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1

Social Policy in a Development Context: Introduction

Thandika Mkandawire

Background

Both the contemporary normative discourse and the emerging consensus on development insists on putting in place social institutions (including states) that are developmental (in that they sustain high rates of growth and the structural transformation of economies), that are socially inclusive and that are sanctioned by democratic processes that fully respect the human rights of all citizens. Such an understanding can be surmised from the many resolutions of major international conferences of the 1990s and is reflected at the national level in struggles for democracy, equity and the clamour for bringing development back onto the economic policy agenda. On a more theoretical level, this understanding of development has been succinctly stated by Amartya Sen (1999) in his *Development as Freedom* in which he argues that economic development, equity and democracy are mutually constitutive.

Social policy is collective interventions in the economy to influence the access to and the incidence of adequate and secure livelihoods and income. As such, social policy has always played redistributive, protective and transformative or developmental roles. Although these different roles always work in tandem and synergistically, the weight given to each of these elements of social policies has varied widely across countries and, within countries, over time. In the context of development, there can be no doubt that the transformative role of social policy needs to receive greater attention than it is usually accorded in the developed countries and much more than it does in the current focus on 'safety nets'. The leitmotif of this volume is the following problem: How can social policies be used to enhance social capacities for economic development without, in the process, eroding the intrinsic values of the social ends that policy makers purport to address? This problem of the relationship between social welfare and economic performance has a long

pedigree, having occupied the minds of some of the luminaries of classical political economy – Smith, Turgot, Condorcet – who were acutely aware of the positive link between social welfare and economic progress, the reputation of economics as a ‘dismal science’ notwithstanding. The economic historian Emma Rothschild (2001) argues that the ‘cruel reputation’ of political economy is quite undeserved:

The political economy of the late Enlightenment provides no support for the view of many contemporary proponents of *laissez faire* that social security is inimical to economic development, or that social equality is a form of luxury, to be promoted only in countries which are already rich. The characteristic presumption of Smith’s early friends and followers in France was rather that political liberty, and the social integration of the poor, were causes (as well consequences) of economic development. (p. 121)

In opposition to this view was the argument of a trade-off between social and economic development, and between equity and efficiency. And it is the latter view that took precedence, as that of Smith, Turgot and Condorcet (which Rothschild describes as ‘the road not taken’) lost out.

Although much contemporary criticism of economic development is directed at the absence of ‘social dimensions’ among its core concerns, most of the ‘pioneers’ of economic development were drawn to the subject because it addressed issues of poverty. They considered elimination of poverty the central preoccupation of development, and economic growth an important instrument for achieving that goal. Various social policy measures were to be adopted in tandem with economic growth as instruments for the elimination of poverty. Gunnar Myrdal, one of the ‘pioneers in development’ (Meier and Seers 1984), was probably the most articulate advocate of this ‘road not taken’. In the 1930s, Myrdal pointed out that social expenditure was not merely public consumption, but constituted an important instrument for development. He was quite adamant about this position, and in a reflective, biographical article he insisted:

The productivity of higher consumption levels stands as a major motivation for the direction of development policy in underdeveloped countries. Higher consumption levels are a condition for a more rapid and stable growth. (Myrdal 1984: 154)

Thus ‘human resource’ development and social progress were seen as an important aspect of the economic developmental process. This view was not exclusive to development studies, but was actually derived from the Keynesian macroeconomics whose understanding was that the relation between

macroeconomic policy and social policy was a positive one, a point stressed by Peter Townsend in this volume.

Over the years, these insights on the mutually constitutive nature of social and economic development have been rejected, downplayed or ignored for a wide range of reasons. For some, social welfare may be an end of development, but it is a poor instrument because it is seen as essentially obstructive largely because of postulated 'equity–efficiency' or 'equity–growth' trade-offs. Attempts to address social needs in the process of development are thus seen as premature because they fail to address the issue of resource constraints and are, therefore, ultimately self-defeating since they can only induce the unsustainable and inefficient deployment of resources (for example, through 'macroeconomic-populist'¹ fiscal policies, which lead to cumulative deficits, and through perverse incentive effects). Social expenditure is seen as merely paying for social consumption. As such it is considered to have a negative impact on economic development because it reduces savings and, therefore, investment. And if social policy is introduced at all, it is often as a way of 'correcting' the pathologies of economic development.

The opposing point of view restates the trade-off thesis in favour of equity. Here the use of social policy as an instrument is unacceptable on principle, because it downplays the importance of social goals. Advocates of this position caution that such 'instrumentalization' of important ends may erode or dilute their intrinsic value. Usually, critics of instrumentalization are engaged in project or micro-level activities to empower social groups or directly address problems of poverty. With their attention thus fixed on the livelihood strategies of individual households or communities, however, many critics of instrumentalization fail to relate these micro-level strategies to macro-level social policies or economic performance. More specifically, as a consequence of this 'projectizing and micro-izing', to borrow Judith Tandler's apt characterization (in this volume), they tend not to address the impact of their activities on efficiency in the allocation of scarce resources, their incentive compatibility in largely market economies, or their effects on long-term economic growth. While the aversion to the 'handmaiden model' of social policy that relegates social services to an adjunct of economic policies is a healthy reminder of what the purpose of economic development is, it has tended to give social policy a passive role with respect to resource mobilization and generation and unnecessarily inhibited study of the contribution of social policy to economic development. The result has been that less attention has been paid to social development as involving enhancement and deployment of 'social capacities' on the supply side for further social progress.

A starting point is to re-think social policy and move it away from its conception as a residual category of 'safety nets' that merely counteract policy failures or developmental disasters. Social policy should be conceived as involving overall and prior concerns with social development, and as a key

instrument that works in tandem with economic policy to ensure equitable and socially sustainable development. Social policy must be designed not only residually, to cater for social casualties, but also integrated as a central component of policies, to ensure the wherewithal for their sustainability. More specifically, social policy must not confine itself to only the 'social inclusion' part but must also directly address the issues of economic development and the consolidation of the democratic order. It definitely must not be conceived so as to undermine either of them. In this context it must also be among other social constraints that set limits to what instruments can be used in macroeconomic policy. Much of the new social policy consists of attempts to find *ad hoc* solutions to the social consequences of both economic decline and economic policy. In this reactive role, social policy does not constitute a fundamental interrogation of the macroeconomic models that may be partly responsible for the social crisis.

Structure of the book

Although, given the cross-cutting nature of the themes, it is difficult to group the chapters in this book in distinct categories, the book is divided into three parts. The first part deals with more conceptual issues. The focus is on the relationship between economic policy and social policy. The chapters in this section also cover issues of the political and ideological contexts of social policy and the reason behind the new interest in social policy. In the second part, the book considers meso- and micro-level arguments for social policy, taking up issues of income distribution and social protection. The third part is more historical, drawing lessons from experiences of 'late industrializers' and looking at some contemporary experiences. The chapters consider the role of social policy in late industrialization. Part III contains one chapter that makes a theoretical case for social policy in late industrialization. It is followed by a comparative study on social policy in late industrialization. Case studies of South Korea, India and Zambia provide further material on social policy.

Conceptual underpinnings of social policy

One remarkable feature of writing on social policy is its lack of theoretical and conceptual underpinnings – beyond the general suggestions that social policy must be somehow holistic and integrated with economic policy. There is little in social policy studies in developing countries that is as heuristically potent as Esping-Andersen's work on welfare regimes. Studies on social policy in the developing countries have tended to be excessively descriptive. Maureen Mackintosh and Paula Tibandebage (Chapter 7) highlight this absence of theoretical underpinning which has led to what

they call ‘thick descriptions, thin explanation’ syndrome. They observe that in the development context, the health policy literature, for example, is strongly characterized by an emphasis on egalitarian objectives and by repeated demonstration of redistributive failure, but that there is remarkably little expended in researching explanations of the observed regressive distributional behaviour. One immediate consequence of this is the privileging of prescription and evaluation over explanation. Prescriptions are made for greater equality without any tackling of the problem of the persistent redistributive failure. This methodological ‘thinness’ of the literature on social policy is contrasted to the situation in Europe, where social policy debates are embedded in theoretical discourses on the welfare state. Paradoxically, one says this while recognizing the seminal work of researchers like Amartya Sen, Partha Dasgupta and Jean Dreze, whose theorizing of social conditions of poverty is now influencing work on social policy in the developed countries. Part of this gap can be explained by the mistaken view of social policy in the developed countries as being largely an aspect of the end-state of development – the welfare state – and therefore not relevant to developing countries. And so little of the theoretical insights from the study of welfare regimes has found its way in the field of social policy in developmental contexts. However, as the chapters in the volume underscore, both the history and the current use of social policy in the developed countries can provide useful insights and lessons for developing countries. It has definite value in aiding the conceptual understanding of the relationship between economic and social policy in market economies, and can lend depth to analysis as a result of the diverse historical paths taken and the wide range of current practices.²

