Social Policy in a Development Context

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Acronyms

BWI	Bretton Woods institution
GDP	gross domestic product
HIPC	Highly Indebted Poor Country
IMF	International Monetary Fund
NGO	non-governmental organization
NIC	newly industrializing country
PRSP	Poverty Reduction Strategy Papers
WHO	World Health Organization

Summary/Résumé/Resumen

Summary

This paper addresses 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?* The paper argues that this requires rethinking social policy 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.

A number of factors have contributed to a revival of interest in social policy in the context of development:

- The rediscovery of poverty in national and international policy discourse.
- The realization that it is not a biologically given, but instead a socially constructed capacity or potential resulting from deliberate investment in human capital or institutional arrangements, that determines the participation of individuals from different social groups in labour markets.
- The revival of interest in growth economics and the emergence of so-called "new growth theories", which recognize that social development contains crucial instruments for economic development.
- An interest in social equity, both as an instrument for the promotion of growth and as an end in itself.
- An interest in social security, in light of the greater economic volatility of economies in the context of globalization and the greater vulnerability of ever-larger groups of people.
- The historical lessons of the importance of social policy in the "late industrializers".

The impact of globalization on social policy is a central preoccupation in both developed and developing countries. Globalization affects social policy both at the normative level and in a more practical way, by setting constraints (fiscal and trade) that social policy must be attentive to. Related to this is the growing provision of social services by transnational actors—aid donors, non-governmental organizations and transnational corporations. Under this new policy thrust, the role of the state is to provide "an enabling environment" for private provision while reducing its own expenditures and activities in the social sector.

The identification of a number of old and new arguments for the case that social policy can work in tandem with economic policy to lead to socioeconomic progress, and the recognition of the productivity-enhancing quality of measures that contribute to social development do not necessarily lead to their adoption. There are many impediments to the translation of new insights into policy measures. The first of these is the persistence of economic policy making based on a "leader/follower" model, where macroeconomic policy is determined first and social policy is left to address the social consequences. The second impediment relates to unresolved theoretical and empirical issues. The third, and probably more recalcitrant, impediment is political and ideological. Social policies are the outcomes of political bargains and conflicts. Consequently, the study of social policies in *developmental* contexts must be sensitive to the *political* contexts within which they are formulated and implemented.

There is a 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. The paper thus argues for the necessity of research that brings together such diverse strands of analysis and encourages more explicit consideration of their policy implications in different political, economic and social settings.

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Résumé

L'auteur s'interroge ici en ces termes: Comment les politiques sociales peuvent-elles être utilisées afin d'améliorer les aptitudes sociales dans le cadre du développement économique sans abandonner, dans le processus, les valeurs intrinsèques des objectifs sociaux définis et supportés par les décideurs? La thèse développée est qu'il faut repenser la politique sociale et cesser de la considérer comme un parent pauvre, un de ces "filets de sécurité" qui ne sont là que pour pallier des échecs politiques ou un développement catastrophique. Il faudrait concevoir la politique sociale, dont la préoccupation première et générale devrait être le développement social, comme un outil primordial servant, au même titre que la politique économique, à assurer un développement équitable et socialement durable.

Plusieurs facteurs ont contribué au regain de l'intérêt dont a bénéficié la politique sociale dans le contexte du développement:

- La redécouverte de la pauvreté dans le discours politique national et international.
- La conscience du fait que ce n'est pas une donnée biologique, mais une capacité ou un potentiel résultant d'une construction sociale et d'un investissement délibéré dans le capital humain ou dans des mécanismes institutionnels, qui détermine la place d'individus de différents groupes sociaux sur les marchés du travail.
- Le regain d'intérêt pour l'économie de la croissance et l'apparition de ce qu'on appelle "les nouvelles théories de la croissance", qui admettent que le développement social recèle des outils cruciaux pour le développement économique.
- Un intérêt pour l'équité sociale, à la fois comme instrument de promotion de la croissance et comme fin en soi.
- Un intérêt d'autant plus vif pour la sécurité sociale que la mondialisation entraîne une plus grande instabilité des économies et fragilise des groupes d'individus de plus en plus importants.
- L'expérience des pays tardivement industrialisés, dont l'histoire montre l'importance de la politique sociale.

Les conséquences de la mondialisation pour la politique sociale sont au centre des préoccupations, dans les pays développés comme dans les pays en développement. La mondialisation affectant la politique sociale aussi bien à un niveau normatif que pratique par un certain nombre de contraintes (budgétaires et commerciales), la politique sociale se doit d'être des plus attentive. A cela s'ajoute le fait que, de plus en plus, des acteurs transnationaux—des donateurs, des organisations non gouvernementales et des sociétés transnationales—sont amenés à fournir des services sociaux. Selon la nouvelle conception politique de l'Etat, son rôle est de créer "des conditions favorables" à la prestation de services par des acteurs privés tout en réduisant ses dépenses et ses activités dans le secteur social.

Recenser nombre d'arguments anciens et nouveaux prouvant que la politique sociale, alliée à la politique économique, peut déboucher sur le progrès socio-économique et reconnaître que les mesures qui contribuent au développement social améliorent aussi la productivité, ce n'est pas forcément les adopter. Bien des obstacles empêchent les idées nouvelles de se traduire en mesures politiques. Le premier tient à la prédominance d'une définition de la politique économique basée sur un modèle "meneur/suiveur" qui ne laisse à la politique sociale que le soin de remédier aux conséquences sociales. Le deuxième obstacle tient à des questions théoriques et empiriques non résolues. Le troisième, et sans doute le plus dur à surmonter, est d'ordre politique et idéologique. Les politiques sociales résultent de compromis et de conflits politiques. En conséquence, l'étude des politiques sociales dans des contextes de *développement* doit être attentive aux contextes *politiques* dans lesquels elles sont établies et appliquées.

