UNRISD United Nations Research Institute for Social Development

Contents

CONFERENCE NEWS

Poverty Reduction and Policy Regimes

Report of the UNRISD Methodology Workshop
21–23 February 2007, Geneva

Introduction

Poverty reduction is currently prominent on the agenda of international development. Most countries have wide-ranging anti-poverty programmes, irrespective of whether they have signed up to the least developed country (LDC)–focused Poverty Reduction Strategy Papers (PRSPs) of the international financial institutions (IFIs).

However, there are concerns that many countries will be unable to make meaningful dents in their poverty, let alone meet the targets set in the Millennium Development Goals. At the centre of these concerns is the question of whether countries are following the appropriate development paths. Critics of IFI policies affirm that the deflationary effects of the economic adjustment model that gained prominence in the 1980s continue to impose constraints on the types of anti-poverty strategies that countries can adopt. They also contend that lessons have not been drawn from the experiences of countries referred to as "late industrializers" or "late developers", which have been successful in reducing poverty in very short periods. When a substantial proportion of a country's population lives in poverty, it makes little sense to treat the poor as a residual category. For successful late developers, long-term processes of structural transformation, not poverty reduction per se, were central to public policy objectives that led to dramatic cuts in the number of people living in poverty.

The United Nations Research Institute for Social Development (UNRISD) initiated a project in 2006 to study the causes, dimensions and dynamics of poverty. It adopts a policy regime approach to examine the complex ways in which poverty outcomes are shaped by the configuration of institutions and policies in a triad of economic development, social policy and politics. It aims to shed light on the institutions, policies and politics that have made some countries more successful than others in reducing poverty. This project builds on earlier UNRISD research on Social Policy in a Development Context, the findings of which challenged the residual role given to social policy in public policies concerned with stabilizing the economies of developing countries and pushing them onto a growth path.

UNRISD organized a workshop in Geneva on 21–23 February 2007 to discuss research themes, case study experiences, methodology and data for this project. A few scholars with outstanding contributions in the fields of poverty, inequality, social policy and development, as well as coordinators for the cases that have been selected for the study, were invited to lead the discussions. Staff from the International Labour

Organization (ILO), the United Nations Conference on Trade and Development (UNCTAD) and the World Health Organization (WHO) working on poverty and regime types also participated in the workshop.

The workshop was divided into two parts. The first part was thematic, with three sessions covering issues of institutional complementarities, growth strategies and poverty; welfare regimes and poverty; and inequality and poverty. The second part comprised five sessions outlining the case studies in which in-depth research will be carried out.

UNRISD Director Thandika Mkandawire opened the meeting by highlighting key lessons from the project on Social Policy in a Development Context that have a bearing on the new research on poverty. That project underscored the transformative role of social policy. In particular, he stressed that for social policy to serve as a developmental instrument against poverty, it must deal with four major concerns: distribution, protection, production and reproduction. Different welfare regimes have placed different weights on each of these, but considerable complementarities and synergies generally exist.

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The previous research also showed that social policy is not something to be engaged in only after reaching a certain development threshold, nor is it an exclusive domain of advanced welfare states; rather, it is a key instrument for development, including social development. Not surprisingly, late industrializers have tended to adopt certain welfare measures at much earlier phases in their development than the "pioneers". The implication is that quite a number of welfare measures can be—and indeed, may have to be—introduced at fairly low levels of income in response to both normative and functionalist imperatives to use social policies for distributive, protective and productive ends.

Project overview

In the opening session, the UNRISD Research Coordinator, Yusuf Bangura, provided an overview of the poverty project. He discussed the significance of a policy regime approach in the study of poverty. A policy regime refers to the ways institutions and policies are interconnected in different sectors of a country's political economy. This may produce institutional complementarities. A policy regime has distinctive historical roots (or "path dependence") and normative values, and provides a context for understanding the strategic behaviour of actors, including policy makers, interest groups and citizens more broadly. It challenges policy convergence theories, which propose one set of economic policies that will lead to economic development, by pointing to a diversity of development and welfare paths, which may have different effects on poverty.

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Policy regime approaches with a comparative focus have largely been concerned with advanced industrial societies. The two key sets of literature deal with the welfare state and varieties of capitalism. The former literature often works with three regime types: social democratic, conservative-corporatist and liberal; while the latter works with two regime types: coordinated market economies (CMEs) and liberal market economies (LMEs).