One point that is emphasized in most of the chapters in this collection is the fact that the ‘social’ and ‘economic’ are inherently inseparably intertwined so that economic policy is social policy and social policy is economic policy. However, for both ideological and institutional reasons, the two are often separated with the ‘economic’ often treated as more fundamental than the ‘social’. Indeed, in the current policy discourse social policy assumes a residual category. Exigencies of ‘good social policy’ impose no constraints on macroeconomic policy instruments. Ha-joon Chang reminds us of Karl Polanyi’s (1946) message, when he notes that the ‘economic is inseparably linked to the social’ which legitimizes the market and defines its boundaries on the basis of the complex interaction between political bargaining, moral values and technical considerations of the markets. And Diane Elson points out that the separation of social policy from economic policy is more a reflection of institutional division of labour than how people live the ‘economic’ and ‘social’. The separation of the social from the economic has led, in the extreme, to an economic theorizing that has sought to expunge from its purview the ‘social’ – values, conflicts, employment, poverty and so on.

The macroeconomic problem and social policy

Keynesian economics insisted on: (a) the autonomous existence of macroeconomics as a policy domain not reducible to 'micro-foundations' and; (b) that government was a necessary condition and determinant of operating markets and consequently economics must incorporate governments as a 'structural assumption' of political economies. It also directly took on board issues of distribution which impacted on growth through aggregate demand and propensities to save and invest. Peter Townsend's contribution (chapter 2) reminds us of the deep social and economic imagination that gave the world Keynesian economics. Keynes was preoccupied with the social misery that the Depression of the 1930s had caused, the devastating economic and social consequences of war and the need for social ease in a capitalist world whose foundations had been rudely shaken by social revolutions, depressions and war. The message from Keynes was that macroeconomic policy had to be sensitive to its social impact and that social expenditures could be one of the instruments for addressing macroeconomic problems. The social objective could not only set constraints on what macroeconomic policy instruments can be used but could also serve as an important policy instrument for eventually broadening macroeconomic options (through economic recovery and growth).

Once macroeconomics is understood as being embedded in society, the main challenge then is not 'adding-on' the social to the macroeconomic but 'mainstreaming social issues into macroeconomic', as has been suggested in the context of 'engendering' macroeconomics. Such mainstreaming touches on the core of the dominant paradigms and has far-reaching implications on 'the rethinking of macroeconomics *and* of the organization of macroeconomic policy processes in order to recognize the salience of social issues and social policy'.

This, however, has not been the view informing macroeconomics during the last two decades. For much of the 1980s and 1990s, two views characterized macroeconomic understanding. The first was its self-limitation to stabilization and its neglect of economic growth and equity. The second was a return to a pre-Keynesian view of the micro-foundations of macroeconomics in which macroeconomics was a simple aggregation of individual decision making or only necessary because there are market distortions. Such a view has had a profound effect on both the diagnosis of the causes of the economic malaise and the solutions advanced. And, more pertinent to social policy, it has also contributed to the failure to find room for social policy at the macro-level and to tend to treat it as a source of 'distortions' at the micro-level that somehow added up to the macroeconomic crisis. Significantly, the general understanding is that social arrangements must be made to conform to the exigencies of sacrosanct economic fundamentals while no social constraints are imposed on both the instruments and scale of macroeconomic policies.

They are not considered to be part of the 'fundamentals' that must be got right if development is to take place.

By the mid-1980s, in the new ideological dispensation of stabilization and structural adjustment, social policy was associated with the fiscal crisis of the state and was thus treated as one more source of economic instability and inflation. Moreover, the association of social policy with state intervention opened it to neo-liberal attack as one of the sources of economic failure. Social expenditures were seen to detract from stabilization and would have to be curtailed if fiscal deficits were to be checked. This policy shift led to cutbacks in social investment, the privatization of social programmes and the abandonment of social planning as an integral part of policy making. It should be added at this point that pressures from non-governmental organizations (NGOs) for popular participation have also contributed to a growing sense of marginalization of social policy as a state preoccupation, let alone responsibility. Pressures for cutting public social expenditures have thus been unrelenting, with the result that the long-run effects on growth of such cutbacks have been obscured. And when social expenditure has been condoned at all, it has been as a remedial measure, limited to 'safety nets' for vulnerable groups, with no consideration of the implications for future growth.

It should be noted that these arguments were buttressed by the general critique of the welfare state, which is often accused of inefficiency for: (i) 'crowding out' the more efficient private sector; (ii) distorting labour markets by introducing all kinds of rigidities; and (iii) blunting incentives for unemployed workers to seek employment.³ In the developing countries, moral and ideological premises of social policies were impugned by associating such policies with rent-seeking, urban bias and clientelism. This followed from the neo-liberal scepticism about social solidarity, given its view of human action as motivated by self-interest and devoid of any moral basis.

Social biases of macroeconomics

Although macroeconomic policy is often given an aura of technocratic neutrality, implicit in any economic policies are policies about gender, about full employment and about equity. Diane Elson (chapter 3) argues that conventional macroeconomics contains biases that not only reflect its social project but that also have far-reaching social consequences. Elson lists three such biases: (i) deflationary bias; (ii) male breadwinner bias; and (iii) the commodification bias. The deflationary bias shows up in the fact that the era of liberalization has been generally associated with lower rates of investment and growth. The 'fundamentals' insisted upon by orthodox macroeconomics may have been adequate for stabilization (a highly questionable proposition in itself), but they have clearly worked against growth and development, a fact grudgingly acknowledged in appeals for a 'post-Washington Consensus'. The 'male breadwinner bias' comes from the assumption that articulation

of the unpaid care economy to the market economy is mediated by a male breadwinner whose income is large enough to provide for the cash needs of a set of dependents. These biases shape what is considered as viable or sound social policy by defining targets of social policy, possible instruments to be used and the economic resources and fiscal envelope available. Implicit in any social policy is a structure of distribution which spells out the incidence of both costs and benefits.

And yet despite such socially salient biases, macroeconomics is often treated as merely a technocratic framework which establishes the economic framework to which social policy must conform. Much macroeconomic policy making is totally oblivious of the normative discourse on social and human rights. A more holistic approach would simultaneously consider the 'social' as posing political and social limits on what values macroeconomic variables can assume. In addition, a whole range of macroeconomic goals can be achieved by different combinations of instruments and under varying welfare regimes. The choice of these instruments is highly political, since each instrument contains within it certain implications for a specific allocation of costs and benefits of adjustment which in turn are reflections of biases, social arrangements and ideological predispositions that must be squarely addressed. The recognition of the social nature of macroeconomic policy making, the 'biases' that go along with it and the political nature of choice of policy instruments and goals highlight the need for social dialogue which rejects the view that 'sound' macroeconomic policies are beyond social scrutiny, to be taken as an immutable given to which social actors must simply adjust. Elson suggests that this social dialogue can be facilitated by more heterodox economics that goes beyond the neo-Keynesian economics to include insights from feminist economics, which has insisted on the articulation between economic production and social reproduction.

The rediscovery of poverty and development

One factor accounting for the increasing recognition of the important role of social policy has been the persistence of poverty even in situations of economic 'success'. The introduction of metrics of development other than gross domestic product (such as the Human Development Indices) has underscored the essentially *social* nature of development. Such metrics have problematized the link between growth and welfare by stressing that growth should be part of a whole series of measures intended to widen the scope of choice of individuals and communities. It is now widely accepted that sustainable attacks on poverty will demand fairly high levels of economic growth even in situations of significant redistribution of existing resources. While some countries or regions have achieved laudable social progress even in times of poor economic performance (Ghai 2000), such achievements have generally proved unsustainable in the long run in the absence of good overall economic performance. Social development arguably occurs faster

and in a more sustainable way in situations of economic progress, which itself is facilitated by social development and provides the wherewithal for further social development.⁴

As Diane Elson notes, the adjustment programmes adopted by many countries in the 1980s and 1990s undermined economic growth because of their 'deflationary bias'. While these policies, with their anti-growth biases, dominated policy making, there was revived interest in academic circles in growth economics – the 'catch-up hypothesis' and so-called 'new growth theories' or 'endogenous growth' models – which now recognizes that social development contains crucial instruments for economic development. The catch-up hypothesis states that 'being backward in level of productivity carries a *potential* for rapid advance' (Abramovitz 1995: 386). However, this is conditional on the 'social capability' of the countries in the less technologically advanced group. Although the definition of such capability remains elusive, several of its components have been identified. They include educational levels, physical infrastructure, corporate governance, competitive conditions (including openness to foreign competition), political stability, labour market structure, and 'social capital' (understood to include, among other things, institutions, inter-personal trust, national or social cohesion, norms of civic co-operation, associational activities and formal institutions). A broader argument is stated by Frances Stewart, Gustav Ranis and Alejandro Ramirez who consider the two-way influence of economic growth and human development (Stewart *et al.* 2000). They argue that those countries which have leaned towards human development through a whole range of social policies affecting education, health and equity tend eventually to enjoy higher rates of growth. Macro-level studies also provide robust evidence that initial income inequality and subsequent growth are inversely related, and that better income and wealth distribution helps growth (Alesina and Perotti 1994; Birdsall 1997; Woojin Lee and Roemer 1998).