On a besoin de recherches qui tiennent pleinement compte du contexte dans lequel se développent les liens entre les résultats macro-économiques et l'objectif fondamental qui est d'améliorer les conditions de vie des populations. A l'évidence, il est nécessaire aussi de combler le hiatus qui subsiste entre les conclusions théoriques et empiriques et la définition de la politique sociale, et entre les moyens et les fins. Ainsi, l'auteur plaide pour des recherches qui réunissent divers courants d'analyse et les encouragent à examiner de plus près leurs implications politiques selon les contextes politiques, économiques et sociaux.

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Resumen

En este documento se aborda el siguiente problema: *¿Cómo pueden utilizarse las políticas sociales con objeto de ampliar las capacidades sociales para el desarrollo económico, sin erosionar, en el proceso, los valores intrínsecos de los objetivos sociales que los encargados de la formulación de políticas pretenden afrontar?* Este documento sostiene que esto requiere un replanteamiento de la política social, lejos de su concepción como categoría residual de "redes de seguridad" que simplemente contrarrestan los fracasos de las políticas o los desastres del desarrollo. La política social debería concebirse de una manera que abarcase preocupaciones generales y prioritarias en lo

concerniente al desarrollo social, y como instrumento clave que funcionase conjuntamente con la política económica para asegurar un desarrollo equitativo y socialmente sostenible.

Una serie de factores han contribuido a reavivar el interés por la política social en el contexto del desarrollo:

- El redescubrimiento de la pobreza en el discurso político nacional e internacional.
- La comprensión de que no se trata de un don biológico, sino de una capacidad o un potencial socialmente construídos, como resultado de una inversión deliberada en capital humano o en acuerdos institucionales, que determina la participación de los miembros de diferentes grupos sociales en los mercados de trabajo.
- El interés reavivado en la economía del crecimiento y la aparición de las llamadas "nuevas teorías del crecimiento", que reconocen que el desarrollo social contiene instrumentos fundamentales para el desarrollo económico.
- Un interés en la equidad social, como instrumento para el fomento del crecimiento, asi como fin en sí mismo.
- Un interés en la seguridad social, a la luz de una mayor volatilidad económica de las economías en el contexto de la mundialización y de la mayor vulnerabilidad que afecta cada vez a un mayor grupo de personas.
- Lecciones que nos enseña la historia sobre la importancia de la política social en los "países tardíamente industrializados".

Los efectos que la mundialización produce en la política social es motivo de preocupación fundamental tanto para los países desarrollados como en vías de desarrollo. La mundialización afecta a la política social tanto a nivel normativo como práctico, estableciendo limitaciones (fiscales y comerciales) a las que la política social debe prestar atención. Ello está relacionado con el aumento de la prestación de servicios sociales hecha por actores transnacionales—organismos de ayuda, organizaciones no gubernamentales y empresas transnacionales. Bajo esta nueva tendencia política, la función del Estado es facilitar un "clima propicio" para la provisión de servicios privados, al tiempo que recorta sus propios gastos y actividades en el sector social.

La identificación de una serie de viejos y nuevos argumentos que defienden que la política social puede actuar conjuntamente con la política económica para lograr el progreso socioeconómico, y el reconocimiento de la calidad, que redunda en el aumento de la productividad, de medidas que contribuyen al desarrollo social no conducen necesariamente a su adopción. Hay numerosos impedimentos que evitan que estas nuevas percepciones se traduzcan en medidas políticas. El primero de ellos es la insistencia en la elaboración de políticas económicas basadas en un modelo "líder/seguidor", donde primero se determina la política macroeconómica y posteriormente se utiliza la política social para abordar las consecuencias sociales. El segundo impedimento está relacionado con cuestiones teóricas y empíricas sin resolver. El tercero, y probablemente el más recalcitrante, es de naturaleza política e ideológica. Las políticas sociales son consecuencia de pactos políticos y conflictos. Por consiguiente, el estudio de las políticas sociales en contextos *de desarrollo* debe tener en cuenta los contextos *políticos* dentro de los cuales, éstas se formulan y aplican.

Es necesario hacer un estudio contextual sobre los vínculos existentes entre el rendimiento macroeconómico y el objetivo fundamental de fomentar el bienestar de las personas. También hay una necesidad patente de reducir la brecha entre los resultados teóricos y prácticos y la elaboración de políticas sociales, al igual que entre medios y fines. Así pues, en este documento se aboga por la necesidad de realizar un estudio que recoja estas diversas tendencias de análisis y que invite a considerar de un modo más explícito las consecuencias de estas políticas en diferentes marcos políticos, económicos y sociales.

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Background

This paper addresses 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?* I argue that this requires rethinking social policy 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 to social casualties, but also integrated as a central component of policies, to ensure the wherewithal for their sustainability. Not all elements of social policy need be explicitly expressed. For example, social policy may be embedded in economic policy, when the latter has intended welfare consequences or reflects implicit or explicit socioeconomic priorities, such as reducing politically unacceptable levels of unemployment. Nevertheless, some elements of social policy are more explicit, such as direct government provision of social welfare, in part through broad-based social services and subsidies.

I define social policy as collective interventions directly affecting transformation[1] in social welfare, social institutions and social relations. Social welfare encompasses access to adequate and secure livelihoods and income. Social relations range from the micro to the global levels, encompassing intra-household relations of class, community, ethnicity, gender, etc. Social institutions are the "humanly devised constraints that shape human interaction" or "the rules of the game" in a society (North, 1990). It is now widely recognized that these are important determinants of economic development, which, in turn, facilitates achievements in these areas.

A number of factors have contributed to the revival of interest in the problems stated in the first paragraph. Political exigencies related to the growing wave of democratization have given voice to social classes likely to insist on economic policies that are socially sensitive. There is now a global discourse insisting that social rights must be respected in the process of economic development. Developments in economics and other disciplines have given impetus to new analysis—as well as a rediscovery of some of the "old" development insights—bringing to the fore what have hitherto been treated passively, reactively and secondarily to macroeconomic issues of growth and development.

