Chapter IX

Rethinking poverty reduction interventions

Revisiting recent poverty trends

Although the world as a whole has made some reasonable progress in reducing levels of absolute poverty, many countries are not on track to meet the Millennium Development Goals of halving levels of extreme poverty by 2015. Countries such as China and, to some extent, India, and regions such as East and South-East Asia, that have experienced strong growth during the last few decades have managed to significantly reduce poverty levels, particularly in urban areas. The success enjoyed by these countries has driven global poverty down; but not every region or country has recorded such remarkable progress, and there has generally been less poverty reduction in countries experiencing little or no growth. In fact, the absolute number of poor people has gone up in several countries in sub-Saharan Africa, Latin America, the Middle East and Northern Africa, as well as in Central Asia. Economic growth in many developing countries, particularly the least developed countries, has not translated into poverty reduction. This has been especially the case when growth has been concentrated in extractive industries, which has not resulted in much job growth and structural change. High or rising inequality has also blunted the poverty-reducing effects of growth.

If the impact of the triple crises (food, energy and financial) is factored in, the outlook is not encouraging. Poverty eradication efforts are sagging under the weight of these multiple crises. The worst economic and financial crisis since the Great Depression of the 1930s has not only impacted the poor and the near-poor in the developing world, but also hurt a much larger proportion of the lower and middle classes in developed economies. Millions of jobs have been lost, as well as millions of dollars in individual savings and pensions. Consequently, many households now face a wide array of everyday basic concerns—ranging from the lack of adequate income to meet basic household consumption needs such as food and shelter to the inability to pay for children's schooling. In countries like the United States of America, many of these households are also close to financial ruin owing to health costs incurred after the loss of employer-provided health insurance. If left unattended, crises of this nature are likely to lock poor people and their families into long-term intergenerational poverty traps while increasing the vulnerability of non-poor families to poverty, as they exhaust household assets to pay for catastrophic expenditures. They also undermine prospects for future growth by weakening the human resource base of countries through underinvestments in children's schooling, nutrition and health care (Ravallion, 2008; Birdsall, 2002).

The fact that the financial crisis is coming on the heels of the sharp spikes in food and energy prices that occurred in 2007-2008 has made the fallout much worse for most developing countries. The World Bank (2009b) estimated that in 2008 the food and energy crises alone pushed between 130 million and 155 million people into poverty. The World Food Programme (WFP) has estimated that the number of chronically hungry people in the world surpassed the billion mark in 2009.[1] Most of them lack access to social safety nets and credit markets, and hence are the least able to smooth consumption effectively when faced with shocks of this magnitude (Lustig, 2000).

These developments will likely slow down or even reverse the pace of decline of poverty levels, which had been uneven in the first place. In some cases, gains made in respect of achieving the other Millennium Development Goals may also be reversed. To compound the situation, the flow of official development assistance (ODA) and remittances from developed to developing countries will likely also slacken. Debt-relief efforts are also likely to slow down despite the pledges made by leaders of the Group of Twenty (G-20) in London in April 2009 to restore growth and jobs in all countries, including the poorest countries and emerging markets.

Therefore, despite recognized success in some countries, there has been insufficient progress globally towards the elimination of poverty and deprivation. Wide-ranging deficits in terms of the human condition are endemic and ubiquitous not only in most poor countries but also, to a disturbing extent, in many rich countries among specific vulnerable sections and groups in society. What is particularly disturbing is that the relatively disappointing outcomes in many crucial dimensions have been found to persist in an era where there was rapid and sustained growth at the global level and in several large countries as well; that these deficits have remained despite all the affirmations and aspirations driving the professed commitments of the global community to achieving the goals set out in the United Nations Millennium Declaration;[2] that such a situation prevails when there are but a few years left to the end date for realizing the promises made in the Millennium Declaration; and that such a scenario had been unfolding even before the impact of the ongoing multiple global crises was factored in.

