Concluding Remarks

Reducing poverty and inequality is not just about having the right economic policies; it is also about pursuing appropriate social policies and types of politics that elevate the interests of the poor in public policy. The analysis in the various chapters of this report points to the importance of understanding the ways in which institutions and policies are interconnected in different spheres of the political economy. It suggests that efforts to tackle poverty through discrete and standardized policies unrelated to a country's production and macroeconomic systems, social policies and politics, are of limited impact, and may even be counterproductive. Policies and institutions in the economic, social and political spheres need to be consciously coordinated to achieve maximum impact.

> *Democracy needs not just free and fair elections, but also organized citizens, special types of state-citizen relations and social pacts to deliver on distribution*

Configuring Institutions So That They Are Complementary

In most countries, institutions tend to complement rather than substitute for one another. This means that one institutional arrangement may be able to correct the imperfections of another.[1] There are many examples of successful institutional configurations that are built on complementarities among diverse institutions. For instance, the report shows that poor countries that succeeded in combining reasonable levels of growth and structural change, good welfare measures and democratic politics demonstrate a configuration that involves an active citizenry and the incorporation of rural and urban subaltern groups as independent actors in the policy process. In this sense, democracy needs not just free and fair elections, but also organized citizens, special types of state-citizen relations and pacts to deliver on distribution.

Aligning Labour Markets and Social Policy

Another important complementarity can be found between the structure of the labour market and social policies. The cost of social policy and the burden of universal coverage are reduced when the chosen development strategy delivers high levels of employment. Indeed, the labour market potentially provides the critical framework for integrating economic and social policies. For example, the manufacturing-led development path of East Asian countries generated low levels of unemployment. Together with the policy of life-long employment for many (largely male) workers in key industries, this strategy helped raise the majority of the population out of poverty. In these economies, there was a strong link between formal employment and social protection, which was provided by private firms with the state acting as regulator. Following the East Asian financial crisis, the dramatic growth in short-term employment contracts ruptured these complementary links between employment and social protection, leading to changes in social policy towards the inclusion of those not formally employed. The institutions of democratic politics were central to the dynamics that produced this policy change.

In countries with dualistic growth paths (such as Latin American economies), the failure of industrialization to deliver high levels of formal employment prevented the realization of positive complementarities between labour market participation and social protection as demonstrated in the East Asian cases. States committed to improving the welfare of the poor instead expanded social assistance schemes, such as cash transfers. While these schemes have helped to reduce poverty and inequality, the sharp divisions in labour markets and the failure of development strategies to generate formal jobs make it difficult to significantly reduce poverty and inequality. The lack of effective complementarity between labour market participation and social policy in poverty reduction is particularly marked in low-income service-based economies and agrarian economies that are characterized by low productivity. In these types of economies, an overwhelming proportion of the working population is employed in the informal sector and therefore lacks adequate coverage by social protection programmes.

Strategically Coordinated Markets Deliver Better Social Outcomes than Liberalized Markets

In the 1980s and 1990s, most developing countries embraced a development strategy that was oriented towards liberalized markets, fiscal stabilization, privatization and a limited role for the state in efforts to stimulate growth and reduce poverty. This neoliberal policy regime shares an affinity with the policy regime of advanced economies in which markets are the main drivers for coordinating activities across diverse spheres.[2] This regime is internally coherent, and has been effective in stabilizing economies and taming inflation, but is less successful in generating growth and employment-centred structural change, or reducing poverty in low-income countries.

The report shows that successful late-industrializing countries embraced more strategic forms of coordination, involving the state in multiple activities rather than merely the minimal market-enhancing roles of rule setting, regulation and stabilization. Such countries pursued policies and established institutions that not only allowed things to happen but also caused things to happen.[3] In general, these successful countries:

- mobilized resources for investment;
- created incentives that spurred entrepreneurs to adopt a long-term, integrated view of development;
- corrected market failures in credit markets by intervening to direct credit to weak but potentially productive investors;
- developed basic infrastructure as well as a trained, healthy and productive workforce;
- pursued strategies in industry, agriculture and trade that led to a healthy balance between these sectors; and
- ensured that development had a positive impact on the well-being of all sections of the population.