The different regimes produce different labour market and welfare outcomes. Welfare variations are a product of competing values on social rights, institutional divisions between markets and states, labour market policies and differences in power structures. Despite the usefulness of these typologies, they suffer from three main problems when a global view of development and welfare is adopted.

First, they assume the development or growth path as given. Indeed, Gøsta Esping-Andersen's index of decommodification, which measures the extent to which individuals are less dependent on markets for their well-being, assumes market economies that have solved the problems of underdevelopment. It is concerned largely with the redistribution of the national product. In the LDCs, as many critics have pointed out, commodification or development is crucial because large sections of the population still operate outside the formal economy.

Second, the typologies assume properly functioning democracies and focus on the ways unions, employers and political parties, with ideologies that can be placed on a Left-Right axis, interact strategically to influence public policies. In many developing countries, however, because the majority of the labour force is in agriculture and the informal sector, and levels of unionization are low, the strategic links between organized groups, political parties and governments tend to be weak. It is difficult to place political parties on a Left-Right axis, because there are important non-class variables that determine interest articulation and voting behaviour, as well as party and governmental practices.

Third, the analysis takes governance or state capacities as given. In all indicators on governance, welfare and poverty, high-income countries outperform low- and medium-income countries, suggesting that income or development itself may have accounted for these differences rather than the other way around. It is not surprising that types of governance, not governance capacities, inform the work of theorists of policy regimes in advanced societies. It is assumed that policies and institutions can be made to deliver outcomes that reflect the characteristics of each regime. This cannot be assumed in the case of LDCs with wide-ranging governance failures. Capacities to direct policies and pursue development vary considerably across countries.

Uneven levels of development make it difficult to develop typologies that have universal applicability. There are conceptual and data problems in constructing such typologies. The best efforts have been those that seek to create region-based typologies, such as for Latin America and East Asia.

After his overview of policy regimes, Bangura outlined the key issues in the poverty project, which has two components. The first component involves research work of a comparative nature on policy regimes and poverty reduction; and the second involves preparatory work for an UNRISD flagship report on poverty (see box 1 for the planned structure of the report). The project seeks to understand the dimensions and dynamics of poverty by focusing on three broad

Box 1
PLANNED STRUCTURE OF THE UNRISD POVERTY REPORT

Introduction

Section One: Economic Development and Poverty
1. Development strategies and poverty reduction in different policy regimes
2. Macroeconomic policies

Section Two: Inequality and Poverty
3. Wealth and income inequality
4. Gender inequality
5. Ethnic and spatial inequalities

Section Three: Social Policy and Poverty
6. The multiple goals of social policy
7. Institutions of social provisioning (states, markets, NGOs, community, family)
8. Social protection
9. Universal basic services
10. Care and poverty
11. Financing social policy

Section Four: The Politics of Poverty Eradication
12. Organized business and social policy
13. Social movements and poverty reduction
14. Democratization and the politics of poverty reduction strategies
15. Developmental state capacity and institutional reform

Conclusion

issues: economic development strategies; social policy interventions; and the politics and governance institutions that underpin or drive them.

Development strategies are key in explaining the growth paths of countries and structural transformation. Research is focusing on strategies aimed at industrial transformation and how these impact other sectors of the economy, such as agriculture, services and the informal sector. Most countries have pursued a combination of import-substitution industrialization and/or export-led growth. Import-substitution strategies can be differentiated according to the emphasis placed on skilled and unskilled labour utilization and capital intensity; and the way import-substitution is combined with other strategies such as land reform, export promotion and income redistribution. Both strategies provide different sets of incentives to producers, including in the area of state-business relations, and facilitate or constrain efforts in building developmental state capacity. The research will throw light on the processes and levels of structural change, the sectors of the economy that drive the growth process, and the extent to which the growth strategies affect labour markets across sectors. It should provide insights into how the dynamics of the economy and the growth path affect employment, income distribution and poverty before social transfers are effected.