Critical reflections

Several messages come through loud and clear from the discussion and analysis conducted thus far. First, the mainstream perspectives on poverty and depriva-

1 See Lustig (2009) for various estimates of the poverty impacts of the 2007-2008 food crisis.

2 See General Assembly resolution 55/2.

tion as embodied in, for example, both the dollar-a-day poverty estimates and the human development index have limitations. Second, there are strong ethical and strategic reasons for moving towards a universal approach, rooted in the recognition of both human and social development deficits and the modes of intervention needed for addressing them. Third, more research and reflection are needed in order to develop a wider analytical framework that incorporates the social exclusion approach to poverty reduction efforts. Fourth, setting targets for various human development indicators has to be accompanied by an analysis of the causal mechanisms that account for the deficits in the first place and by policy interventions directed at achieving the targets.

Framing policy: some correctives

As poverty levels have not declined in several countries despite economic growth, it has become clear that growth, while often a necessary condition for poverty reduction, is not a sufficient one. Addressing inequality and promoting social inclusion are also prerequisites. Reductions in inequality need to be considered in designing economic development processes. Hence, the relationship between economic and social policy cannot be one where growth is given primacy over distribution, and where social policy comes to be understood merely as a corrective for the undesirable consequences of growth processes. Social policy has to be viewed as an essential part of a transformative process that contributes to both growth and equity, not just through responding with corrections, but also by influencing the nature of growth.

There is also a need to reconsider the effectiveness and legitimacy of means-tested targeting. 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. This having been said, consideration must be given to addressing the needs of the most vulnerable within a policy framework grounded in universalism. As the social exclusion approach makes clear, certain segments of the population face greater challenges than the rest of society in overcoming deficits within many dimensions. Compared with poor people, the better off are typically also better able to benefit disproportionately from public social services even if they are universally provided. For example, even with universal access to education, facilities in better-off areas are often superior to those in poor areas, which contributes to the intergenerational transfer of poverty. Thus, universal programmes need to include special efforts, backed by resource commitments, to ensure that benefits reach marginalized populations.

The line separating poor and non-poor people is becoming less clear-cut and less significant. Poverty is not the condition of a fixed group of individuals but rather one that everyone is at risk of experiencing at some point in their lives. Therefore, it would be wise to formulate policies and allocate resources to ensure the basic well-being of all individuals—those experiencing poverty and those at risk of experiencing it. This would constitute a strategy designed to stimulate recovery. Ensuring that the world's people are healthy, educated and well housed and well fed is essential if they are to be productive and contribute to making the economic recovery a reality. Therefore, approaches to poverty reduction should be developmental and holistic, integrating economic and social policies devised to ensure the achievement of people-centred development outcomes.

Anti-poverty expenditures are usually considered part of social consumption. However, the object of policy should also be to create the conditions that transform such social consumption into a productive form of social investment. A good starting point would entail changing the perspective adopted to consider the problem, followed by evidence-based assessment of current policies and practices from which to draw constructive lessons for guiding future actions.

Policy imperatives

Certain policy implications can be extracted from a broad perspective on deprivation. First, poverty reduction strategies should be developmentally oriented so as to promote structural transformations that will generate decent work opportunities for all. There is more to poverty than just insufficient income. In fact, a higher proportion of the populations of most countries would be perceived as living in poverty if other aspects of deprivation were taken into account. This calls into serious question the usefulness of approaches to poverty reduction that focus on "poor people" identified by the dollar-a-day measurement. A more encompassing approach should be adopted towards provision of essential social services such as basic health care and primary education, safe water and sanitation, and basic social protection.

Second, a high premium must be placed on interventions that correct inequalities in the initial distributions of assets, including human resources, in an egalitarian manner in order to foster more inclusive growth. Analysis shows that initial conditions are very important. On the one hand, a high degree of initial inequality in property and asset ownership is a crucial indicator of the social and economic exclusion inherent in the socio-economic system; on the other, such high initial inequality would limit the possibilities of pro-poor growth within such a system. The greater the initial degree of inequality and exclusion, the weaker the beneficial impact of any increased rate of economic growth on poor people; and the less is done in correcting initial inequalities, the more will have to be accomplished via the growth process in order to reduce poverty—but the less likely the possibility this could be achieved. This aspect of policy has been seriously underemphasized and corrections are long overdue.