The important message in 'New Growth Theory models' is that social policy constitutes one of the most important determinants of economic growth. For a while there was the hope that recognition of the 'social' might lead to increased interest in social policy, and 'fill out the analytical space in which to construct the social as a complement to economic policy' (Ben Fine, this volume). However, recognition of the transformative and productivity-enhancing quality of measures that contribute to social development does not necessarily lead to their adoption, not even in democratic political settings where numbers would tend to favour the poor. Even the widespread recognition of 'social capital' has not been sufficient to place social policy at the core of development policies. There are many impediments to the translation of new insights into policy measures. The first of these impediments is the persistence of economic policy making based on a 'leader/follower' model, where macroeconomic policy (stability and growth) is determined first and social policy is left to address the social consequences (Atkinson

1999). Such an approach clearly goes against the insights of the literature, which argues that the exploitation of synergies between welfare-enhancing measures and economic growth requires a holistic approach to development policies. In addition, there is the tendency to treat the many variables identified by 'growth accounting' separately, although the fact that these are complementary and synergic indicates that they must be harnessed simultaneously. Ultimately the issue is not just 'health policy' or 'education policy', but 'social policy' within which these measures are coherently embedded. In the absence of such a holistic understanding of social policies, there is the distinct danger that various specialized agencies, ministries or NGOs will pick up their own 'variable', completely oblivious of its crucial relationships with others.

The second impediment is the uncertainty over the exact nature of these relations and the many reservations about the robustness of empirical results. Much research on growth and elements of social policy is still dominated by cross-section and panel data regression analysis. There are few time-series analyses using institutional or historical information to trace the interactions among the variables in specific contexts. One difficulty with drawing lessons from simple cross-country comparative studies is that social policy is context-specific and is often explicitly or implicitly embedded in the overall macro-policy model, so that its separate influence on economic development is not easily decipherable, let alone quantifiable. And even among those countries that have done well in both economic and social indicators, and reached similar endpoints, over the years the sequencing and weight attached to these indicators have varied between countries and within each country, making the drawing of lessons for policy singularly treacherous. In addition, what may appear as social policy *ex post* may be an unintended consequence of a set of policies intended to address entirely different issues. For instance, education programmes to address gender or ethnic differences may lead to an overall improvement in human capital that may not have been the explicit objective of the policy. It is also clear that measures that are apparently similar may have entirely different implications for development, depending upon a country's political and institutional arrangements, and the historical trajectories traversed by its institutions. This points to the need for in-depth historical and time-series studies of the experiences of individual countries with social policy and development.

The third impediment arises partly as a result of ambiguities of concepts such as 'social capital' (succinctly discussed by Ben Fine in this volume) and the complexity and ambiguity of the policy implications of both the new growth theories and the institutionalist growth paths. Neither of these analyses points to a particular form of social organization, let alone social policy proposals. One reason for the tentativeness and weak articulation of these ideas in the policy realm is the possibility of multiple trajectories – equilibria – which are often 'path-dependent'. The economy and the variables that

account for its transformation are permeated by social relations and are embedded in social institutions, the improvement of both of which constitutes a cornerstone of social development. This, of course, opens the route to the study of a whole range of variables that affect long-run growth and that are amenable to or reflective of social policies. However, there is no clear theory of how social policy acts on development-enhancing social factors so as to induce growth, nor is there agreement on the patterns of growth that are most appropriate to meeting the spectrum of social goals that are now on both national and international agendas. In addition there is the ahistorical nature of the concept of social capital. There are no accounts of how societies have deliberately accumulated 'social capital'. Indeed, the 'social' is defined so as to exclude socioeconomic forces and conflicts that are known to have underpinned the emergence and evolution of the welfare state. As both Ben Fine and Jayati Ghosh argue, social policy has not simply emerged to correct market failures; rather, it has emerged from responses to the contradictory economic and social reproduction of capitalist societies.

And, finally, there are political and ideological impediments. Social policy is a highly political process, touching upon power relations, access to resources and ideological predilections about the role of state and markets. We still need to know what societal variables facilitate the placement of these items on national policy agendas. Economics is usually murky as to how issues are placed on the political agenda or how certain institutions emerge. Yet macroeconomists increasingly recognize that political variables and institutions are important determinants of policy choices and outcomes. However, for ideological reasons, there is aversion to drawing out the full policy implications toward which empirical analysis points.

Partly in response to both the criticisms of their deflationary bias, the growing political salience of poverty and inequality and the growing literature on the dynamics of growth and development that points to the failure of adjustment to address problems of poverty and to place economies on a long-term growth path, the Bretton Woods institutions have signalled something tantamount to a paradigmatic shift. The World Bank has begun to shift its focus toward poverty alleviation and to argue for support to social sectors on developmental grounds. Even the IMF has been compelled to give explicit recognition to the importance of social policy. And has accordingly relabelled the extended structural adjustment facility as 'Poverty Reduction Strategy Papers' and 'Poverty Reduction and Growth Facility'. The stated aim of these changes is a 'coherent strategy to help poor countries move on to a sustainable faster growth path, bringing a substantial reduction in poverty' (IMF, 2000). The new strategy is intended to ensure consistency between a country's macroeconomic, structural and social policies, and the goals of poverty reduction and social development. The leverage of the BWIs with respect to all these is assured by the close link between the PRSPs and debt relief under the HIPC initiative.

The political contexts of social policy

Which social policies are adopted does not entirely depend upon their perceived instrumental efficacy in improving economic growth. No amount of evidence of the instrumental efficacy or of the intrinsic value of particular social policies will lead to their adoption if they are not deemed to be politically feasible. To the extent that such policies are driven by the values of different social actors with different ideological positions, and to the extent that they invariably entail intra- and inter-generational redistribution issues, they are the outcomes of political bargains and conflicts since they touch upon power in society – its distribution and accessibility to different political actors. In any society, it is obvious that the state will not institutionalize social policies that conflict fundamentally and consistently with principles of the dominant economic system and power relations. Consequently, the study of social policies in *developmental* contexts must be sensitive to the *political* contexts within which they are formulated and implemented.

Different political institutions and arrangements tend to favour particular social policy regimes. They also tend to produce different political capacities for extraction of the resources necessary for financing social programmes. Thus, the type of political regime has enormous implications for social policy. It is therefore necessary for research to take on board the *politics of social policy*. Comparative research on history and the ‘path dependence’ it induces, as well as how current political arrangements impinge on social policy regimes, is required.

Social policy has been formulated under the aegis of a wide range of political regimes – elitist/populist, democratic/authoritarian, right fascist/Stalinist, colonialist/nationalist, etc. The scope for popular pressure for the institution of social welfare has varied widely in these arrangements. In some societies, social welfare has been an essentially elite project to achieve goals determined by the ruling elite. Such goals have usually included nation-building, development or co-optation of subordinate classes. In some cases, social welfare has been the result of popular pressures for equity and inclusion. Cultural values have also played an important role in conceiving or rationalizing social policies. In East Asia, for example, the limited role of the state in providing social welfare services was justified on the grounds of ‘oriental’ family values.

