

CHILD POVERTY INSIGHTS

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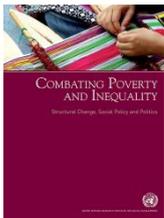


Combating Poverty & Inequality: Structural Change, Social Policy and Politics



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What are some of the key messages from the recent report, *Combating Poverty & Inequality: Structural Change, Social Policy and Politics*?



UNRISD's recent publication, *Combating Poverty and Inequality*, attempts to explain how poverty reduction depends crucially on the interconnections among economic development, social policy and politics. It emphasizes that poverty and inequality cannot be addressed by narrow approaches to social protection or by economic growth alone. Instead, there is a need for new directions in macroeconomic policy and structural change to generate decent employment. Some of the key messages are as follows:

- **Poverty reduction requires growth and structural change that generate productive employment:** Employment represents a channel through which additional income generated by growth can be widely distributed throughout a population. Where poverty has been reduced successfully and sustainably, governments used policy interventions to facilitate employment-centred structural transformations of their economies.
- **High levels of inequality are an obstacle to poverty reduction:** Poverty and inequality are part of the same problem. High levels of inequality make it difficult to reduce poverty even when economies are growing; and poor countries are generally more unequal than rich ones. Inequality manifests itself in relation to wealth and income status, health and education outcomes, gender and ethnicity, as well as access to employment and social services.
- **Comprehensive social policies are essential for successful poverty reduction:** For social policy to be effective as a transformative instrument against poverty and inequality, it must transcend its residual role of safety net and engage with broad public policy issues of distribution, protection, production and reproduction.
- **Politics matters for poverty reduction:** The protection of civil 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.
- **There are many paths to poverty reduction:** Most countries that have successfully reduced poverty adopted heterodox policies that reflected their national conditions, rather than fully embracing market-conforming prescriptions. Countries and peoples must be allowed the policy space to adopt different models of development where aspects of livelihood and food security, land reform, cultural rights, gender equity, social policy and associative democracy figure prominently.

What accounts for the persistence of poverty and inequality when concern for their reduction has been high in the international development agenda?

Poverty reduction is a central feature of the international development agenda. A number of key social development objectives were agreed by world leaders at the Millennium Summit, with the goal of significantly reducing poverty by 2015. Yet, even if the global poverty rate is halved by 2015, as the latest United Nations progress report on the MDGs suggests, **about one billion people will still be mired in extreme poverty**. Income and wealth inequality have increased in most countries, as have inequalities based on gender, ethnicity and region. This 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.

Combating Poverty and Inequality argues that many contemporary approaches to poverty reduction treat poverty and inequality as residual outcomes of wider growth processes that can be addressed through discrete and targeted policy interventions. These approaches fail to consider key institutional, policy and political dimensions that may be both causes of poverty and inequality, and obstacles to their reduction. They are 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. Current approaches have increasingly focused on "targeting the poor." However, when a substantial proportion of a country's population is poor, it makes little sense to detach poverty from the dynamics of development.

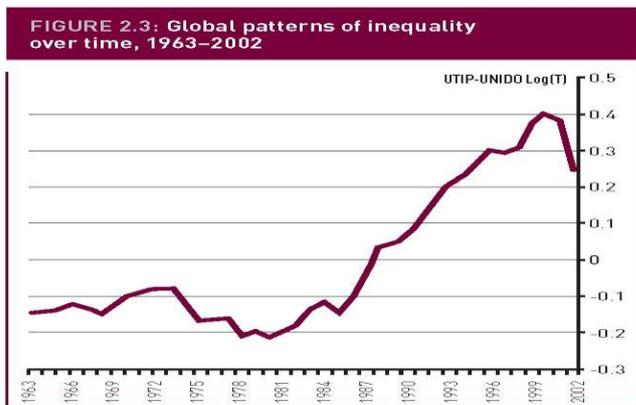
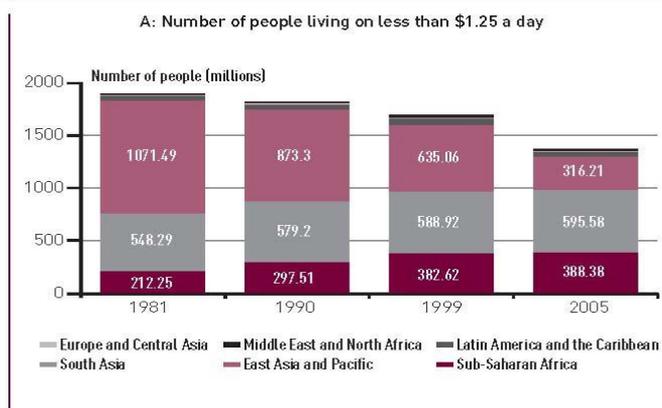


