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# TOWARDS HUMAN DEVELOPMENT

*New Approaches to  
Macroeconomics & Inequality*

*edited by*

Giovanni Andrea Cornia & Frances Stewart

## **Towards Human Development**



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## Preface

This volume discusses a central issue in development, that is the impact of the concept of ‘human development’ which was initiated with the 1990 Human Development Report and the subsequent debate about objectives, measurement, and policies. This debate has helped to refine the conceptualization and measures of human development and to identify a set of policies needed for realizing this objective. This volume discusses how far development concepts and objectives have shifted as a consequence, and how this has affected global perspectives on development strategies. It also explores whether the observed shift in development goals towards multidimensional, anti-poverty and egalitarian perspectives has been accompanied by concomitant progress on the ground.

Overall economic policy, beyond social and aid policies, is a critical element that can support or inhibit progress in these dimensions. The volume discusses whether the human development debate has led to the re-framing of overall economic policy approaches in ways that would facilitate the achievement of the human development goals, including through a more egalitarian distribution of income and opportunities. Such a focus has become particularly relevant in view of the string of global financial and macroeconomic crises that have affected economic growth and human development directly and indirectly, in both developed and developing countries, from the early 2000s—in particular since 2007–8. Such crises have visibly retarded the achievement of the millennium development goals in several countries. Consequently, the volume argues that the set of policies required to promote human development needs to be greatly broadened beyond the present narrow set (concerning public social expenditure and foreign aid)—which are often identified as the relevant policies for implementing human development strategies—so as to include sustainable policies in the field of pro-poor macroeconomics, and labour-market and financial regulation. In this regard, an innovative aspect of the book is that it tries to relate the two debates, that on human development and that on macroeconomic management, which are normally treated separately in the literature.

The volume argues that efforts of many governments and donors towards human development have had mixed results. There has been limited progress

in improving outcomes in the field of education, definite progress in extending social protection, and no progress in terms of employment. There have been some advances in framing a new structuralist macroeconomic approach compatible with human development, involving a more egalitarian and employment-intensive pattern of development. Among developing countries, some improvements were also recorded, relative to the past, in the design of countercyclical fiscal policies during the crisis of 2008, though this policy stance was reversed in many places in 2009–11. Finally, the volume underlines that the quasi-universal rise in domestic income inequality of the 1980s and 1990s was reversed in most of Latin America and parts of South East Asia in the 2000s, partly due to the implementation of a broader set of policies emanating—inter alia—from the human development debate. However, the volume also emphasizes that one of the key problems of our time—the regulation of global finance—which simultaneously affects human development, inequality, and macroeconomic stability—still awaits a solution, and proposes approaches to countercyclical regulation to tackle this problem.

This book includes papers written for a conference which was held at the Institute of Development Studies (IDS) of the University of Sussex on 17–18 November 2011 in honour of Sir Richard Jolly. The festschrift was on the topic *From Structural Adjustment to Human Development: Impact on Poverty and Inequality*, and papers were written on this broad remit. Although each contribution drew on the author's prior experience, all the papers included here were written *ex novo*. Each received detailed comments from the editors of the volume and scholars attending the conference. Overall, the volume offers a message of moderate hope: it shows there was progress in elaborating increasingly more relevant concepts of human development, policies needed to achieve it, and some advances in policy implementation. This suggests that the debates on adjustment with a human face, human development, poverty reduction, the new structuralist macroeconomics, and other progressive approaches, to all of which Richard Jolly made an important contribution, have not been in vain. But it also underlines that these initial gains have been accompanied by the emergence of new problems such as those linked to the informalization of labour markets and the dominance of unregulated and highly volatile global financial markets. Without progress on these fronts, the recent gains in pro-human development policies risk being squandered.

We hope this book will be read by and useful for researchers, graduate students, academics, and the growing number of policymakers who are trying to design and implement a broader policy approach to support human development. The book could also be used as a reader in courses dealing with the nexus between social targets and overall development approaches in emerging and low-income countries.