Higher initial inequalities, and less inclusive growth processes, could lead to correspondingly larger deficits in the ability of vulnerable households to satisfy their basic needs. Therefore, progressive redistributive policies would become more difficult to implement. Increasingly, there seems to be acceptance of the notion that neither the initial structural inequalities nor inequalities in the growth process can be adequately addressed. Unequal growth has come to be accepted because it leads to fiscal surpluses which can subsequently be used for secondary redistribution through various tax-and-transfer processes of poverty reduction. However, there are several difficulties with such a strategy. For one, it is based on the premise of a trade-off between curbing inequality (and social exclusion) and accelerating growth. For another, a system biased against correcting inequalities is also likely to resist redistributive transfers in favour of poor people. Under such circumstances, focusing on social exclusion would be ineffective.

Third, even progress in improving asset distribution and opportunities to participate in the economic process might not have the desired outcomes in respect of eliminating bias and discrimination against individuals, and especially social groups, based on identity. All too often, differences among individuals and groups have led to the implementation of policies demanding that the excluded groups display conformity with the mainstream, while leaving the underlying discrimination unaddressed. Some social integration policies currently much in vogue seem to foster this syndrome. This is a crucial area of policy formulation that tends to be overlooked, but that should be addressed.

The crisis: exit strategies

The global economic crisis has shown that the premises of the prevailing economic policies, in particular the belief in the primacy of the market mechanism to optimize resource allocation and maximize welfare, were faulty. This failure, however, had been evident long before the crisis hit. It had been demonstrated by the inability of the prevailing approach to economic policymaking to deliver a significant and sustained reduction in global poverty and deprivation. The analysis in chapters V to VIII has shown that macroeconomic policies, focused on keeping inflation and fiscal deficits under control, and economic liberalization ostensibly to enhance the efficiency of markets and national comparative advantage, have not reduced poverty. Instead, they have often reduced growth and increased inequality. Thus, inclusive economic development, which brings dividends to poor people and the marginalized, has been elusive.

So far, the current economic crisis has not altered the dominant policy paradigm in respect of its prescriptions for development, although there is some concern with ensuring social safety nets for those most adversely affected. However, the gravity of this crisis should lead to a serious rethinking of policy approaches that have dominated the discourse on growth and poverty up to now. Alternative analyses—prioritizing the need for structural transformation that brings about sustained growth of real output, employment and incomes and promotes inclusive development which benefits poor people—must be undertaken and their findings elaborated appropriately.

If the damage inflicted by the multiple crises on the lives of poor people is to be contained, there must arise a greater willingness to change. Credible and workable alternatives do exist and, indeed, have been proposed for decades. "The difficulty lies", as John Maynard Keynes noted, "not in the new ideas, but in escaping from the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds" (Keynes, 1936, p. viii). According to Keynes (ibid., p. 383): "Practical men, who believe themselves to be quite exempt from any intellectual influence, are usually the slaves of some defunct economist."

This is the moment not just for a renewal of the commitment to creating a just and sustainable development, but also, and above all, for rethinking the means to that end.

The way forward

It is time to open up a discourse on poverty reduction that centres on inclusive development and the ending of social exclusion. This requires focusing on the development process as one of structural change and transformation. Structural change should no longer be based on the assumption that prioritizing private goals is compatible with realization of public goals, nor should it be focused on encouraging international "comparative advantage" based on low levels of skills and technology. Instead, structural change should involve a transformation that shifts economies from low-productivity, low-technology paths of development to technologically dynamic, skills-intensive paths towards the generation of equitable growth and development that benefits all. In most low-income developing countries, the charting of such dynamic growth paths must be based on speeding up agricultural productivity growth and boosting non-farm economic activity in rural areas in such a way as to provide incomes and livelihoods for the rural poor and other excluded people.