Problems of the legitimacy of the state, ‘ownership’ of policies and political stability highlight the importance of the social regimes within which growth is presumed to take place. It is notable that this realization has been reinforced by the current wave of democratization, and by popular pressures to place social issues on national policy agendas. In early ‘modernization’ theories, the establishment of political stability as a prerequisite for development was one of the intractable problems of rapid social change. Operating on the assumption of a trade-off between equity and growth, much of the

writing of the time tended to advocate 'political order' of an authoritarian nature, which would not be encumbered by the clamour for social welfare (Huntington 1968). Redistributive social policy, being inimical to accumulation, was not considered possible as an instrument for ensuring the stability necessary for accumulation. Indeed, it was often dreaded for leading to 'revolutions of rising expectations', which would stifle economic growth. In reality, states, including the most authoritarian, have had to be concerned with reconciling the exigencies of accumulation with those of legitimacy and national cohesion. Consequently, the pursuit of social policies that enhance accumulation while securing the state the necessary legitimacy for political stability has constituted the cornerstone of developmental management. Indeed, there have been cases in which unelected regimes in 'developmental states', lacking political legitimacy or facing 'democratic deficits', have sought legitimacy through social and economic 'performance', with the result that some of the most dramatic improvements in welfare have taken place in undemocratic contexts.

It is important to recall that the successful developmental states of East Asia were largely authoritarian. The power of the state was used to suppress popular claims over a long period of time, and those public welfare measures that were introduced were largely unaccountable to the public and reflected the political logic of authoritarian rule and its understanding of developmental imperatives (Goodman *et al.* 1998). In the current normative discourse, the growing consensus is that the developmental model chosen must respect both human rights and rights to development. This can be construed as a case for development under political regimes that are democratic. Thus the developmental and redistributive policies of states will be shaped to some extent by this new democratic dispensation, which is politically more inclusive and, consequently, broadens the constituency likely to call for more wide-ranging social policy. What will be the type of social policy compatible with the 'democratic developmental model' pursued by such states?

One of the posited trade-offs in the process of development has been that between 'development' and 'democracy'. In the current normative discourse democracy and development are not considered as mutually constitutive components of the 'good society'. However, the historical record is that such an association is contingent on a number of factors including significantly *social policy*. Laurence Whitehead examines the lines of interaction between democracy and development, their 'connectedness' and 'elective affinity'. Although both democracy and development have a long genealogy, both their substantive content and relationships have varied over time. The post-Second World War context of the 'Cold War' has had an enormous impact upon the fortunes of the relationship. Significantly, a common understanding of development led to its apoliticization and the belief that it could be achieved through technical means. In some accounts, the encumbrances of democratic policies were considered as decidedly inimical to the development

project. It is only with the end of the Cold War and the emergence of a generation not beholden to the 'developmentalist' ideologies which downplayed democracy that we see a renewed interest in the 'democratization of development'. Whitehead argues that if the new view that democracy and development are inseparably intertwined and mutually constitutive is to hold, then it will be necessary to reconceptualize both of them. This could very well entail incorporating some very considerable elements drawn from democratic theory into economic development. Likewise, future conceptions of 'democracy', appropriately understood and updated, could quite properly include much that has recently been studied within the limiting confines of the sub-discipline of 'economic development':

When the application of knowledge, rather than mechanical power, provides the main key to economic prosperity the most effective producers can be expected to set a high standard of demand for citizenship rights and governmental accountability. When a central task of modern democratic government is to secure informed assent to complex public choices in the era of economic management, our conception of 'development' can hardly continue to omit consideration of the social acceptability and legitimacy of the policies to be selected. It is in this area of convergence between notions of 'democracy' and 'development' that the best future of development studies lies. (Whitehead, Chapter 5, p. 103)

However, the conventional definitions of democracy (as no more than holding competitive elections) and development (consisting of high rates of growth) and their compartmentalization in both theory and practice does not suggest that either of these conceptions is in need of the other. Whitehead suggests that social development provides a key point of intersection between the separate discourses of democratisation and economic development: 'To the extent that these discourses converge social policies and citizenship entitlements will move from the margins to the centre of attention in these scholarly communities.' However, the convergence of the discourses is still at a rhetorical level.

Although the current normative discourse insists that social policy must obtain its legitimacy from democratic and participatory processes, a number of factors tend to militate against such an outcome. One is the technocratic nature of policy making. The other is an exclusionary process of identification of worthy partners that often deliberately seeks to isolate the most organized and most articulate groups that have historically pushed for progressive social policies. Judith Tendler points to the often-ignored question of what coalitions can be built at the national level in support of social programmes. Largely because much of the discussion on poverty alleviation is tethered to debt relief, it tends to be oblivious of the political basis for such programmes. Where the finance is external, there seems to be no need for

building or identifying coalitions to sustain such programmes. Indeed the new formulation of anti-poverty programmes tends to be opposed to existing social movements, especially labour movements, being content with the participation of a few NGOs who end up being beneficiaries as service providers. Tendler points to the inadvertent translation of an anti-poverty agenda into an anti-labour agenda. When critical social organizations such as labour movements are sidelined, the programme becomes donor driven and lacking national anchoring.

The anti-labour argument is often couched in populist terms in which organized labour is seen as a kind of 'labour aristocracy' whose defence of labour standards undermines employment creation and the competitiveness of the economy in the global market. In this era of globalization, many developing countries fear that labour and environmental standards will undermine their competitiveness. This is an understandable reaction to the protectionism parading as social concerns, but it should not be used to distract from national demands for socially acceptable labour standards and the real possibility for participation in the global market without violations of fundamental workers' rights. If countries are to avoid the 'race to the bottom' or being trapped in a low productivity-low wage 'sweatshop equilibrium' they will have to introduce social policies that address both the equity and productivity considerations.

Sectoral and micro-level issues

Ben Fine, Judith Tendler and Diane Elson remind us that the 'social' has been easier to absorb at the micro level than at the macro level through concepts such as 'participation' and 'social capital' and that the revalidation of the 'social' as having more than a residual status has been accepted more at the micro level than at the macro where the 'social' is still seen as an afterthought. Such a narrowing of the role of social policy – ignoring its overall redistributive and developmental roles – can be attributed to a number of factors. Ben Fine suggests that the acceptance of the 'social' at the micro level comes from interpreting the macroeconomic crisis as emanating from micro-level failures, and assuming that the orthodox policies are fundamentally sound, there have been attempts to find faults at the level of state failure, market failure or societal failure. The realization of the pervasiveness of these failures has led to a recognition of the 'social' as an essential means to correct them. And thus 'social capital' is fully embraced as the 'missing link'. In the process the concept of social capital has assumed a protean character consisting not only of the positive side, but revealing a dark side as its definition includes virtually any social arrangement. Although 'social capital' relates to both the macro and micro levels, it has tended to be used in relationship to the latter often in isolation from the economy, formal politics and social conflicts. Within the Bretton Woods institutions (BWIs)

'social capital' is conceptually and administratively separated from debates on macroeconomic policy with the consequence that while sections of the BWIs claim to be constructing 'social capital' at the micro level, macroeconomic policies are dismantling the social contracts that may have sustained past political stability.

In her contribution to this volume, Judith Tendler identifies four such factors. The first of these is what she calls 'projectization' whereby all initiatives in the realm of social policy are to be conducted at the micro level. This has tended to distract attention from broader social reforms. Such a position has been encouraged both by the onslaught on central government authorities and by the rise of NGOs in social provision. The second is the demise of development policy within which social policies were embedded. The salience of concerns on employment and labour market conditions gave social policy a prominent role in the development process. Such policies as those on local procurement were not merely aimed at technological acquisition or mastery but were intended also to address issues of employment and redistribution. Thirdly, there is the focus on the informal sector and small enterprises and the belief that social policy, because of its insistence on certain standards, constitutes one of the 'distortions' that have hurt this sector. State legislation of standards in labour markets is anathema in the current orthodoxy. And, finally, there is the downplaying or neglect of some of the central preoccupations of nation-building for which social cohesion and the role of social policy in that was important especially, the conception of development as a national project requiring adhesion of many actors.

In addition, there has been a tendency to downplay the redistributive content of both sectoral and micro-level interventions, partly by simply assuming that market forces will handle such issues. Thus, Maureen Mackintosh and Paula Tibandebage argue that in the area of health, the egalitarian thrust of health policy has led to the conclusion that public expenditure ought to be targeted towards the poor. The point of departure has been the view that curative care is nearly a pure private good and thus quite appropriate for allocation by the market. Public support should therefore be targeted towards those who do not have any means to purchase health services. This reliance on market for providing much of the health services is based on a leap of faith attributable to ideological predisposition or a conflation of textbook markets with real markets. It also assumes away the redistributive function of health provision itself by relegating such a role to the government budget to 'target' those unable to pay for health services. Such a view sharply diverges from the health care system approach which takes into account the redistributive role and considers cross-subsidization and risk-pooling as the primary functional method for tacking distribution and equity outcomes.