The problem of the relationship between social welfare and economic performance has a long pedigree. Some of the luminaries of classical political economy—Smith, Turgot, Condorcet—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 (1996) argues that the "cruel reputation" of political economy is quite undeserved:

[1] I use the term transformation advisedly, as this may involve retraction and retrenchment as well as social development.

> 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 a similar vein, Cole et al. (1992:1095) write that "the interaction between the organization of a society and economic performance was once considered perhaps the fundamental question of political economy". 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 this 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. And as Irma Adelman reminds us, virtually all the major schools of development studies had a multidimensional view of the sources of development. 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 element of 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 was seen as an important aspect of the developmental process. The United Nations, and even the World Bank in its early reports of the 1940s and 1950s, considered modern social arrangements among the preconditions for economic development (Temple and Johnson, 1998). This view was not exclusive to development studies, but was actually derived from the Keynesian view of macroeconomics. The general view then was that the relation between macroeconomic policy and social policy was a positive one (Atkinson, 1999).

Over the years, these insights 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. Social policy 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 utopian because they fail to address the issue of resource constraints and are, therefore, ultimately self-defeating since they can only induce unsustainable and inefficient deployment of resources (for example, through "macroeconomic-populist"[2] fiscal policies, which lead to cumulative deficits, and through perverse incentive effects). Hence 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. Social policy is often introduced, if at all, 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 polices or economic performance. More specifically, as a consequence of this "projectizing and micro-izing", to borrow Judith Tendler's apt characterization (Tendler, 2000), 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. In consequence, their social development initiatives have tended to focus on needs, whether these are expressed as "basic needs" or "sustainable livelihoods". While such a focus has served as a healthy reminder of what the purpose of economic development is, it has also tended to give social policy a passive role with respect to resource mobilization and generation. The focus on the social expenditure (social benefits) side of public finance has eschewed involvement in debates on the social investment side (education, training).[3] The (quite understandable) aversion to the "handmaiden model" of social policy that relegates social services to an adjunct of economic policies has, unnecessarily and perhaps unintentionally, 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. 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] In situations of extreme scarcity, any strategy that aims at sustainable improvement in the conditions of life of the majority must address both

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2 On macroeconomic populism, see Dornbusch and Edwards (1990).

3 Of course the distinction between "social spending" and "social investment" is rarely that sharp, especially in developing countries where various forms of immediate consumption may have long-run effects. Nevertheless, in a developmental policy context it is important that these long-term consequences of different forms of social expenditures be made explicit.

4 This is a central message of the studies in Mehrotra and Jolly (1997).

the *accumulation* and the *efficient allocation* of scarce resources. The failure to do so can be self-defeating. As Amartya Sen (1992) has observed:

> …equality is not the only social charge with which we have to be concerned, and there are demands of efficiency as well. An attempt to achieve equality of capabilities—without taking note of aggregative considerations—can lead to severe curtailment of the capabilities that people can altogether have. The demand of equality of capabilities has to be seen in the context of the contending claims of efficiency, and in general of aggregative concerns (p. 8).

Sen (1999) has identified five distinct types of "freedoms" from an instrumental perspective: (i) political freedoms; (ii) economics facilities; (iii) social opportunities; (iv) transparency guarantees; and (v) protective security. He argues that these "freedoms are not only the primary ends of development, they are also among its principle means". And yet he has also argued that "while development analysis must, on the one hand, be concerned with objectives and aims that make…instrumental freedoms consequentially important, it must also take note of the empirical linkages that tie the distinct types of freedom together" (p. 10). Social policy must therefore serve as both means and ends.

The Rediscovery of Poverty

One important argument for the increasing recognition of the important role of social policy has been the persistence of poverty even in situations of "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. But no automatic mechanism exists to translate growth into an expansion of human choices: the link between economic growth and human welfare has to be created consciously. For example, social policies that enhance education and health must also create conditions that harness these capacities for growth and ensure that growth, in turn, addresses issues of equity and poverty.

In addition, there has been something tantamount to a paradigmatic shift as the "Washington consensus" loses its lustre. Over the years, critics of structural adjustment have pointed to the fact that short-term adjustment policies undermine long-term development prospects by destroying the social capacities of the affected societies, weakening the legitimacy of the state, reducing social and physical investment, and worsening inequalities in income distribution that accentuate conflict (Stewart, 1994a and 1994b). Partly in response to such criticism, and the obvious failure of adjustment to address problems of poverty and to place economies on a long-term growth path, the Bretton Woods institutions have signalled a turn toward poverty and developmental issues after years of exclusive focus on stabilization and efficiency. The World Bank has begun to shift its focus toward poverty alleviation and to argue for support to social sectors on developmental grounds. The president of the Bank has proposed a "comprehensive development framework", which takes on board "structural, social and human aspects" (Wolfensohn, 1999). Emblematic of these shifts is the World Bank's report on poverty (2000).

Even the IMF has been compelled to give explicit recognition to the importance of social policy.[5] Significantly, the extended structural adjustment facility has been relabelled by the IMF. Yet the new "Poverty Reduction Strategy Papers" and the "Poverty Reduction and Growth Facility" to which they are linked are expressions of the social conditionality that has been added on to economic conditionality. 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. Running through them is an increased emphasis on ownership, transparency and broad-based participation, as well as a much greater emphasis on more effective social policies" (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 World Bank estimates that two thirds of total relief will be absorbed by expenditures on health and education. Since one can expect such funds to leverage considerable amounts of co-financing by national governments, there can be little doubt that the PRSP will significantly shape social policy in these countries. Whether such social policy will be developmental or not depends on the extent to which the macroeconomics to which HIPC and PRSPs are tethered are developmental.