The second aspect of the research project focuses on social policy and poverty. Even when employment levels are high, social policies are often decisive in lifting people out of poverty. Here the project is examining the role of social policy in aiding development and in providing protection to the broad mass of the population. For most countries of the Organisation for Economic Co-operation and Development (OECD), it has been shown that poverty levels are drastically reduced after social transfers have been effected, with the most significant reductions in social democratic countries that have comprehensive social policies. The developmental role of social policy is captured in data showing that successful late developers have high social investments or spend a lot on education, training or skills development; and that social insurance funds are often used to speed up industrialization, especially in the building of infrastructure. The state's active role in human capital development also helps to stabilize employment as firms may be reluctant to shed skilled labour, and in some cases such social investments may even help firms and labour to accept flexible employment policies if they are necessary for development. In some successful cases, poverty reduction is largely a function of employment expansion, given the strong link between social protection or insurance, and employment. Post-transfer redistributions in such cases may not necessarily favour the poor and the unemployed, especially in countries with low rates of formal wage employment.

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The political institutions of regimes may also matter, even though poverty has been reduced in both authoritarian and democratic settings. Three broad patterns of politics in successful poverty reduction can be highlighted. The first refers to the political arrangements that underpinned successful poverty reduction in authoritarian developmental states. Rapid growth and structural transformation produced a large industrial labour force, which accepted wage moderation, firm loyalty and state domination in exchange for state regulated corporate welfare, life-long employment and skills development.

The second is the communist model in which leaders' legitimacy depended on their ability to deliver pro-poor social policies, often providing welfare support through state enterprises and achieving the goal of poverty reduction through central plans that guaranteed full employment. Under this model, the choices of the poor and the working class were linked to those made by party leaders and technocrats.

In these two models, power was less fragmented and competitive politics were discouraged. In other words, these were highly centralized, cohesive and technocratic states.

The third model refers to the politics of successful poverty reduction in advanced democracies. Here the evidence suggests that regimes in which Left parties have been in government for extended periods, and where labour, business and the state cooperate in managing economic conflicts, produce superior outcomes in welfare provision and poverty reduction compared to liberal regimes. Under the social democratic model each actor has instruments it can use to extract compliance from the others—for labour, it is through the strike option. However, the labour force characteristics of middle- and low-income democracies are substantially different from those of advanced democracies. A relatively higher proportion of workers in poor countries are in agriculture and the informal sector; and union density and coverage rates are low. Such outcomes underscore the need to examine the roles of non-labour interest groups—peasant farmers, informal sector workers, and the chronically poor—in shaping national development strategies and welfare policies.

Competitive elections can be used by the poor and, over time, may produce governments with a pro-welfare orientation, especially in democracies where the median voter is a poor person. This seems to be happening in many Latin American countries where Left-oriented parties have assumed power. But it is doubtful whether electoral competitiveness alone may result in far-reaching changes in public policy that will massively reduce poverty.

It is instructive to note here that the PRSPs privilege non-governmental organizations (NGOs), not production-based groups, in the politics of poverty reduction; the process itself tends to be detached from mainstream politics; decisions are not binding on participants; civic groups lack instruments to compel governments and business to deliver on agreements; and the views of the IFIs are decisive in charting development paths.

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By bringing the dynamics of development strategies, social policies and politics into the analysis, the aim of the UNRISD research project is to understand the various dimensions of poverty, disaggregated according to income groups, gender, ethnicity, spatial location and life cycles. The research is tracing trends in poverty over long periods, paying close attention to differences in poverty outcomes when countries change or reform their policy regimes and highlighting groups that consistently have remained in poverty. Another vital factor receiving attention is the link between poverty and inequality: tracing the structure and evolution of inequality (wealth and personal income inequality) under different policy regimes and periods, and the effects of inequality on poverty.

Part I: Thematic Papers

Session 1—Institutional complementarities, growth strategies and poverty reduction

A key issue in the study of policy regimes is what has come to be called institutional complementarities. Effectiveness of one institution or policy in a particular sector may lead to, or require, complimentary institutions and policies in other sectors. For instance, in studies of advanced industrial societies, it is often believed that stock market capitalism, with its focus on short-term profitability, requires flexible labour markets; and bank-financed corporate capitalism, with interlocking shares and directorates, or "patient capital" (longer-term investment), works well with corporatist labour market institutions. However, recent developments in some countries suggest that the range of possible complementarities may be larger than theory predicts. Exposure of German firms to stock market financing has not led to the dissolution of co-determination and organized collective bargaining.

In the first substantive session of the workshop, Robert Boyer presented his work on institutional complementarity, which addresses the issues of why and how capitalism differs between countries, and how to reform institutions to promote growth and social justice. Boyer identified some reasons for the failure of mono-causal explanations of underdevelopment and poverty in their sole focus on market mechanisms; the failure to understand that welfare policies can be complementary to growth; the difficulty of adopting best practices observed in other countries; and the idea that there is one ideal institutional configuration.