Microeconomic concerns need not obviate social policy. New trends in microeconomics, whether informed by the transaction cost school or theories of imperfect knowledge, have challenged some of the principal results of

mainstream economics – for instance the Walrasian neo-classical view of the separability of equity and efficiency – because the terms and conditions of contracts that directly affect the efficiency of resource allocation now crucially depend upon ownership structures and property and social relations. This research argues that inequality can lead to the perpetuation of dysfunctional arrangements at the community, firm and national levels.

Gender studies have provided another important micro-level argument for rethinking social policy in the context of development. The work on gender and economics clearly suggests the potency of socially-sensitive analysis in incorporating social divisions of labour, power and choice in the analysis of growth and structural adjustment and of overcoming the dichotomization between ‘economic analysis’ and ‘social analysis’ without dissolving the difference and tension between the two aspects of life. An argument for a wide range of policies subsumed under the heading ‘social welfare’ is that they contribute to labour productivity.⁵ Researchers working on gender and development hold that labour is a ‘reproduced means of production’ – in other words, that effective labour is not an exogenous or biological given, but a socially constructed capacity or potential resulting from deliberate investment in human capital or institutional arrangements that determine the participation of individuals from different social groups in labour markets. In this, the reproductive and nurturing roles of women are central to understanding the well-being of individuals, households, communities and indeed nations (Elson 1991; Folbre 1994). Conventional theory, which treats the supply of labour as infinitely elastic, pays little attention to the well-being, efficiency and needs of the ‘unpaid care economy’. And yet its operations have a far-reaching implication for the quantity and quality of labour and the stability of the social arrangements within which the market is embedded. Significant investments in human capital take place in the household sector, in the form of women investing long hours of ‘unpaid’ work (also referred to in the literature as reproductive labour) in the care and socialization of children who will become the next generation of adults/workers. While household technology has altered the way physical tasks are performed (reducing the amount of time women spend on routine domestic work), it cannot replace the important emotional, inter-personal and educational aspects of parenting that take place in the home (many of which are still feminized, as time allocation studies have shown). Thus feminists have produced a valuable analysis of the supply side of the labour market and the role of domestic labour in reproducing labour. In this respect, acknowledging the creation of human capital in the household complements parallel contemporary debates about community networks and ‘social capital’.

This understanding of human capital has been used by feminists as an analytical tool for improving understanding of the interface between the market and household sectors, and as a political (policy advocacy) tool for improving women’s economic and social position within households and

labour markets. They have argued (especially during the decade of adjustment marked by drastic social sector cutbacks) that there is nothing 'natural' about the household sector continuing to create human capital if there are no supportive social policies. In other words, it cannot be assumed that women will continue to supply all the labour and care that is needed to ensure the satisfactory reproduction of human beings, compensating for all the short-falls in purchased inputs and state support to sustain human resources. A breaking point can be reached when the household is no longer able to reproduce itself. Investments in infrastructure (including child care facilities, water supply, electricity, labour-saving domestic technologies), parental and family leave, and workplace flexibility have all been cited as ways of making the dynamic relations between the household and market sectors work more effectively.

And finally, social expenditure can also be considered a 'social wage', raising social efficiency wages due to their felicitous effects on effort and educational investment choices among the poor. Social expenditure that lowers the cost of labour by increasing its productivity tends to increase profits and, assuming a propensity to invest profits, will lead to higher levels of investment and growth. Studies of other social welfare policies point in the same direction.⁶ Health improvements are also found to play a role in economic growth through their impact upon productivity and demography. In addition, Tendler reminds us that not only are such expenditures significant investment in enhancing a country's competitiveness, but the exigencies of social inclusiveness and equity can themselves spur economies to more efficient deployment of resources and creation of social harmony essential to an economy's weathering of the increasingly volatile global environment. Companies adopt more efficient methods in response not only to competition but also to social and political pressures to meet certain social standards.

The chapters in this section clearly suggest the need for a better understanding of the link between the micro-level benefits of social policy and their implications for the macroeconomy, and vice versa. The importance of such an approach is that what happens at the micro level – at the level of individuals and households – provides us with a measuring rod for macro-economic policies. In the words of Atkinson (1999:21):

Where economic and social policies are in conflict, the conflict can only be resolved by assessing their impact on human welfare. We need to build links between macroeconomic variables and household incomes and this cannot be done if the macroeconomic and social are kept rigidly separate.

Redistribution, social policy and development

One major purpose of social policy is the redistribution of income (often) in order to move toward equity. It is this objective that has been subject to

sustained attack by those who think 'the social' poses a serious threat to development. Development, according to such arguments, demands that societies traverse the 'vale of tears' before they have the wherewithal to address social problems. For proponents of this view, growth has gained ascendancy to such an extent that it sometimes assumes the status of an end in itself, with other long-term objectives such as welfare and equity achieved when the effects of growth 'trickle down'. Kuznets' hypothesis – that income inequality first increases with economic growth, but later decreases as societies become more developed – has been used to sanction tolerance for growing inequality in poor countries.

The case for redistributive social policy has been made along a number of lines. The first of these was of Keynesian and 'underconsumptionist' inspiration.⁷ More egalitarian income distribution, it was posited, would broaden domestic markets, encourage better capacity utilization and encourage new investment.⁸ It was argued that the level and structure of demand are important not only to patterns of growth, but also to its pace, because they affect both patterns and levels of savings and investment.⁹ To the extent, therefore, that social policy inevitably impacts on the demand side it immediately emerges as one of the instruments of economic development. One persistent argument has been that skewed income distribution tends to limit the domestic market, and that redistribution would provide an impetus to consumption, increasing aggregate demand, doing away with excess capacity and encouraging further investment in capital. Income redistribution would also induce structures of demand that favoured more labour-intensive technologies, saved foreign exchange by being less import intensive and exploited a country's comparative advantage (Stewart 1978). This view of demand-driven growth and the consequent argument for redistribution on the grounds of demand were severely tested by supply-side limits to growth over the last two decades. These challenged egalitarian arguments by shifting attention to the effects of egalitarian policy on the supply side: 'competitiveness', which is to say on costs and incentives to investors and workers.

A second argument has had to do with political instability. Simply stated, high income inequality can lead to political conflict, which can undermine development. In addition, societies with high levels of inequality may be inflexible when faced with external shocks. Societies that are highly polarized socially and economically are unlikely to pursue policies that have long-term benefits for all, since each social group will be reluctant to make long-term commitments.¹⁰ Jayati Ghosh reminds us of the importance of social policy in managing modernisation, and the economic and social shocks that go along with it. All capitalist societies have to address issues of accumulation and legitimation of the accumulation process and outcomes and of the state itself. Redistributive social expenditures can contribute to political stability by enhancing the legitimacy of the state. Social policy, as an instrument for ensuring a sense of citizenship, is thus an important instrument of conflict

management, which is in turn a prerequisite for sustained economic development. With respect to accumulation social policy takes the form of social investments that enhance the social productivity of labour (through better health and education) and by setting minimum labour standards. As an instrument of legitimation, social policy can be used both for the management of social pressures that are engendered by rapid economic transformation and also as a corrective to the inherently volatile process of capitalist accumulation. Social policies have sought to enhance a notion of citizenship or to ensure a minimum degree of inclusion for social cohesion. Here policies relating to equity among households, classes and even regions immediately come to mind. Of course, not all policies can be neatly assigned to either of these functions, education can serve both the accumulation imperatives (human capital) and the legitimation imperative (equity or socialisation). The point here is that social policies tend to serve both these functions. There is often tension between these separate functions of social policy that is not easily resolved. The solutions ultimately reached depend on politics.

A third argument has to do with challenges to the 'equity-growth/efficiency' trade-off. Bowles and Gintis argue, for instance, that 'egalitarian redistribution, if properly designed, can attenuate many of the costly incentive problems facing modern economies and hence can be productivity enhancing' because it facilitates the evolution of productivity enhancing governance structures (Bowles and Gintis 1995: 409). This it does by reducing the need for costly enforcement expenditures (in terms of policing, security, etc.) because equality enhances co-operation and trust, which are essential to economic performance, particularly where limited, asymmetric information makes both state intervention and market allocation inefficient, and because equality may impact on politics and culture in a way that fosters solidarity. It can also be used to underwrite the accumulation process by subsidizing labour costs. It has to achieve this in a manner compatible with the incentives for capital accumulation by the private sector. In addition social policy has directly contributed to accumulation through its provision of funds for investment (through pension schemes).