The focus on poverty does not, of course, mean there is a consensus on the diagnosis of or the prescriptions for healing the malaise. There are still disagreements on the appropriate macroeconomic policies, on the respective roles of the state and private sector, on appropriate trade regimes, on the role of internal and external factors, etc.[6]

Sectoral and Micro-Level Explanations

At the micro level, interest in social policy has been stimulated by the realization that labour is a "produced 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

[5] A recent policy document states:

> The IMF's growing emphasis on social policy issues has emerged from an explicit recognition that more importance must be attached to equity and the full development of human resources if reform programs are to be viable in the long run.
>
> The IMF's mandate is to promote international monetary co-operation, the balanced growth of international trade, and a stable system of exchange rates. Fulfilling this mandate is the IMF's primary contribution to sustainable economic and human development. In pursuing it, however, the IMF has increasingly come to recognize the need to address social concerns—such as rising unemployment, malnutrition, and social marginalization—that arise in the context of macroeconomic stabilization and structural adjustment reforms. This realization reflects two broad trends that have manifested themselves over the past two decades: the emergence of more open and participatory forms of government, and a growing recognition that popular support for traditional adjustment programs has become an essential precondition for their ultimate success (IMF, 1998).

The IMF associates social policy and growth in the following way:

> Through policy discussions and technical assistance, the IMF contributes to improving transparency in governments' decision making and their capacity to monitor social developments. As part of this effort, the IMF also focuses on social sector spending of member countries—in particular on health and education—in its surveillance and program activities. This focus reflects a recognition of the crucial links between the level and efficiency of health and education spending and economic growth (IMF, 1998).

[6] For a discussion of some of these disagreements, see Kanbur (2001). Ravi Kanbur was the Director of the **World Development Report 2000/2001** (on poverty). He was forced to resign in May 2000. On the heavy-handed methods used to force out both Kanbur and Joseph Stiglitz, former World Bank Chief Economist, see Wade (forthcoming).

investment in human capital or institutional arrangements that determine the participation of individuals from different social groups in labour markets. An argument for a wide range of policies subsumed under the heading "social welfare" is that they contribute to labour productivity.[7]

Furthermore, 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 neoclassical 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 on 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. Two of the leading proponents of this position, Pranab Bardhan and Samuel Bowles (1996), advance the following arguments:

> **First,** inequality may impede economic performance by obstructing the evolution of productivity-enhancing governance structures in firms, farms, communities, and nations, in part because institutional structures supporting high levels of inequality are costly to maintain, and because inequality is an obstacle to the shared values and trust essential to efficient bargaining and co-operative decision making.
>
> Second, where hard work, innovation, maintenance of an asset and other behaviour essential to high levels of economic performance cannot be specified in costlessly enforceable contracts, some distributions of property rights are more efficient than others, and there may therefore exist a class of redistributions of property rights which in conjunction with other policies (such as insurance) yield outcomes both more efficient and more egalitarian than the status quo in most economies (p. 4).

The message here is that "the distribution of control rights over assets and residual claimancy on income streams has efficiency effects" and that concern with supply problems does not exclude equity (Bowles and Gintis, 1995:414).

Gender studies have provided another important micro-level argument for rethinking social policy in the context of development. Researchers working on gender and development hold that because labour is a "produced means of production", 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). 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, interpersonal and

[7] 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.

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. A few neoclassical economists have recognized the role of the household in the creation of human capital, and thus the implications of the household for long-run growth

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 shortfalls 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 childcare 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.

Macro-Level Explanations: Growth Theories

In recent years, differences in growth rates among the OECD countries and the apparent absence of convergence between the developed and the developing countries have revived interest 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). If productivity is substantially higher in the technologically leading country or countries when a number of countries are compared, it is possible for the countries in the less technologically advanced group to catch up by borrowing and adopting technologies from the technologically advanced countries. 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, interpersonal trust, national or social cohesion, norms of civic co-operation, associational activities and formal institutions) (Abramovitz, 1995; Hanson and Henrekson, 1997; Knack and Keefer, 1997; Krause, 1995).

In the original Solovian model (Solow, 1956), the lower the initial level of real per capita GDP, the higher the predicted growth rate. With everything else but initial capital intensities equal, economies would converge as those with lower capital intensities caught up with the more advanced ones facing diminishing returns to capital. The propositions of the new growth theories arise from an extension of Solow's basic model so as account for the empirical evidence on non-convergence or the conditional nature of convergence. They do this by endogenizing the variables that it either assumed away or treated as exogenous—technology, increasing returns to scale, human capital. Earlier versions of such models introduced proxies for accumulation of human capital and confirmed that conditional convergence would take place (see, for example, Mankiw et al., 1992). If economies differed in some aspects, such as willingness to work, dependency ratios, access to technology or government, then convergence would be conditional.[8]

The generic model that has been extensively tested takes the form:

$$\dot{Y} = \beta_i I + \beta_m M + \beta_z Z \qquad (1)$$

where *Y* is the growth rate of income, *I* is a vector of initial conditions, *M* is a vector of control variables or policy instruments and *Z* is a vector of variables that are believed to represent appropriate conditioning information. There has been an explosion of tests of such models, with the growth in the number of variables constrained only by data availability (there being no theoretical framework for determining relevant variables). The variables that economists now take up to capture the "social" are many—ranging from literacy rates, density of communications networks, and trust, to density of "civil society", political participation, political stability, kinship relations, etc.

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.[9] Health improvements are also found to play a role in economic growth through their impact on productivity and demography. A major result to emerge from research is that life expectancy is a powerful predictor of subsequent economic growth. The mechanisms are believed to be: (i) improvements in productivity that arise from a healthier workforce and less morbidity-related absenteeism; (ii) increased incentives for individuals and firms to invest in physical and human capital; and (iii) increase in savings rates, as working-age individuals save for their retirement years.[10] The demographic shift induced by improved health reduces the dependency ratios (which reduces savings) and increases the share of the active labour force in the economy. Such

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[8] For a succinct presentation of the empirics of these growth theories, see Barro (1998)

[9] For a review of the literature on the relationship between health, nutrition and development, see Strauss and Thomas (1998).

[10] The impact of this literature on policy making is indicated by the presentation of the research results to the "Transition Team" of the World Health Organization (WHO). WHO (2000) draws heavily on this research.

a "demographic transition" has been credited with the good perfomance of East Asian economies (Bloom and Williamson, 1998; Krugman, 1994).