It is important to recognize, however, that there is no single policy approach to achieving this type of transformation. The process will differ from country to country and will depend on initial conditions, social structures, patterns of asset ownership and institutional frameworks.

In the dominant policy discourse, State activity in the economy is seen as distorting the market mechanism, as crowding out private investment and as being misguided or based on inaccurate information. Such a conceptualization needs to be re-examined. The experience of countries and regions that have achieved rapid growth and relative success in poverty reduction has shown that the State can deliberately intervene in the economy and even distort market-based incentives in such a way as to promote inclusive growth and development.

It is necessary, therefore, to consider the role of a "developmental State" which can promote sustained economic growth and structural transformation, including inclusive development. A reversal in the thinking on the roles of the State and the market is now under way. However, such thinking needs to go beyond tweaking the circuits of the prevailing orthodoxy with its conceptualization of State activity as being limited to correcting for market failures and imperfections.

Cohesion in policymaking is also crucial for achieving sustained inclusive development. Macroeconomic and microeconomic initiatives and social policies need to converge around the goal of poverty reduction so that they do not have opposing effects on poor people. For instance, poverty-reducing effects of programmes designed to minimize risks faced by poor people, such as those entailing cash transfers or the provision of microfinance, will have limited positive effects on poverty if rapid trade liberalization leads to the collapse of nascent manufacturing sectors and the loss of employment and incomes, as has been the case in many sub-Saharan African countries in the past two decades. To avoid these types of countervailing effects, a unified policy approach that clearly targets structural transformation and inclusive development is required.

The discussion in the present report points to several policy areas where rethinking is required in order to generate transformations and growth that bring sustainable benefits to poor people.

1. **It is important that macroeconomic stabilization not be seen as restricted to controlling inflation and trade and fiscal deficits. It should focus on the stability of real output, incomes and employment**. To reach this outcome, it is necessary to relax unnecessarily stringent fiscal and monetary restrictions and enable countries to use counter-cyclical fiscal and monetary policy to boost incomes and reduce poverty. This is an urgent need in the current crisis. Devising stabilization policies that promote inclusive growth should entail looking beyond the current crisis, however, and considering the challenges of promoting longer-term growth in real output and income. In this regard, it is important that lending to poor countries not continue to overly emphasize inflation control and fiscal stringency as a form of policy conditionality.

2. **It should be recognized that the trade policy effects on poverty reduction and structural transformation are contingent on a host of other factors which are country-specific**, such as pre-trade employment patterns, social sector policies, levels of social development, landownership patterns and rural power relations, export supply capacities, technological skills and the existence of well-developed markets.

The present World Trade Organization agenda allows little room for selective protection. Yet this type of protection was used very effectively by countries and territories to gain competitiveness in export markets and to enable them to undergo structural transformation. Most developing countries today lack the skills bases, technologies and capabilities needed to compete successfully in international trade. Developing these assets is essential for structural transformation and the possibility that this requires both time-limited infant industry protection and interventionist industrial policy should be acknowledged and explored. Devising an agenda for inclusive development requires a serious rethink of the dogma of free trade. A pragmatic approach which allows countries to devise trade policy so as to develop comparative advantage in new areas in order to move up the ladder of competitiveness is required for broad-based development.

3. **Structural transformation in low-income developing countries that raises growth rates and productivity in agriculture is needed to reduce poverty and exclusion**. A developmental State that recognizes the need to invest in key inputs such as irrigation and is able to engineer long-lasting institutional change to counter problems such as inefficient landholding size and weak or non-existent markets for inputs such as credit can be central to agricultural transformation. Strategies for inclusive rural development need to take account of how climate change affects the rural poor and incorporate measures to counter negative effects in such a way as to both be sustainable and promote dynamic output and income growth.