The Institutional Complementarity Hypothesis (ICH) has been used to conduct international comparisons, which show that the state is just one coordinating mechanism alongside markets, hierarchy, community, networks and alliances. In addition, it has been shown that some welfare policies, such as income security, and work and life security, can have a positive productive impact as well as reducing poverty. However, the adoption of institutions that have been effective elsewhere is particularly problematic as they do not operate in isolation but interact with existing domestic institutions. These institutions may be incompatible, leading to deterioration in performance and exacerbation of poverty. Boyer's work has shown that there are many successful institutional configurations, which are built on the complementarities between diverse institutions. This suggests that efforts to impose a single model of development and poverty reduction strategies on poor countries are at odds with the historical record of diverse institutional and policy paths.

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Many institutional arrangements complement rather than substitute for one another. As such, one institutional arrangement may be able to correct the imperfections of another. In addition, some institutional arrangements focus on economic efficiency while others focus on social justice. This raises the possibility that growth and poverty reduction can be made compatible, if not complementary.

The ICH has only been used in developed countries so far. However, Boyer outlined two possible methods for detecting successful institutional configurations in developing countries. The first is to assemble data about successful cases of poverty reduction and to use Qualitative Comparative Analysis (QCA) to detect inductively the mix of institutions and policy regimes that led to poverty reduction. It is then important to build panel data in order to estimate the quantitative impact of each mix of variables. A second method appropriate for use in a single case study and period is to extend the growth diagnostics model proposed by Haussman, Rodrik and Velasco (2005)[1] to poverty reduction, and use this to select the policies that simultaneously improve growth and reduce poverty.

[1] Haussman, R., D. Rodrik and A. Velasco. 2005. *Growth Diagnostics*. Available at: http://ksghome.harvard.edu/~drodrik/barcelonafinalmarch2005.pdf

Discussion

Several questions focused on the transitions between institutional arrangements and the potential for replication or learning from other experiences. Rather than being seen as fixed, institutional arrangements are better represented as trajectories. Indeed, serious economic and political crises have the potential to cause abrupt changes in these trajectories.

In was noted that it is difficult to replicate institutions from other national contexts. In particular, the distinction was made between importing an institution and actually making it work in practice. An example suggested was that of democracy in many developing countries, where it is formally present yet does not always work for the people. Boyer underlined that while it is not possible to replicate another institutional configuration, this does not preclude learning from other configurations, and adaptation can create new models. Equally, in research it is impossible to extrapolate from one case to another. As such, Boyer warned against making judgements about cases that have not been carefully studied.

One participant queried the focus on the Irish case, which Boyer had highlighted as a success story. Boyer suggested that the Irish model has been successful in coping with many past problems, but that the rapid changes experienced mean that the institutions may not necessarily be able to cope with the emerging problems facing the country. It may even be that success has obscured the new problems. The Irish model has been based on attracting foreign direct investment (FDI) through low corporation tax, and several new entrants to the European Union (EU) are now emulating this policy. Doubts were raised about the sustainability of "buying" investment in this way.

One participant pointed out that the countries with the highest percentage of workers in the information technology (IT) sector are the United States (US) and the four Nordic countries. This appears to be contradictory as they could not be more different in terms of their policy regimes. Nonetheless, Boyer underlined that the US economy is driven by finance rather than high-tech industry. Indeed, high-tech industry is a relatively small part of the US growth engine.

Finally, the importance of the family in welfare regimes was noted. Research in Latin America has shown that many welfare regimes are family- rather than state-led, and that any analysis of poverty reduction needs to take families into account. In particular, the role of international migration and remittances is very important in family welfare.

Session 2—Welfare regimes and poverty reduction

In the second session, John Stephens outlined his work on the politics of poverty reduction and redistribution in developed countries. He has found that while all advanced welfare states redistribute income and reduce poverty, this varies greatly between different types of welfare state regime. In particular, he has found that most redistribution takes place in social democratic regimes, followed by Christian democratic regimes and least redistribution in liberal regimes.