A broader argument is stated by Stewart et al. (2000), who consider the two-way influence of economic growth and human development. They argue that those countries which have leaned toward human development through a whole range of social policies affecting education, health and equity tend eventually to enjoy higher rates of growth. One should also note here the long tradition in development economics of quantifying the impact of some sociopolitical variables on growth. Two economists who have doggedly and meticulously emphasized the importance of social and political variables in development are Irma Adelman and Cynthia Taft Morris who, as early as 1965, found 66 per cent of intercountry variations in levels of economic development to be associated with differences in non-economic characteristics (Adelman and Taft Morris, 1965). They insisted on the fact that although one could not claim causation from correlation between sociopolitical factors and economic development, "it is just as reasonable to look at underdevelopment as a social and political phenomenon as it is to analyse it in terms of intercountry differences in economic structure" (p. 556). They argued that the close interrelationship between the economic and non-economic concomitants of a country's historical evolution "lends support to the view, long held by development economists, that, in the last analysis, the purely economic performance of a country is strongly conditioned by the social and political setting in which economic activity is taking place" (p. 578). Interestingly, the recent extension of growth models to include social factors has revived interest in the studies by Adelman and Taft Morris, as evidenced by the papers by Jonathan Temple and Paul Johnson (1998) and Ahmet Tekiner (1980), which both show that the Adelman and Taft Morris indicators explain a considerable amount of the growth performance of developing countries.

Finally there is a "structuralist" angle to this revival of interest in social policy. Lance Taylor et al. (1997), who criticize new growth theories for their failure to highlight that education is necessary but not sufficient for growth, reframe the concept of human capital in terms of several constraints that policy must address. They argue that three produced means of production can constrain economic growth—foreign exchange, physical capital and human capital—and advance a "three gap" growth model in which any of these three can be the binding constraint on growth.

New growth theories have been criticized for their selective formalization of variables from empirical studies—as well as for their focus on those variables that are easy to formalize, and on "immediate" determinants of growth (Nelson, 1997). It has also been argued that new growth theories are characterized by a certain tautological quality, and that they suppress what many economists would regard as the ultimate determinant of growth differentials, namely institutions. New growth theories are also accused of being largely a formalization of insights that have been well known to economists for decades (Foss, 1997; Syrquin, 1994). In addition, they have increased the "laundry list" of variables to an extent that is not particularly helpful to policy makers, who must set priorities and sequence their polices optimally. Part of the problem is that most of the exercises are theoretical, in the sense that they do not impose or indicate the empirical causation from policy to performance (or vice versa). The few that do so tend to suggest policy sequencing that is spurious at best. However, while acknowledging these weaknesses, we should also recognize that this eclectic and rather procrustean explanation of economic growth has the salutary implication of opening economics to other disciplines. The linkage of "new institutional economics" to either endogenous or catch-up growth theories has further highlighted relations between political and social institutions on the one hand, and economic growth on the other, and of the precise nature of the link between political and social institutions and growth. This makes economics accessible to other social scientists and may, as Harris et al. (1995:2) suggest, "open up the terrain of genuinely inter- (not just 'multi-') disciplinary enquiry". Moreover, it breaks the linguistic and psychological barriers that have prevented the more mathematically inclined economist from engaging other economists or social scientists (Toye, 1995).

By their very formalism, economic models have not only made certain important variables more transparent as potential policy instruments; they have also compelled practitioners in other disciplines to be more precise in their definitions and claims of causality, and persuaded them that data collection may actually pay off in terms of aiding our understanding of the development process. Their formalism grants them heuristic value. Students of gender and the economy have pointed to the importance of some insights of the new growth theories for gender issues. They argue that the attention to human capital offers greater opportunities than older theories to integrate gender relations into both social analysis and development policies. Significantly, gender can be integrated at the outset, rather than treated as an afterthought (Palmer, 1995; Walters, 1995). Walters (1995:1878) argues that "many of these models may be re-analysed from a gender perspective by changing their assumptions about labour input and recognizing some constraint arising from the reproductive sector". The models have also signalled an opening by economists to other disciplines engaged in social policy and development. And some of the problems faced in new growth modelling point to the importance of interdisciplinary approaches if the social variables introduced are to be given their full social meaning when making policy. Yet many new growth models face the danger inherent in extrapolating concepts beyond their domain. In the process of such extrapolation, variables may be shorn of their full social meaning, which may actually provide some of the causal links to growth. Given the influence of economists on development policy, their application of social concepts in oversimplified or vulgarized forms would need to be checked with much more nuanced definitions of these concepts.

Redistribution, Social Policy and Development

One major purpose of social policy is 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". Kuznet's 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.

For much of the 1960s and 1970s, "growth first" and trickle down views permeated a good deal of the thinking about policy. This was a period of rapid growth, and one can thus understand some of the euphoria. But by the end of the 1970s, it was increasingly realized that growth was accompanied by poverty and inequity, and that in the absence of deliberate policies to shape the patterns of growth, there was no guarantee that growth would trickle down in amounts sufficient to begin to address poverty, let alone equity. Consequently, a new generation of strategies aimed at meeting basic human needs or inducing "growth with equity" were proposed. These "basic needs" and "equity with growth" strategies were short-lived, however, their demise linked to the economic crisis of the 1970s and the ideological ascendancy of neoliberalism in the leading developed countries and international financial institutions. Even in its heyday, the basic needs strategy attracted considerable scepticism from some important quarters in the development establishment.[11]

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 development with state intervention opened it to neoliberal attack as one of the sources of economic failure. 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.[12] 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 neoliberal scepticism about social solidarity, given its view of human action as motivated by self-interest and devoid of any moral basis. It should also be pointed out that, with policies focused on stabilization rather than growth, the emphasis on the fiscal cost of social policy was likely to overshadow whatever long-term value social policy might have for economic growth. 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, privatization of social programmes and the abandonment of social planning as an integral part of policy making. It should be added here that pressures from 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 lost sight of. 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.