Giovanni Andrea Cornia and Frances Stewart

# Acknowledgements

This volume would not have seen the light of the day without the collective effort of a large number of people working together in many ways. To start with, we would like to thank Lawrence Haddad, Andy Sumner, Hannah Corbett, and all the staff of the Institute of Development Studies (IDS) at the University of Sussex for agreeing to hold the conference in honour of Sir Richard Jolly on 'From Structural Adjustment to Human Development: Impact on Poverty and Inequality' (17–18 November 2011) on the Institute's premises; for developing the conference website <<http://www.ids.ac.uk/events/from-structural-adjustment-to-human-development-impact-on-poverty-and-inequality>>, and for taking care of the organizational aspects of the conference very efficiently. Our sincere thanks go to the many friends and colleagues of Sir Richard Jolly who attended the conference in his honour. Their written contributions, constructive comments, and frank criticisms helped sharpen the initial presentations as well as the overall articulation of the volume. We also thank the contributors to this volume for their precious time, original analyses, and patience shown in revising their initial drafts on the basis of comments made at the conference, as well as from the editors and two anonymous referees. The structure and content of the volume has benefited substantially from this peer-review process.

We would also like to acknowledge the financial support provided by the two United Nations agencies, that is UNICEF and the Human Development Report Office of UNDP, where Sir Richard Jolly spent several years promoting more efficient and humane economic and social policies and approaches. We would like to thank in particular Richard Morgan and Isabel Ortiz of UNICEF.

Last, but not least, we would also like to express our deeply heartfelt gratitude to Liisa Roponen for her expertise and patience in editing and formatting the volume chapters.

Giovanni Andrea Cornia and Frances Stewart





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# List of Abbreviations

|        |                                                                                                 |
|--------|-------------------------------------------------------------------------------------------------|
| ADB    | Asian Development Bank                                                                          |
| AIG    | American International Group                                                                    |
| AT     | appropriate technology                                                                          |
| AWHF   | adjustment with a human face                                                                    |
| BCBS   | Basle Committee for Bank Supervision                                                            |
| BIS    | Bank for International Settlements                                                              |
| BRIC   | Brazil, Russia, India, and China                                                                |
| CCTs   | conditional cash transfers                                                                      |
| CEE    | Central and Eastern Europe                                                                      |
| CIS    | Commonwealth of Independent States                                                              |
| CO     | conscientious objector                                                                          |
| CPRC   | Chronic Poverty Research Centre                                                                 |
| CRW    | crisis response window                                                                          |
| DAC    | Development Assistance Committee (of the Organization for Economic Cooperation and Development) |
| DDO    | deferred drawdown option (of the World Bank)                                                    |
| DFID   | Department for International Development (UK)                                                   |
| ECLAC  | Economic Commission for Latin America and the Caribbean                                         |
| EDI    | education development index                                                                     |
| EE-FSU | Eastern Europe and the former Soviet Union                                                      |
| EPAs   | economic partnership agreements                                                                 |
| EPZ    | export processing zone                                                                          |
| EU     | European Union                                                                                  |
| FDI    | foreign direct investments                                                                      |
| FSAP   | financial sector assessment programme                                                           |
| FSF    | Financial Stability Forum                                                                       |
| GATT   | General Agreement on Tariffs and Trade                                                          |
| GNI    | gross national income                                                                           |