In OECD countries, Stephens's research has shown that the size of the welfare state is the single most important factor in redistribution and poverty reduction. In particular, although Sweden has one of the most inegalitarian public pension systems, it has the most egalitarian gross income distribution because the generous public pension provisions crowd out even more inegalitarian sources of income such as private pensions. His analysis of recent OECD/Statistics Canada data on literacy skills shows the superior performance of social democratic welfare states in developing human capital. The Nordic countries and the Christian democratic welfare states have higher skill levels at the lower end of the income distribution than liberal welfare regimes, and skill levels at the top end of the income distribution are slightly higher for the former set of countries than for liberal welfare regimes. Stephens concluded that "social democratic welfare states sustain a virtuous circle where redistributive tax and transfer systems produce lower levels of poverty and inequality, which in turn help those at the bottom end achieve higher skill levels, which in turn contribute, along with centralized bargaining, to lower wage dispersion, which in turn reduces the burden on the tax and transfer system to sustain low rates of poverty and inequality".

However, Stephens reported that in contrast to the experience of OECD countries, social welfare spending does not consistently reduce inequality in Latin America and the Caribbean. Such spending reduces inequality only in democracies. Countries with a history of Left of centre parliamentary dominance seem to have produced less inequality. However, as welfare programmes are contribution financed, 80 per cent of social security spending accrues only to formal sector workers. The informal sector, which comprises between 40 and 60 per cent of the labour force, is not covered by these programmes. As such, contributory and employment-based pensions are not likely to be effective policies for reducing poverty in Latin America.

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In drawing lessons from the experiences of advanced industrial democracies that are relevant in reducing poverty and inequality in developing countries, Stephens reviewed the history of five social programmes in which benefits are not based on employment. These were the Nordic citizenship pensions, based on a flat-rate tax; the Nordic public health, education and welfare services, provided on the basis of citizenship and residence; citizenship-based family allowances aimed at combating child poverty in most industrial democracies; national health services in Southern Europe; and comprehensive unemployment benefits in Australia and New Zealand. The implementation of these policies was based on pacts comprising more than one social or political group, for instance, between the social democratic and agrarian parties, or social democrats, labour and the women's movement in the case of the Nordic schemes.

Discussion

The discussion sought clarification on the effects of liberalization on the Nordic welfare systems, as it is believed that these systems are apparently moving in a less egalitarian direction. However, Stephens affirmed that although globalization has had a huge impact on the macroeconomy and wage bargaining in the Nordic countries, its impact on the welfare state has not been important. Indeed, the changes that are taking place in welfare are driven by demography, with declining fertility rates leading to major problems for pay-as-you-go pension systems. He argued that the welfare state does not make the export sector uncompetitive.

Stephens emphasized that in considering the redistributive effects of social policies, it is not just the amount spent on education or health that is important, but also the type of spending. For example, it is important to disaggregate education spending by primary, secondary and tertiary education, as tertiary education spending is likely to be less redistributive than the others. This distinction is also relevant with respect to health policy, with preventive care more redistributive than curative care spending.

The discussion highlighted a virtuous circle involving the commodification of female labour and the development of care services in the Nordic social democratic countries. In contrast, in liberal welfare regimes, while female participation has been increasing, often this is in low-paid, unsafe jobs, where there is no such virtuous circle. Although Christian democratic regimes have the lowest female labour force participation rates, in terms of provision of care, Christian democratic regimes are better than liberal ones. It is hard to see how to build the political coalitions necessary to make demands for more care services in liberal regimes. Indeed, in some cases, the inequality is such that it even affects what women's groups campaign for. Stephens gave the example of the United States where women's groups usually campaign for affirmative action and

and illegal immigrants is vital, with legal immigrants in Nordic countries receiving the same benefits, such as health and education, as citizens. The situation of illegal immigrants is less clear. However, in the case of the Nordic countries, illegal immigrants do not have a major presence. In the United States, where illegal migrants are more numerous, all children can go to school, and indeed in North Carolina, it is illegal for the authorities to inquire about the legal status of children or their parents.

Finally, in terms of data, it was noted that the calculation of the Gini coefficient is usually based purely on cash values and therefore does not take into account other types of resources, which may be extremely important, especially for poor people. However, the WIDER World Income and Inequalities Database (WIID) contains data on consumption, not all of which is cash, and expenditure data, and as such may address some of these problems.

> ***Levels of inequalities differ across countries; and some successful developmental states achieved both high growth and low inequalities, even if recent trends suggest rising levels of inequalities as more market-oriented reforms are adopted.***

Session 3—Poverty and inequality

Recent studies suggest that there has been a sharp rise in the share of capital and a decline in wage shares in national incomes across countries. This has been linked