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11 World Bank fears were not allayed by the tendency of some of its critics to go as far as to reject macroeconomic growth because of its failure to lead automatically to improved welfare. Indeed, in criticizing the "economism" of those who attach great value to the growth of GDP, critics tend to give an impression, first, that there is indeed a trade-off between GDP and those things they themselves value, and second, that their own preference is to sacrifice economic growth in favour of those other things.

12 For a succinct review of this literature, see Atkinson (1999).

The case for redistributive social policy has been made along a number of lines. The first of these was of Keynesian and "underconsumptionist" inspiration.[13] More egalitarian income distribution, it was posited, would broaden domestic markets, encourage better capacity utilization and encourage new investment.[14] 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.[15] 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 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.[16] Dani Rodrik (1998b) has argued that 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.[17] 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

Neoinstitutionalists have added their voice to the case for redistributive policies on the grounds that there is no necessary trade-off between equity and efficiency, and that, instead, the two may work to reinforce each other. In this view, the main contribution of egalitarian policies to sustainable income growth may be not through the demand effects discussed above, but rather

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13 This view was quite prevalent in Latin American "structuralism" writing.

14 For a rigorous exposition of this position, see Taylor (1983 and 1991).

15 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.

16 The importance of long-term "trust" as social capital is tested by Knack and Keefer (1997).

17 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.

through their positive impacts on productivity by solving "agency" and co-ordination problems on the supply side. Bowles and Gintis (1995:409) 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. 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.

As Pranab Bardhan (1999) states:

> The terms and conditions of contracts in various transactions that directly affect the efficiency of resource allocation crucially depend on who owns what and who is empowered to make which decisions. Institutional structures and opportunities for co-operative problem-solving are often foregone by societies that are sharply divided along economic lines. Barriers faced by the poor in the capital markets (through a lack of collateralizable assets which borrowers need to improve the credibility of their commitment) and in the land market (where the landed oligarchy hogs the endowments of land and water) sharply reduce a society's potential for productive investment, innovation and human resource development. Under the circumstances, if the state, even if motivated by considerations of improving its political support base, carries out redistributive reform, some of it may go toward increasing productivity, enhancing credibility of commitments on the part of the asset-poor and creating socially more efficient property rights (p. 25).

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 and Roemer, 1998).

For economists of neoclassical bent, this new material must be a source of some excitement. According to Jagdish Bhagwati (1988):

> At the outset, it is worth noting that there are significant externalities for growth itself from expenditures on publicly provided services. Many of us have been surprised, though pleasantly this time, by the realisation that we had exaggerated our early fears about the trade-off between 'consumption' expenditures (such as financing education and health) and investment expenditures aimed at growth and hence ultimate impact on poverty. It is difficult today to appreciate the widespread notion in the 1950s that primary education was simply a 'natural right', whose implementation reflected the availability of resources. That it was possibly an important means for raising productivity and hence growth and therefore reducing poverty, and that it could therefore be justified also on consequentialist ethics, was a later phenomenon. This holds equally for health expenditures, which were viewed with inhibited enthusiasm also for fear that they would exacerbate population growth. Only later were they considered to have a possible productivity-enhancing effect on populations that could otherwise be working at impaired efficiency or even to lead to a lowering of the birth rates if, by reducing infant mortality and increasing survival rates, they enabled parents to produce fewer babies to wind up with their target family size in a steady state (p. 549)

Bhagwati's conclusion is also worth citing at length:

> More is known now, therefore, to wean us away from the fear that such educational and health expenditures are necessarily at the expense of growth. What is equally pleasurable is the fact that many of these arguments apply with yet greater force when the expenditures are addressed to the poorer segments of the population. The case for undertaking more such expenditures, with focus on the poor, consistent with being engrossed in the growth strategy, is therefore now seen to be stronger than ever before. I think we have learnt that, within reasonable margins, we may then be able to eat our cake and have it too. Social expenditures could improve the welfare of the poor directly and also indirectly through growth, which in turn would impact on poverty. But beyond these margins, the trade-off remains an issue (p. 550).

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 security. A final argument in favour of social security in the development process is that it increases social cohesion and thus promotes the accumulation of social capital and stability, which in turn is essential for growth. In the political arena, social insurance schemes facilitate the acceptance of necessary reforms because potential losers are shielded. This is particularly important in the era of globalization, the exigencies of which can entail sharp adjustment. In considering economic growth and responses to external shocks and trade liberalization, Dani Rodrik (1998a, 1998b and 1999) argues persuasively that failure to manage internal conflict magnifies the negative effects of external shocks. Institutions of conflict management are a complement to openness.

There is considerable evidence that the more open and more exposed to external risk an economy is, the larger the public sector. This suggests that a large public sector may be necessary not only for cushioning labour from the vagaries of the market, but also for improving the performance of the labour market through increased productivity and mobility induced by social welfare policies. The obvious reason is that for policy makers (if not for economists), the tensions between social stability and openness are real and have to be managed through carefully designed political and social arrangements.[18] In some sense, every trade regime implies particular patterns of income distribution, and this in turn implies social policies either to sustain those patterns of distribution or to "correct" their social or political failures. Failure to do so can lead to integration into the world system that engenders social disintegration at the national level, with the distinct possibility of policy reversal toward protectionism.