4. **Policy should focus on stimulating investment through the creation of conditions that ease credit constraints and make investor expectations buoyant**. Financial liberalization often falls short of achieving such conditions. Increasing the availability of agricultural finance should be a priority if financial sector reform is to be directed at promoting inclusive growth.

   Conventional economic thinking has proclaimed the virtues of privatization in promoting growth and development. The results of waves of privatization in developing countries challenge this view on several fronts. Privatization does not always bring fiscal gains and can sometimes even drain the Government purse. The privatization of utilities such as water and sanitation can be harmful to the poor. The same argument applies to other key liberalization policies such as financial liberalization and financial globalization. The present financial crisis makes it strikingly evident that the developing countries that are the least financially globalized, in particular India and China, have been shielded to a significant extent from negative shocks of capital outflows. This highlights the need to time financial liberalization carefully and institute necessary regulations to safeguard financial stability. Both economic theory and empirical evidence point to a weak link between financial liberalization and economic growth. Policies aimed at structural transformation should recognize that financial liberalization could depress investment and technological change. More fundamentally, the usefulness of this type of liberalization in countries with weak or non-existent credit markets must be reconsidered. Along the same lines, **Governments should rethink privatization policies. In deciding the fate of a State-owned enterprise, policymakers should take into account a range of considerations, including its "social" role as an employer, and service provision–related obligations towards the socially disadvantaged**.

5. **Social policy must be seen as integral to the development process and to structural transformation**. In the present development discourse, social policy covers a broad range of provisions such as education, health, social insurance, cash transfers and credit. The discussion in this report has shown that progress in providing accessible education and health services to the poor has been hindered by inadequate financing and regressive policies such as the introduction of user fees. While income and cash transfers for poor people and microfinance have reduced absolute poverty in specific project contexts, the reach and impact of these programmes are limited. All of this points to a need to adopt a cohesive approach to social policy, taking into account the interactions among its component areas (such as education and health) and devising strategies that take these interactions into account.

   Social policy should not be seen as a set of ameliorative measures designed to correct for market and institutional failures and to temporarily manage household risk of the poor, but rather as involving the provision of basic needs and public goods which remains primarily the responsibility of the State. State provision for the welfare of the poor is a part of structural transformation. Inclusive development cannot be achieved when such provision is inadequate, uncoordinated and piecemeal.

6. Experiences from many countries show that decent work is central to the inclusive growth that leads to poverty reduction. **The promotion of full and productive employment and decent work for all should be an objective of macroeconomic policy**. This will help ensure the consistency and coherence of economic and social policies. It will also lead to a more equitable distribution of the benefits of economic growth, and thus to a reduction of both inequality and poverty.

7. **Basic social protection for all is a must in an era of increased economic insecurity due to globalization and accompanying informalization and casualization trends in the labour market**. The current global crises and the impact on workers in developed and developing countries alike further underscore the importance of providing a social protection floor for poor people as well as for the non-poor. For people living in poverty, the extension of some form of basic social protection will help avert their falling

deeper into poverty; for the non-poor, such protection will reduce their vulnerability to poverty.

Extending basic social protection to all should be a component of all stimulus packages. In the short term, benefits will allow the people who need assistance the most to support their consumption, generating much-needed demand during economic recession; in the long run, social investment in human capital (nutrition, health and education) will strengthen future growth.

8. **Public social expenditures should be safeguarded, and even increased, in this current time of crises so as to protect investment in human capital**. They should also be incorporated in stimulus packages and international support to low-income developing countries.

   The challenges ahead for poverty reduction are numerous and difficult and are made more intense by the global economic crisis. It is imperative that the gravity of this crisis lead to a serious rethinking of the policy approaches that have dominated the discourse on growth and poverty up to now. The findings of alternative analyses in support of prioritizing the need for the kind of structural transformation that brings about the sustained growth of real output and incomes, and promotes inclusive development so as to benefit the poor, must be brought to the forefront and built upon at this historic juncture.