Income distribution is, of course, at the core of political economy. Drawing on a wide range of empirical material, Maureen Macintosh and Paula Tibandebage argue that redistribution commitment within a health care system is deeply influenced by the general pattern of social class and inequality in society and also by the particular institutions of the system and norms of behaviour established within them. They stress the ideological and political underpinnings of redistributive health policies. It is interactive or endogenous in the sense that it is influenced and influences other variables in the system and is path-dependent. It is often part of the 'welfare settlements', 'social pacts' or 'social contracts' that have been arrived at through political arrangements and that have provided the explanatory framework for social claims and the political receptivity to such claims. Whether evoked in the

context of nation-building or the construction of full citizenship, health systems are deeply imbricated in the ethical and political contestations of society. For a health care system to operate redistributively requires not only government commitment to redistributive behaviour in allocation of funds but commitment at the institutional level to operate in an inclusionary manner, and within communities, to sustain inclusion of the poor.

Social insurance and development

Another set of social welfare policies with an important bearing on economic development – through both political and economic channels – relate to social protection. One prominent form of social insurance is pensions. The structure of pensions reflects attitudes towards efficiency and equity. On the ideological level, it reveals attitudes towards solidarity and citizenship. Consequently, there are often sharp differences among different actors on how such schemes should be designed.

An important development aspect of pension schemes is their effect on capital accumulation since they impinge on savings and the functioning of financial markets through effects on demographics, distribution and incentives. Their effect on savings can be through forced savings or through their impact on the development of financial markets. The latter argument has been advanced by advocates of neo-liberalism who argue that the privatization of pension funds can help by jump starting financial institutions such as the stock exchange and by ‘deepening’ financial markets – processes which are supposed not only to increase savings but also to lead to a better allocation. In the era of adjustment when equity considerations have been given lower priority relative to efficiency considerations, privatization of pensions funds has been advanced as a means for ensuring not only the financial viability of the pension systems themselves, but also their efficiency as well as a result of competition. The high yields of this more efficient market would encourage individual savings and investments (and therefore growth) through contributions to development of financial markets and through financial deepening. It is also argued that the existence of private accounts would extend coverage of pension schemes. Chile was the ultimate testing ground for the kinds of extreme privatization of pensions to an extent that no modern democracy had dared embark upon. Many countries – first in Latin America and later in the developed countries – borrowed heavily from this model, often under pressures from the BWI institutions and despite strong protests by labour.

Many of these claims are derived from first principles about how unregulated markets function. The paper by Carmelo Mesa-Lago (in this volume) suggests that these claims do not stand up to close empirical inspections. The case of Chile shows that the much-touted efficiency that might be derived from competition has been undermined by the very high levels of concentration so that the three largest pension funds administer 70 per cent of the insured.

In addition, the rate of return has been low and the high fees and commission charged have turned out to be regressive. Coverage has remained virtually constant while contributions to the development of financial markets have been marginal. Significantly, for developing countries, reforms have been negative on national savings. There are many issues to consider about pension schemes. These include their coverage, the effect on different individuals depending upon the nature of the activity and gender, and their effect on income distribution. While it is admitted that the experiment with private management of pensions in Chile may have led to financial deepening, which may, in its own right, contribute to economic growth, available evidence suggests it has failed to raise savings rates, partly due to high transaction and fiscal costs (Cruz-Saco and Mesa-Lago 1998; Huber and Stephens 2000).

Significantly, not all Latin American countries adopted the much-touted Chilean model. In half of the systems in the ten pension reforms, privatization was limited. Significantly, in all cases the proper function and sustainability of the 'private' system the state proved absolutely necessary through (a) mandatory affiliation, (b) strong and detailed public regulation of the system and (c) control.

Social policy and the late industrializers

Another argument for the need to re-think social policy comes from the literature on 'late industrializers'. In a seminal paper, Alexander Gerschenkron (1962) argued that late industrializers were likely to evolve different institutional forms in order to exploit their lateness or to 'catch up'. More specifically, the state was bound to play a much more active role than in the pioneer countries. The 'late industrialisers' were likely to make use of the joint-stock form of enterprise, and to depend more heavily on bank finance than on financial equity markets for financing industrialization. What has rarely been explicitly theorized, however, is that among the institutions adapted for such late industrialization were those dealing with social policy: these same latecomers were among the pioneers of the modern welfare state.

The role of social policy in the late industrializers is spelled out more explicitly by Juhana Vartiainen (in this volume), who argues that late industrializers have to deal with two groups of externalities: human capital, technology and financial externalities recognized by Gerschenkron; and also the strategic action and distribution issues addressed by social policy. With respect to the latter, Vartiainen highlights two issues concerning development in which social policy can play a significant role. The first of these is the relationship of the intertemporal decisions about investment, consumption and

accumulation. An important argument on the relationship between investment/consumption decisions and growth has been premised on assumptions on how different patterns of distribution affect accumulation. As he notes, 'economic growth and development are about deferring consumption of resources today in order to create more resources in the future'. The question that arises then is what factors account for the sharp differences in investments (or deferment of immediate gratification). Vartiainen identifies three kinds of economic mechanisms that can lead to a situation in which investments is discouraged, even though the overall benefits of investment to the economy as a whole are widely acknowledged:

1. Discrepancy between social return and private returns of growth-enhancing investment;
2. Dynamic externality associated with the discrepancy of *ex ante* and *ex post* bargaining over distribution;
3. The individual and idiosyncratic uncertainty of investment returns.

The first refers to positive externalities and has been a major argument for public intervention in investment. This is particularly the case with social investments in health and education which government must undertake if the economy is not to be stuck in a 'low-development' trap. The second point concerns dynamic externality associated with the division of returns of productive investment. Even if a society agreed that sacrifices be made in terms of forgone consumption in order to enhance accumulation, there might still be opposition to any such 'sacrifices' being made if there are no guarantees that the gains from such 'sacrifices' will be fairly distributed. If, for instance, workers accept a lower wage in order to encourage high levels of profits, the 'sacrifice' will have been in vain, if the resultant profits are expatriated or allocated to conspicuous consumption. Vartiainen argues that 'the state can be seen as a kind of broker that ensures that the *ex post* distribution of resources is such that it corresponds to those incentives that were *ex ante* necessary to induce the necessary investments'. It can intervene in the economy to make high re-investment of profits the preferred behaviour of capital owners. Here 'social pacts' can play an important role.

The third aspect arises from the inevitable *individual* uncertainty associated with innovation and new investment projects as well as economic restructuring. This raises the important issue of social insurance in economic development. A number of investments that could be undertaken for the benefit of the economy may be hampered by the high risks involved in undertaking them. Significantly, this also applies to many investments that the poor might wish to make in terms of education and investments in innovations. 'Safety nets' may be important in reducing the costs of failure.

The second issue raised by uncertainty has to do with people's readiness to accept policy changes. Economic development involves major structural changes with 'winners and losers'. In most cases, individuals may not know what category they will fall into, and, given risk aversion, they may oppose change which is likely to benefit many. Here again, the state, with its many instruments, including social insurance, can ensure that the final outcome is not so disadvantageous for any particular group as to induce paralysis or political opposition. In a situation of rapid technological change, the best way to contain 'luddite' tendencies is to provide sufficient guarantees to everybody that they will share in the ensuing benefits of such changes. This 'risk-pooling' is vital not only for political stability, but also in making individuals take risks and accept changes that are inherently fraught with risk and uncertainty.

Insurance aspects of social welfare systems, like all insurance systems inhere in them the potential for 'free riding', 'moral hazards', rent-seeking and capture and overshooting. This opens up room for conflicts over distribution, which, in turn, points to the potential role of the state as a mediator or as a partner in social concertation to strike acceptable bargains on income distribution. But as Vartiainen (1999) states:

To get industrialisation under way, the state must mobilise and organise the economy, and act to build a coherent corporatist structure with which it can work and design growth-promoting policies. This means that it must also be able to deal with the inevitable distributional conflicts. The state must cope with the inherent paradox that rapid structural change requires more social organisation and political co-ordination of resources, which, at the same time, may aggravate problems of inefficient corporatism and unilateral interest group action at redistributive rent-seeking. (p. 142)

A more historically grounded account is provided by Chris Pierson (chapter 10). Pierson starts off with the observation that there is no straightforward association between the *level* and duration of industrialization and the *extent* of welfare state development. Indeed in the case of Western Europe, the very first welfare states did not emerge among the pioneers of industrialization. It was Europe's 'late industrialisers' which led the process of welfare state innovation. Significantly, after 1923, 'there has been a tendency for countries to adopt welfare state measures at a lower level in their own economic development and "late starters" have tended to develop welfare state institution earlier in their own individual development and under more comprehensive terms of coverage'.