The second, economic, channel bears directly on the economics of accumulation because it impinges on savings and the functioning of financial markets. Interest in the impact on social security schemes and growth has been revived by the new growth economics (Sala-i-Martin, 1996 and 1997). In one version, it is argued that such schemes are negative for growth. The

[18] For a succinct and rigorous argument of this case, see Rodrik (1997).

argument is that social security discourages savings, at least in developed countries (Gokhale et al, 1996). In contrast, others argue that social security is beneficial to development. Thus social security works positively on development through effects on demographics, distribution and incetives. With respect to positive effects on savings and growth, two extreme cases are interesting: Singapore and Chile. Although the schemes derive from different ideological conceptions of the role of the state in development, a major argument in both cases has been their expected positive impact on saving. Forced savings, through the Central Provident Fund, enabled Singapore to raise its gross national savings rate to as much as 40 per cent on average during the 1980s. The Central Provident Fund accounted for 25 per cent of gross national savings in 1985. (Malaysia's high savings have also been attributed to compulsory savings linked to social security.) 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). The two paths have operated from opposing ideological positions with respect to the role of the state and markets in social security schemes. However, their significance lies in showing how measures that are often relegated to the realm of social security have had direct bearing on accumulation and economic growth through their expected or postulated impact on the financial sector and saving.

Social Policy and the Late Industrializers

Another indication of the need to rethink social policy comes out of the literature on "late industrializers". Alexander Gershenkron (1962) has 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 industrializers 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 late-comers were among the pioneers of the modern welfare state. Pierson (1998:111) notes that after 1923 there was a tendency for countries to adopt welfare state measures at a lower level than their own economic development (with the notable exception of the United States): "Paralleling the pattern of the spread of industrialization, 'late starters' have tended to develop welfare state institutions earlier in their own individual development and under more comprehensive terms of coverage". 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. Gøsta Esping-Andersen notes that the continental founders of the welfare state were not driven by egalitarian ideologies, but largely by nationalist and developmentalist impulses. They sought to ensure "moral discipline, social stratification and nation-building" (Esping-Andersen, 1996:66). The faster "convergence" of these economies to those of the United States and the United Kingdom would seem to suggest that such convergence was accelerated by these welfare policies—or was, at least, not hampered by them.

The role of social policy in the late industrializers is spelled out more explicitly by Vartiainen (1999), who argues that late industrializers have to deal with two groups of externalities: human capital, technology and financial externalities recognized by Gerschenkron; and the strategic action and distribution issues addressed by social policy. In late industrializers, according to Vartiainen, firms tend to be relatively large and are thus likely to be important political actors. They will have a strong bargaining position in the labour market. However, their size will also facilitate labour's self-organization. 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:

> 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).

At first sight, the experiences of the Asian late industrializers would seem to diverge from this 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 on the state is discouraged (indeed stigmatized). To justify the absence of "Western-style" welfare states, appeals are made to the family and "oriental" values. For right-wing observers, the absence of such a role for the state is the source of the good performance of the Asian economies. A closer look, however, shows that successful NICs pursued social policy that served as a handmaiden to the rapid industrialization aspirations of these countries. Gordon White and Roger Goodman (1998) confirm that Asian NICs are, indeed, low spenders on welfare, but they point out the important role of the state 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"). This adoption of a social role by the private sector was underwritten by the state, which provided a wide range of incentives favourable to this particular form of corporate governance. This points to another policy research area: the role of the private sector in the provision of welfare services under different structures of corporate governance.

The collection of papers edited by Goodman et al. (1998) comes to the conclusion that there is something that constitutes an "East Asian welfare model", which they characterize as "developmental welfare systems" in which welfare policy and institutions have been shaped to fit the overriding priority of rapid industrialization. White and Goodman (1998) surmise:

> Most notable is the strategic role of states in directing a process of economic development with distributive as well as growth objectives, resulting in a relatively equal pattern of income distribution compared with other industrialising regions such as Latin America (p. 13).

Some of the conclusions of the study are worth reiterating here:

- The principle of social insurance (wholly or partially funded) is favoured over other means of financing, such as pay-as-you-go programmes.
- Government-sponsored welfare programmes are highly fragmented, involving an array of particular schemes. Singapore, with its more integrated Central Provident Fund, seems to be the exception to this pattern.
- When compared with European welfare systems, the state-sponsored programmes are more redistributive in a regressive direction and thus tend to reinforce inequalities.

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 on 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.

The East Asian crisis brought out the negative aspects of this model. First, crisis has demonstrated that the model's viability depended on high growth and that, in times of crisis, the system could not provide the social safety net 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.

It would be useful for further research in this area to examine which features of the model were essential to the developmental welfare system, and which were merely contingent on the political regime and the conventional understanding of the relationship between social policy and economic growth. One should point out here that many developmental welfare policies were at best only implicit as social policies. As Deyo (1992) notes, social policy is embedded in development policy. Thus in the Asian case, the fear of massive unemployment and the adoption of labour-intensive and export-oriented industries implied a certain "social policy" that led to greater employment and high wages. Later, the shift toward high value-added manufacturing prompted greater investment in human capital along with new strategies to enhance labour force productivity and stability. This was associated with increased emphasis on education and training and on enhanced workplace benefits.

The Political Contexts of Social Policy

Which social policies are adopted does not entirely depend on 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 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. Bardhan and Bowles (1996) remind us that redistributive policies are both the effect and the cause of the manner in which citizens understand and react to sources of inequality, as well as the desirability and costs of alleviating its hardships:

> To be politically viable, redistributive and poverty-alleviation policies have also to keep in mind the broader political alignment of forces that can sustain them and the various complementarities between production and social systems, which tend to block the escape routes out of the low-level equilibrium. Ignoring these insights in policy design is a prescription for failure (p. 5).

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 how 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 essentially an elite project to achieve goals determined by the ruling elite. Such goals have usually included nation building, development or co-optation. 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.

Democratization and social policy

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 think of "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?

Globalization and social policy

A central preoccupation in both developed and developing countries 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 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 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. The frequently cited argument shows that openness to trade has often been associated with increased social expenditure, and that there is no uniform pattern of response among the developed countries to globalization.