FIGURE 0.1: Global and regional trends in extreme poverty, 1981–2005



In short, poverty remains a major challenge because current dominant approaches go against the evidence that a fall in poverty generally results **not from policies aimed at poverty, but from long-term processes of structural transformation**. Shortcomings of such approaches to poverty reduction are a source of widespread concern.

Why have some countries been more successful than others in reducing poverty and inequality?

For countries that have been successful in increasing the well-being of the majority of their populations over relatively short periods of time, progress has occurred principally through **state-directed strategies that combine economic development objectives with active social policies** and forms of politics that are complementary and synergistic and that elevate the interests of the poor in public policy. Poverty outcomes are shaped by complex interconnections of ideas, institutions, policies and practices in the social, economic and political spheres.

The report does not dispute the importance of economic growth, but argues that it is the nature and pattern of growth that has critical implications for poverty and inequality.

Employment represents one critical channel through which the benefits of growth can be widely distributed throughout a population. **Where poverty has been reduced successfully and sustainably, governments used policy interventions to facilitate employment-centred structural transformations of their economies**. The Republic of Korea, for example, invested substantially in infrastructure, channelled credit to specific productive activities and pursued well-managed industrial and agricultural policies as well as social policies that improved the skill levels and welfare of the population.

Another feature of countries that have transformed their economies and reduced poverty relatively quickly is that **social policy has been an integral part of their development strategies**. Evidence demonstrates that a number of welfare policies are feasible and affordable for countries at fairly low levels of income. Successful countries have tended to invest substantially in education and skills development, as well as in health and social protection. In fact, the most significant reductions in poverty have occurred in countries where social policies have been aimed at broader goals, including enhancing productivity, promoting social cohesion or national building. In these circumstances, social policies

tend to be comprehensive and move towards universal coverage. The report argues that there are **three critical elements to a sustainable and inclusive development strategy**:

- **Patterns of growth and structural change** (whether in the agricultural, industrial or service sectors) that generate and sustain jobs that are adequately remunerated and accessible to all, regardless of income or class status, gender, ethnicity or location;
- **Comprehensive social policies** that are grounded in universal rights and that are supportive of structural change, social cohesion and democratic politics; and
- **Protection of civic rights, activism and political arrangements** that ensure states are responsive to the needs of citizens and the poor have influence in how policies are made.

Why is reducing inequality essential for poverty reduction?

Evidence suggests that there is a two-way causal relationship between poverty and inequality, indicating the importance of addressing inequality for poverty reduction. Moreover, the international human rights framework commits governments to uphold equity in civil and political rights and to take steps to progressively achieve this. High levels of inequality serve as an obstacle to poverty reduction because they make it harder to incorporate the poor and socially marginalized groups in the growth process; limit the size of the domestic market and prospects for sustained growth; may cause crime levels to rise and plunge societies into conflict; and encourage the emergence of institutions that lock the poor into poverty traps.

Since reducing inequality has value in its own right, and also yields substantial benefits in poverty reduction and growth, we suggest **a number of mutually supportive redistributive policies that countries can adopt**:

- 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
- Expenditure-related policies that enhance the welfare of lower income and excluded groups.

What are some recommended strategies for socially inclusive structural change?

Substantial and sustained poverty reduction requires growth and structural change that generates productive employment, improves earnings and contributes to the welfare of the population. Many believe that employment is a by-product of economic growth; however this report argues that economic growth or industrialization per se will not lead to sustained improvements in employment. Structural change can have many trajectories: situations of stalled industrialization and dualistic labour markets as in many Latin American and middle-income countries; service-led growth paths or those dominated by agriculture; and those that are determined by mineral wealth. We find that *growth paths that are driven by low-productivity activities, where structural change is stuck in the primary sector, have produced highly segmented and unequal labour markets, and the poor are often locked out of dynamic growth sectors.*

Policy is crucial for generating structural change that realizes better quality employment and poverty outcomes. Governments can **achieve employment-centred, socially inclusive structural change through**:

- Avoiding pro-cyclical policies during periods of slow growth;
- Pursuing well managed industrial and agricultural policies such as subsidies, tax credits, extension services and land redistribution;
- Stimulating and maintaining an adequate level of labour demand;
- Public investment in infrastructure and skill levels of the population; and
- Reducing vulnerability to commodity price and interest rate shocks.

