees were increased; and everywhere, new operating principles—based on business and commercial profit criteria—were introduced. User fees were also expected to reduce the strain on overburdened public services, as they would discourage those who did not really need them and thereby eliminate wastage.

These changes in the provision of public services and the orientation of social policies have had significant repercussions with respect to the quality and breadth of coverage. Access to social services is no longer considered one's right as a citizen, but is based on one's ability to pay. Thus, these changes generated new social inequalities. At the same time, there is a slew of empirical evidence showing that targeting is not effective in addressing the issue of poverty (see box VII.4).

Further, contrary to the theoretical claims regarding its efficiency and cost savings, targeting is found to be extremely costly and to demand levels of administrative sophistication or capacity that do not exist in most developing countries. Ironically, the trimming of the government under the structural adjustment programmes itself contributed, to a large extent, to the erosion of State capacity, as there is a limit to what the State can do with so few resources. It is a contradiction in terms for the internationally agreed social development goals—"education for all", "primary health care for all", etc.—to be conceived in universalistic terms, while the means to achieve them remain highly selective and targeted (Mkandawire, 2007).

Lessons learned from the past three decades call for social policy to return towards universalism. This is necessary based not only on the principle of social justice rather than administrative procedures but also on pragmatic grounds: limited resources must be used to benefit people. Moreover, when the other, non-income dimensions of poverty are taken into consideration, poverty is much more widespread in developing countries than the poverty-line measurement would suggest. Targeting the majority of the population loses meaning. Social policy needs to take on a developmental perspective to promote economic and social development so as to ensure that growth will benefit all members of society.

Box VII.4

Impact of structural adjustment programmes on health and poverty in Africa

Structural adjustment programme–related reforms in Africa have deepened poverty, undermined food security and self-reliance and led to resource exploitation, environmental destruction and population displacement. The health sector particularly was adversely affected, and few steps were taken to protect vulnerable populations and basic services.

Prior to the 1980s, district hospitals, community health centres and other health outreach posts provided medical services and essential drugs free of charge. With the reforms, user fees and other cost-recovery measures were introduced, and the commercial sale of drugs was liberalized. Dispensation of essential drugs through the public distribution system declined. With complete deregulation of the pharmaceutical industry and liberalization of drug prices, imported branded drugs soon displaced domestically produced drugs. By 1990, domestic production of pharmaceuticals had virtually ceased.

Many donor Governments discontinued budget support for the health sector, which paralysed the public-health system. There was no money for medical equipment and maintenance; salaries and working conditions declined. In one African country, a public sector doctor earned US$ 49 monthly. With the growth of private medicine, tens of thousands of doctors and health workers fled the public sector, in some cases emigrating.

By the end of the 1990s, the health systems in most sub-Saharan countries had virtually collapsed. Fewer people could afford medicines or user fees at hospitals, let alone annual check-ups. One result was the resurgence of infectious diseases such as malaria, tuberculosis and cholera. A World Health Organization (WHO) study revealed that in some developing countries, malaria deaths tripled in the first four years of the reforms, owing partially to the collapse of curative health services and the soaring prices of antimalarial drugs.

Reduced resource allocations to health, education and other social sectors following the adoption of the structural adjustment programmes saw many slide back into poverty. Many families in sub-Saharan Africa have been unable to meet their most basic needs. Such conditions have been blamed on the debt burden and economic policies imposed by the World Bank.

Sources: Samba (2004); and Mkandawire (2007).