One suggested explanation for this trend is reminiscent of Gerschenkron's thesis, that 'late industrializers' would tend to adopt a number of institutional arrangements to speed up their industrialization process. Pierson observes

that there is nothing automatic about the thesis, especially when it is extended beyond Europe. In the case of Latin America, while, within the region, later developers have learned some lessons from the region's pioneers, overall social spending is lower than might be predicted upon the basis of the level of development. This suggests that (a) 'lateness' is attended by as many disadvantages and advantages; (b) the exploitation of the advantages of 'lateness' is far from automatic.

At first sight, the experiences of the Asian late industrializers would seem to diverge from Vartiainen's model tying up the two types of externalities. This is partly because of the mystification of the 'Asian model' by both governments and admirers. By comparison with western countries, East Asian governments are relatively low spenders on welfare, and non-state agents – community, firm and family – have been expected to play a major role in providing welfare within the ideological context in which self/mutual help is encouraged and dependence upon the state is discouraged (indeed stigmatized). However as Ha-joon Chang, Huck-ju Kwon and Chris Pierson argue in this volume, states in Asian NICs play an important role as a regulator, enforcing welfare programmes without providing direct finance. Moreover, to a significant extent, what would be considered social welfare activities were embedded in the corporate structure that emerged in these countries (following what has been referred to as the 'Japanese' model). The Asian experience seems to suggest that the composition of social policies in later industrializers may tend to pay greater attention to production-enhancing elements of social policy (health and education) and much less on the redistributive and protective aspects of social policy. In other words, implicit in late industrialization was social policy that served not only to ensure national cohesion (as is often asserted of Bismarck's innovative welfare legislation), but also to produce the social pacts and the human capital that facilitated industrialization.

In their contributions to this volume Chang and Kwon underscore the importance of 'social policy' in the economic 'Asian Miracle' and argue against a common misunderstanding of social policy in these societies. The usual view is that because of their ethnic homogeneity or Confucian respect for authority these countries have enjoyed political stability and social peace without having to introduce social policies to co-opt militant labour or to manage ethnic divisions. And yet until quite recently, East Asia was one of the most conflict-ridden places in the world. Revolutions, wars of national liberation, ethnic conflicts, and labour unrest are not alien to this part of the world. The social cohesion that these countries have enjoyed during the last three decades has been deliberately crafted through the active use of social policy – land reform in Taiwan and South Korea, 'affirmative action' in Malaysia, labour protection through lifetime employment in Japan, forced savings, comprehensive insurance and pension schemes in Singapore, restriction on luxury consumption notably in Japan and South Korea, and so on. These social policy measures may not have had the classical welfare

state characteristics, but their influence on the development of these countries was far reaching. In a number of cases these policies encouraged human capital formation and made workers more open to technological change without the 'defensive obstructionism' that characterised responses to new technologies in some industrialized countries.

Prior to the East Asian crisis, it was suggested that such features made these countries exemplary, partly because they were linked to a developmental ideology and practice that subordinated welfare – particularly in the form of progressive redistribution – to the overarching priority of economic development and productivity. In addition, the model imposed a low fiscal burden, allowing public investment to go to directly 'productive' uses. By discouraging dependency upon the state, it provided positive work incentives and pressures for work discipline. And finally, funded insurance schemes provided substantial financial resources that could be used for developmental purposes under state direction. In right-wing circles the combination of high economic growth with a putatively anti-social policy regime was used as an argument against welfare policies in general.

The East Asian crisis brought out the negative aspects of this model. First, it demonstrated that the model's viability depended upon high growth and that, in times of crisis, the system could not provide the social protection that welfare systems are supposed to. The regressive nature of its redistributive measures has highlighted the inequalities in the model. Reliance on the non-state sector meant that women bore most of the burden, and this reinforced male dominance and female dependency. Built upon successful integration into global markets, the model was vulnerable to external conjuncture. Finally, it is important to note that the model thrived in essentially authoritarian contexts and would thus be unlikely to survive the wave of democratization that is likely to push for more progressive welfare policies. Can this 'developmental welfarism' be revamped to be able to function in a more democratic environment? This problem is addressed by Huck-ju Kwon in his contribution to this volume. South Korea possesses a conundrum by increasing its welfare programmes precisely at a time when they are being trimmed everywhere, when the 'developmental model' is under severe pressure and in conjunction with the democratization process. The question that immediately arises is: Why has Korea extended its welfare state, at a time when neo-liberal ideology has been predominant in public policy discourse in Korea and abroad? A *prima facie* account would be that in response to the Asian Financial crisis, the state had to introduce safety nets and ameliorative measures to deal with the crisis since its corporate-based welfare system could not cope.

Huck-ju Kwon challenges this argument by showing that the reforms that have been carried out have gone beyond the functional minima required by the economic crisis. He argues that the answer lies in the politics of welfare reform in South Korea. He points to the importance of understanding how

social coalitions for different types of social policies are created and what capacities they have for exploiting opportunities that present themselves in the course of a country's history. He also points to the importance of ideological shifts in the population at large in facilitating changes in social policy. With the end of the authoritarian development states, a new 'social pact' premised on a more participatory political process had to be crafted. The 'social compact' created among employers, employees and politicians facilitated the process of labour market reforms. In return for such reforms, which led to increased unemployment, the government introduced a package of social policy – 'the Master Plan for Tackling Unemployment' – which included, among other things, the extension of the Employment Insurance Programme, a public works programme. The total outlay of the government in the social policy area rose by 22.1 per cent from 1997 to 1998 and 28.3 per cent from 1998 to 1999.

Latin America is a region which has experimented with a wide range of economic policies under a wide range of political regimes. It is therefore an appropriate region for examining the question of the relationship between developmental goals (equity versus growth) and means (market versus state). In his contribution to this volume, Carmelo Mesa-Lago takes three countries as prototypical of the three models that have appeared in Latin America: Chile as an example of the neo-liberal model; Cuba as the centrally planned socialist model; and Costa Rica as the mixed economy model. These countries are important examples in Latin America of a relatively early emphasis on social policies.

We suggested earlier that the challenge of development is the edification of a social order that was developmental, democratic and socially inclusive. Few societies have achieved all these objectives at once. Taking development (growth) and social inclusiveness, Mesa-Lago notes that Costa Rica had a fair performance with respect to economic indicators and the best results in social indicators; Chile performed well on economic indicators, but poorly on social indicators; in the 1980s Cuba led the region with respect to social indicators, but performed poorly in terms of economic indicators. Of the three only Costa Rica was a democracy, suggesting the possibility of developmental strategies that were developmental, democratic and socially inclusive.

India is a democracy where the inadequacy of social policy has clearly impacted negatively upon the country's development project. Not surprisingly, the case of India has always featured in debates about democracy, social policy and equity in developing countries. Jayati Ghosh addresses the question of the political underpinnings and the social contractual character of social policy in the management of the development project. In India, social policy has included the following elements: agrarian reform, food procurement and distribution, education, employment creation through public works, affirmative action in the form of reservation for public services employment and educational institutions, anti-poverty programmes directed

towards small asset creation or micro credit, changes in forms and structures of governance through decentralization, and some devolution of resources.

However, as Jayati Ghosh argues, while social policy may be both a desirable and necessary concomitant of the development process, its adoption cannot be taken for granted: it depends upon the constellation of political forces and the development strategies pursued. She argues that social policy has not been a basic instrument of development. Rather, it has emerged essentially in the form of ad hoc responses to particular demands emanating from groups that (at least temporarily) have acquired some degree of political voice. Indeed in the case of India the relative inadequacy of social policy over the post-independence period 'is one important reason why the development project itself has remained incomplete and unsatisfactory in terms of fulfilling the basic requirements of the majority of citizens'. This immediately raises the question why, in the case of India as the world largest liberal democracy, democracy itself has not resulted in greater attention being paid to the provision of basic goods and minimally acceptable level of public services to all citizens? Ghosh advances a number of possible explanations. One is the federal character of India. The second is the failure to introduce land reform and reduce asset and income inequality. Linked to this is a high level of tolerance for high levels of inequality. Inequality has contributed to the limits on the expansion of the domestic market for mass consumption goods most apparent in the 1960s with the exhaustion of import-substitution-driven industrialization. It also compelled the state to subsidize industry on the basis of limited revenue. This subsidization of the private sector and the failure of the state to impose minimum discipline on those receiving its favours led to a fiscal crisis that eventually led to adherence to neo-liberal policies that would curtail subsidies and lead to the privatization of state enterprises. Liberalization has undermined some of the initial gains in social policy. Growing inequality and the conspicuous consumption of the elite induced by 'the demonstration effect' of opening up is increasing social tensions, some of which show up in the form of violence against minorities.