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 opportunities to translate into real differences in people's lives.

How can social policy impact poverty and inequality in low-income countries? How can it impact child poverty?

Social policy can contribute to economic growth as well as social welfare, and is an integral part of the growth strategies of countries that have experienced far-reaching structural change and reduced poverty rapidly. 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 social policy. 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, such as in the Nordic and East Asian countries, its alleviation was just one of the several goals prompting the introduction of social policies.

Additionally, the most significant reductions in poverty have occurred in countries with comprehensive social policies that *lean towards universal coverage*. When poverty is widespread, targeting the underserved is unnecessary, administratively costly, and fraught with problems such as asymmetries of information, distortion of incentives, and moral hazard. There are other numerous **reasons to invest in public, universal social protection policies in developing countries, since they:**

- Protect people from income loss throughout the lifecycle, in times of economic transition or crisis;
- Enhance the productive capacities of individuals, groups and communities;
- Reinforce the progressive redistributive effects of economic policies; and
- Facilitate the reproduction of labour and society and reduce the unpaid care burden which is often on women.

Child well-being is affected by the unpaid care work that goes into sustaining families, households and societies on a daily basis. It is estimated that if such work, performed mostly by women, were assigned a monetary value, it would constitute 10 to 19 per cent of a country's GDP. The need to address care through public policy is now more urgent than ever. In times of crisis, care responsibilities are shifted back onto families, with women and girls often acting as the ultimate safety net. Many developing countries are experimenting with new ways of responding to care needs in their societies. One of the emerging examples is **child-centred cash transfer schemes**. While these transfers are not meant to pay for care, many of them are explicitly targeted on primary caregivers and facilitate the care work they do by allowing them to purchase essential inputs or to buy-in care substitutes (by drawing on family members or informal carers). Despite their limitations, positive effects on child development are evident from these schemes, including improvements in primary and secondary school enrolment and attendance rates, food consumption and height, as well as school drop-out rates and child labour. Investing in good quality and accessible early childhood education and care services constitutes another useful strategy to ensure that all children, regardless of social class and background, receive adequate care, and to assist those who usually care for them to engage in income-earning work (or education, etc.). This would also represent a useful strategy for generating new forms of employment.

Universal social policies are feasible and affordable for countries at fairly low levels of income. ILO estimates suggest that **a basic social protection package (pensions for the elderly and disabled, child benefits and essential health care) for low-income countries such as Bangladesh, Kenya or Pakistan, would cost about 10% of GDP**. That is less than the average amount spent on social protection in Eastern Europe, Central Asia and some Latin American countries, and is far below the OECD average of about 17% of GDP. Moreover, there are a number of instruments that can finance social policy in developing countries: from domestic taxation and social insurance schemes to external aid, rents from mineral resources, and remittances, to name a few.

Finally, why is it essential to take politics and power relations into account in order to reduce poverty and inequality?

Power relations are at the centre of development. The interests of the political arena and how these translate to policy determine all successful attempts at significant poverty reduction. Poverty reduction requires effective and accountable states, institutionalization of rights, sustained public engagement, expansion of the bargaining power of the poor and those who represent them, and pacts that are structured around issues of employment, welfare and growth.

Democracies are 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 social groups with strong ties to the poor demonstrate capacity for organization and mobilization;
- When social groups create links with actors involved in policy making (leading, at times, to social pacts); and
- When they are able to transcend or reconcile horizontal divisions.

Moreover, poverty is reduced when economic and social policies, institutions and political arrangements are mutually supportive. The pursuit of a set of policies in one domain, while neglecting the others may undermine the full realization of the benefits from the chosen policy.

Some General Resources

- [Combating Poverty and Inequality: Structural Change, Social Policy and Politics](#), UNRISD, 2010
- [The Millennium Development Goals Report 2010](#)

Child Poverty Insights are network members' contributions and do not necessarily represent the views of UNICEF. Please submit your Insights contribution to the editors of the series, Isabel Ortiz, Jingqing Chai, Louise Moreira Daniels and Solrun Engilbertsdottir at child-poverty@groups.dev-nets.org