> *Successful late-industrializing countries pursued policies and institutions that not only allowed things to happen but also caused things to happen*

Balancing Social and Economic Sectors in Resource Allocation

The report shows that significant progress can be made when economic and social sectors are effectively aligned around issues of growth, structural change, employment and welfare, and are underpinned by appropriate institutions in the political sphere. This suggests that strategies for allocating resources should aim to achieve the right balance between economic and social sectors for maximum effects. If governments allocate resources predominantly to the productive sectors, the productivity gains associated with investments in social policies, especially education

and health, will be missed, while individuals who are disadvantaged or excluded from labour markets may be adversely affected. Similarly, a disproportionate allocation of resources to the social sector may harm the development of productive capacity and over time make it difficult to finance social activities.

Donor policies equally need to emphasize these critical complementarities between the economic and social sectors in tackling poverty, particularly in the least developed countries. Spending on infrastructure and the productive sectors (including industry, agriculture, forestry and fishing) has declined since the late 1980s, in part reflecting the neoliberal consensus that such investments were market distorting. More recently spending on social sectors and governance has risen,[4] a trend that has continued as the focus of development assistance has shifted to poverty reduction.

The transition away from spending aid on infrastructure and other productive activities is a more recent phenomenon. Aid for infrastructure remained roughly constant (between 20 per cent and 30 per cent of total aid) during the 1980s and early to mid-1990s. However, since the late 1990s, the proportion of aid invested in infrastructure has roughly halved. This shift appears to be directly related to a change in emphasis from economic growth to poverty reduction, as donors seek results in meeting the Millennium Development Goal (MDG) targets.[5] There are signs, however, that the declining trend in aid for infrastructure and other productive sectors may be starting to change as donors heed the recommendations of the influential UN Millennium Project, which, in 2005, drew attention to the massive public investment that is required in the infrastructure of developing countries.

Clearly, in very poor countries with limited resources the need for investment across a range of sectors is severe. Weighing up the competing demands of social services, governance and the productive sectors to ensure that potential synergies created by spending in a variety of areas are exploited is a complex undertaking. The level of resources needed for both social and economic sectors needs to be substantially raised to transform low-income economies and make significant inroads into reducing poverty. The benefits of improved social policy, such as producing a healthy and educated workforce, can be effectively exploited when levels of provisioning are high and corresponding investment is made in productive sectors to generate jobs. Conversely, as the report has shown, employment generation is a vital means of linking poor people into economic development processes and is essential for large-scale poverty reduction.

Creating Synergistic Relationships

This discussion on synergies and complementarities suggests that development strategies and reforms need to be sensitive to the ways in which institutions and policies are connected if they are to produce the desired outcomes. Institutional interconnectedness requires multiple instruments in order to be effective. For example, the much discredited marketing board systems performed multiple tasks in African development, but the reforms that dismantled them had only one focus and one instrument: price liberalization. Governments used the boards to appropriate peasant surpluses and pursue three public policy goals: provide much-needed foreign exchange for industrialization and economic development; cushion the incomes of farmers against world market fluctuations; and provide extension and social services to farmers and the wider public. The failure to comprehend the interconnectedness of the marketing board institutions with wider institutions and goals has been catastrophic in many countries.

Important complementarities also exist among different social services that may require coordinated and multiple instruments to maximize their effects. Universal access to health care, for example, enhances investment in education by ensuring that school enrolment and outcomes are not constrained by illness. Similarly, universal access to education enhances investment in health by increasing the use of information on health practices. Early childhood

care programmes can improve child health and education outcomes. Social service provision reduces the need for social protection or assistance if episodes of illness, and thus of unemployment and income, are reduced. Social protection mechanisms such as income transfers may in turn relax financial constraints that impede access to social services. And investments in basic infrastructure such as water, sanitation and transport can improve health outcomes, reduce time spent collecting water and travelling, and facilitate access to other services.

Politics Matters in Creating and Exploiting Synergies

The exploitation of synergies among different sectors and subsectors is important in overcoming poverty and inequality. However, such synergistic relationships are not automatic. They require conscious design of both economic and social policies, backed by sufficiently powerful coalitions to implement them. Institutional complementarities require, but should not be reduced to, policy coherence, which can degenerate into a technocratic exercise. Competing values on rights, differences in the roles played by markets and non-market institutions in coordinating activities, and differences in power structures that have evolved historically all determine variations in regimes or institutional complementarities.

> *Synergistic relationships among different sectors and subsectors are not automatic; they require conscious design of both economic and social policies, backed by sufficiently powerful coalitions to implement them*

Notes

1 Boyer 2008.

2 Hall and Soskice 2001; Hall and Gingerich 2004.

3 Nayyar 2006:11.

4 Lavers 2008.

5 Lavers 2008.

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