Guy Mhone's account of the case of Zambia clearly testifies to the importance of path dependence and initial conditions in determining appropriate policies and their effectiveness. Zambia emerged at independence as a monocultural dualistic economy in which the 'modern' sector was only tenuously linked to the 'traditional sector' largely through the importation of labour to the mines. Superimposed on this dualistic model was a racialized formal labour market in which, over the years, the white working class had won for themselves a fairly extensive set of welfare rights. In the initial years, the colonial government treated the African workers as essentially 'target workers' on a brief sojourn through the urban areas. Consequently, no provisions were made for the social welfare. However, it soon became clear that the disruptive effects of 'modernization' on rural societies stoked rural-to-urban migration. Growing militancy of the black labour force also

drew attention to the plight of black labour and to their disruptive potential. In addition, stabilization of the labour force required improved living conditions in the urban areas. 'Native welfare' therefore entered the policy agenda.

The post-colonial regime was faced with: (a) the problem of deracializing the labour market; (b) creating more employment opportunities; and (c) bridging the urban–rural divide. For a while, high copper prices gave the state the resources to address some of these problems. However, the policies eventually ran into a fiscal crunch. Mhone argues that no conscious attempts were made to define comprehensive social policy in a developmental context. There has been little attempt to align social policy and economic policy and policies did not pay much attention to the developmental side, partly because of the belief that the rents from mining could underwrite the social programmes.

Mhone points out the failure of social policy in both colonial and post-colonial Zambia to 'seize upon traditional social systems as stepping stones for the developing of new support systems'. This is a poorly researched area that deserves attention in societies where non-wage labour will continue to constitute a significant source of the livelihoods for large numbers of people.

Globalization and social policy

One recurring theme in the chapters in this volume is the impact of globalization on social policy. Globalization affects social policy both at the normative level and in a more practical way, by setting constraints that social policy must be attentive to. Adhesion to international conventions, adjustment to fiscal pressures and responses to an international discourse on 'social rights' permeate domestic politics and affect social policy – or at least the thinking about it.

In the more practical sphere, it is often feared that globalization is not only reversing the social gains made in the developed countries in the 'golden era' of capitalism and the welfare state, but that it makes it highly improbable that developing countries will have the policy autonomy to nurture policies that would lead to 'distortions' in the labour market without losing international competitiveness and scaring away domestic and foreign investors. Furthermore, the erosion of the fiscal capacity of the state (partly due to great 'exit' possibilities for capital) is likely to undermine the domestic capacity to finance social policy. In sharp contrast to this view is the argument that there is no simple relationship between globalization and social policies or social indicators. National political arrangements and resolution of social conflicts mediate the pressures of globalization. As Chris Pierson notes, 'openness' to trade has often been associated with increased social expenditure, and there is no uniform pattern of response among the developed countries to globalization. Jayati Ghosh also argues that social policy has played a 'very important but largely unsung role' in terms of underwriting a significant

part of labour costs for private capital, therefore providing employers with greater flexibility and contributing to their external competitiveness. In addition, social policies have cushioned some key social groups against the volatility that globalization brings along. As Dani Rodrik has argued, the economic costs of external shocks are magnified by the distributional conflicts they trigger, and this diminishes the productivity with which a society's resources are utilized. This is largely because social polarization makes it more difficult to build consensus about policy changes in response to crisis.¹¹ As a consequence, policy makers in developing countries find themselves torn between the exigencies of global competition and the growing global and domestic demands for equity and justice. For developing countries, the exigencies of globalization are expressed not only through the spontaneous workings of the market but also (and sometimes largely) through the policies imposed or authorized by international financial institutions and the demands by trading partners that developing countries meet certain social standards.

Closely related to this is the possibility of developmental states in the context of globalization. One outstanding feature of developmental states has been the 'governing' of markets through import-substitution policies: export promotion, credit rationing, industrial policy and a whole gamut of interventionist policies. Many of these instruments are now either ruled out, in structural adjustment programmes, or are illegal under the new world trade dispensation. One conjecture is that developmental states will resort to more direct interventions through social policy or even ownership structure. One important feature of Keynesian economics was its contribution to the liberal embeddedness of policy in which open international trade and investment went side by side with unilateral interventionism at the national level, permitting nation-states to pursue national goals such as growth, full employment and social equity. Peter Townsend reminds us of how Keynes recognized the significance of the global financial architecture and the fact that such architecture had to be constructed as if employment and welfare mattered. This point, which has been forcefully made by Dani Rodrik, is most pertinent in the context of globalization. 'Open economies' are subject to the volatile functionings of the global market and therefore need social policies that reassure citizens that adjustments to the exigencies of globalization will be equitably shared. Chris Pierson suggests that today's global order will tend to push social policies (including those of welfare states in the developed countries) towards the East Asian 'regulatory' welfare regimes in which the state regulates social provision by the private sector, voluntary organization or household. In addition, for developing countries, the changes in policy stances of the IMF and the World Bank and other donors will have significant impacts on the nature of social policy in the developing countries.

A globalization process that takes development seriously should seek to increase the instruments available to developing countries, not only to enable

them to 'catch up' but also to permit them to manage the vagaries and social consequences of an increasingly volatile system. The boldness of Keynes' thinking in this respect is yet to be matched in thinking of a new global economic architecture, which functions as if development mattered.

Concluding remarks: the missing policy link

The triumph in the 1970s of what Albert O. Hirschman termed 'mono-economics' or what Krugman (1992) called the 'counter-revolution' against development economics detached economics from development studies in general, and from social development in particular. The chapters in this volume clearly elaborate the case that social policy can work in tandem with economic policy to lead to socioeconomic development and argue strongly for the inseparability of the economic and social. They therefore point to new approaches in social policy in which it serves both as an end and as an instrument of social development. Both the theoretical and historical chapters in this volume underscore the need for context-sensitive research on the links between macroeconomic performance and the fundamental goal of raising human welfare. There is also a clear need to bridge the hiatus between theoretical and empirical findings and social policy making, and between means and ends. This argues for the necessity of research that brings together the diverse strands of analysis and encourages more explicit consideration of policy implications in different political, economic, and social settings.

Finally, social policy addresses fundamental values of social inclusion, equity, human rights and widening of human capabilities: It is important that these intrinsic values are always at the forefront of thinking about social policy. However, in situations of extreme scarcity, any strategy that aims at sustainable improvement in the conditions of life of the majority must address both the problems of accumulation and the efficient allocation of scarce resources. The failure to do so can be self-defeating and can lead to a severe curtailment of people's capabilities. The pursuit of things of intrinsic value has to be seen in the context of the contending claims of efficiency, and in general of aggregative concerns (Sen 1999). This is the challenge of social policy in the development context.

Notes

1. On macroeconomic populism, see Dornbusch and Edwards (1990).
2. Ian Gough (2000) makes this case for the seminal work of Gøsta Esping-Andersen on welfare regimes in OECD countries as ways of conceptualizing the programmes, outcomes and effects of those capitalist countries that have been transformed into welfare states.

3. For a succinct review of this literature, see Atkinson (1999).
4. This is a central message of the studies in Mehrotra and Jolly (1997).
5. UNRISD's interest in these issues clearly emerges in some of the studies it has commissioned. See, especially, Cassen and Wignaraja (1997), which reports some of the micro-level evidence on the importance of social expenditure for human development and the ability of the poor to improve their capacities. The paper also considers studies of the effect of human capital on comparative advantage.
6. For a review of the literature on the relationship between health, nutrition and development, see Strauss and Thomas (1998).
7. This view was quite prevalent in Latin American 'structuralism' writing.
8. For a rigorous exposition of this position, see Taylor (1983, 1991).
9. Among the 'pioneers' of development economics, Nurkse's preoccupation with the need for 'balanced growth' raised the problem of the demand for goods produced by new industries in the absence of mechanisms that co-ordinated such supply with demand.
10. The importance of long-term 'trust' as social capital is tested by Knack and Keefer (1997).
11. The high profile given to safety-net programmes during adjustment is partly based on this argument. Such social programmes putatively make the adjustment process undermine the core logic of the adjustment model itself.

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