Related to this is the growing provision of social services by transnational actors—aid donors, NGOs and transnational corporations. Support of social policy by the first two is often driven by humanitarian objectives and rarely addresses the developmental issues of social policy for a number of reasons, including an anti-statist view, "projectization and micro-ization" and disregard for macroeconomic performance[19], absence of a national developmental strategy within which these external initiatives can be embedded, etc. In current debates on the "new policy agenda", it is argued that private markets and NGOs will provide services. Consequently, more donors are channelling funds through non-governmental actors, and adjustment programmes are increasingly pushing for private provision of social services (Edwards and Hulme, 1996). Under this policy thrust, the role of the state is to provide "an enabling environment" for private provision, while reducing its own expenditures and activities in the social sector. Pursuit of welfare policies by transnational firms is another aspect of the privatization and globalization of hitherto national state activities. It has the potential danger of dividing the domestic constituency for effective social policy by linking the middle classes with global social systems (Deacon, 2000).

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. I noted earlier their increased interest in social policy, which now appears as part of the "social conditionality" accompanying debt relief. Understanding the objectives and scope of these policies and their relationship to macroeconomic policies remains an important item on the research agenda.

Closely related to this is the existence of developmental states in the context of globalization. One outstanding feature of developmental states has been the "governing" of markets though 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.

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[19] Robert Wade (forthcoming) argues that "US-led and mostly Western NGOs…have succeeded in advancing governance, participation and environmental agendas…because they show little interest in economics and economic growth" (p. 169)

Concluding Remarks: The Missing Policy Link

The triumph in the 1970s of what Hirschman termed "monoeconomics" or what Krugman (1992) called the "counterrevolution" against development economics detached economics from development studies in general, and social development in particular. The "counter-counterrevolution" and changes in economics, the recalcitrance of a number of social problems to purely economic solutions, and the direction of research in other disciplines leading to some congruency in conceptual concerns have combined to open up space for interdisciplinary studies on social policy and social development. I noted above the recognition by economists of many elements of social policy as determinants of development. Among some social scientists, this opening-up is viewed as something akin to a Trojan horse, or the "colonization" of other social science disciplines by economics (Fine, 1997). Suspicious that economists will eventually reduce everything to what they can measure or set a price on, many social scientists are reticent about collaborating with such exercises. Economists tend to lend credence to these fears by their penchant for neglecting the theoretical context within which the variables they borrow from other social sciences are embedded. However, legitimate though these fears are, it should be recognized that economists will play an increasing role in debates about social policy.

There are, of course, other research externalities inherent in such collaboration. One problem that arises when scholars cross disciplines stems from the pitfalls of transferring analytical tools and modes of reasoning developed within one discipline to another. The measurements or indices used by economics to represent social development variables generally run the risk of being too blunt, or too empty, to constitute useful policy guidelines. Working closely with colleagues in disciplines from whence concepts are drawn can minimize the dangers of spuriousness and misplacement of concepts. For example, studies in gender and development, especially the efforts to "engender macroeconomics", suggest possibilities for firmly embedding economic development within the context of social development.

A striking characteristic of the social policy literature is the gap between the work on social policy in developing and developed countries. Literature on social policy in developing countries often lacks the conceptual depth that one finds in the literature in the developed (especially European) countries. Part of this gap can be explained by the mistaken view of social policy in the developed countries as largely an aspect of the end-state of development—the welfare state—and therefore not relevant to developing countries. However, as I have suggested, 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.[20]

[20] Ian Gough (2000) makes this case for the seminal work of Gøsta Esping-Anderson 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.

I have identified a number of old and new arguments for the case that social policy can work in tandem with economic policy to lead to socioeconomic development.[21] However, recognition of the productivity-enhancing quality of measures that contribute to social development does not necessarily lead to their adoption. 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 argue 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 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 complexity and ambiguity of the policy implications of both the endogenous growth theories and the institutionalist growth paths in imperfect markets. 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" (Carter, 1996). 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 polices. 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 patterns of growth that are most appropriate to meeting the spectrum of social goals that are now on both national and international agendas.

It is partly in response to the uncertainty over the exact nature of these relations and the many reservations about the robustness of empirical results that caution has seemed prudent. Much research is still dominated by cross-section and panel data regression analysis. There are few time-series analyses using institutional or historical information. One difficulty with drawing lessons from simple cross-country comparative studies is that social policy 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

[21] I state this fully cognizant of the valid objection to the assumption of the separability of the economic, social and political when discussing development policy.

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 on 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. Here we see 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 macroeconomic policies. In the words of Atkinson (1999):

> 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 (p. 21).

Provision of social services and reduction of poverty have intrinsic value and are well served by efficient and judicious allocation of resources. One implication is that social policy must be designed not only residually, to cater to social needs, but as a key component of policies that ensures the wherewithal for their own sustainability.

The third, and probably more recalcitrant, impediment is political and ideological. I have argued that 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. Even among economists, ideological predilections condition advice based on empirical work. Thus, for those of neoclassical persuasion, the new growth theories provide a rationale for government intervention, because the assertion that the contribution to overall social production of some investments is higher than their contribution to the income of individual agents implies that some government policies to foster such interventions would be welfare enhancing (Barros, 1993). However, for ideological reasons, there is aversion to drawing out the full policy implications toward which empirical analysis points. Thus although many arguments for social policy lean heavily on externalities and thus clearly point to the need for an active role for the state, those wedded to neoliberal economics have sought to rely on capital markets to provide both the resources and incentives for individuals to invest in their own human capital.[22]

There is a 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.

In trying to place social policy in a development context, I may have unduly emphasized the instrumental aspects of social policy. It is therefore important to end by stressing the importance of bearing in mind the fear that such instrumentalist conceptions of social policy run the risk of sacrificing the fundamental objectives of social justice and social integration to economic goals. Clearly, the instrumentalization of some of these goals must not erode their intrinsic value; and careful policy design informed by research on what these instruments are, combined with dialogues on the values, ideas and ideologies defining and authorizing their use, would help to ensure that this does not occur. Progress requires the type of dialogue between economists and other social scientists that is often lacking in social development debates.

[22] As Ha-Joon Chang notes, “To put it bluntly, the name of the game is that a neoclassical economist may build a model that recommends state intervention as far as it is ‘technically competent’, but he/she has to prove his/her political credential by rubbishing his/her own model on political grounds” (Chang, 2000).

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