## List of Abbreviations

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|         |                                                                                                                                                         |
|---------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| GOBI    | (health interventions based on) growth monitoring, oral re-hydration, breast-feeding, and immunizations                                                 |
| GOBI-FF | (health interventions based on) growth monitoring, oral re-hydration, breast-feeding, and immunizations as well as food supplements and family planning |
| HD      | human development                                                                                                                                       |
| HDI     | human development index                                                                                                                                 |
| HDR     | <i>Human Development Report</i>                                                                                                                         |
| HNWIs   | high net worth individuals                                                                                                                              |
| ICT     | information and communications technology                                                                                                               |
| IDLA    | Income Distribution in Latin America (database)                                                                                                         |
| ILO     | International Labour Organization                                                                                                                       |
| IRB     | internal-ratings-based approach                                                                                                                         |
| LAC     | Latin America and the Caribbean                                                                                                                         |
| LDCs    | least developed countries                                                                                                                               |
| LICs    | low-income countries                                                                                                                                    |
| LSMS    | living standards measurement survey                                                                                                                     |
| MDGs    | millennium development goals                                                                                                                            |
| MENA    | Middle East and North Africa                                                                                                                            |
| MICs    | middle-income countries                                                                                                                                 |
| MPI     | multidimensional poverty index                                                                                                                          |
| NAIRU   | non-accelerating inflation rate of unemployment                                                                                                         |
| n.e.c.  | not elsewhere classified                                                                                                                                |
| NER     | net enrolment ratio                                                                                                                                     |
| NHDR    | <i>National Human Development Reports</i>                                                                                                               |
| NIEO    | new international economic order                                                                                                                        |
| NSF     | net stable funding                                                                                                                                      |
| OPHI    | Oxford Poverty and Human Development Initiative                                                                                                         |
| OTC     | over-the-counter (derivatives)                                                                                                                          |
| PAMSCAD | Programme of Action to Mitigate the Social Consequences of Adjustment                                                                                   |
| PPPs    | public—private partnerships                                                                                                                             |
| PTAs    | preferential trade agreements                                                                                                                           |
| REER    | real effective exchange rate                                                                                                                            |
| RER     | real exchange rate                                                                                                                                      |
| SCRER   | stable and competitive real exchange rate                                                                                                               |
| SEWA    | Self-Employed Women's Association (in India)                                                                                                            |

|        |                                                                   |
|--------|-------------------------------------------------------------------|
| SIVs   | special investment vehicles                                       |
| SMEs   | small and medium-sized enterprises                                |
| SP     | social protection                                                 |
| SPAP   | social protection assessment programme                            |
| SSA    | Sub-Saharan Africa                                                |
| SSNs   | social safety nets                                                |
| TNCs   | transnational corporations                                        |
| UCTs   | unconditional cash transfers                                      |
| UNCTAD | United Nations Conference on Trade and Development                |
| UNDP   | United Nations Development Programme                              |
| UNESCO | United Nations Educational, Scientific, and Cultural Organization |
| UNICEF | United Nations Children's Fund                                    |
| UPE    | universal primary education                                       |
| WC     | Washington Consensus                                              |
| WDI    | world development indicators                                      |
| WEO    | World Economic Outlook (database)                                 |



## Notes on Contributors

**Christopher Colclough** is Emeritus Professor of Education and Development at Cambridge University and Fellow of Corpus Christi College, Cambridge, where he has directed a group of seven research institutions from five countries in a five-year 'Research Consortium on Educational Outcomes and Poverty' (RECOUP). He was the founding Director (2002–5) at UNESCO of the Global Monitoring Report on Education for All. His earlier career was based at the Institute of Development Studies, Sussex, where, as a professorial fellow in economics, he worked mainly on the linkages between primary education and economic development, on education financing, on development theory, and on economic adjustment in Africa.

Since 2000 **Giovanni Andrea Cornia** has taught economics at the University of Florence. Prior to that he was the director of UNU-WIDER and chief economist of UNICEF. He also held research positions in other UN agencies and the private sector. Since 2010 he serves on the UN Committee for Development Policies. His main areas of interest are macroeconomics, inequality, poverty, political economy, child wellbeing, and human development. His latest edited book, *Falling Inequality in Latin America: Policy Changes and Lessons*, was published by OUP in January 2014.

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**Frances Stewart** is Emeritus Professor of Development Economics at the University of Oxford. She has an honorary doctorate from the University of Sussex. She received the Mahbub ul Haq award from the United Nations, and the Leontief Prize for Advancing the Frontiers of Economic Thought from the Global Development and Environment

Institute at Tufts University. Books include *Technology and Underdevelopment*, *Planning to Meet Basic Needs*, and (as co-author) *Adjustment with a Human Face*, *War and Underdevelopment*, and *Horizontal Inequalities and Conflict: Understanding Group Violence in Multiethnic Societies*.

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## **Editors' Introduction**





# 1

## Human Development, Inequality, and Macroeconomics

### An Overview of Progress and Unresolved Problems\*

*Giovanni Andrea Cornia and Frances Stewart*

#### 1.1 Introduction and Structure of the Volume

Over the past half century, the years in which Richard Jolly has been working as a development economist and practitioner, he led or contributed to some major changes in development thinking. This collection of essays illuminates and evaluates some consequences of these changes in approach. Two broad categories of change can be distinguished: first, from an exclusive focus on aggregate income growth, to one in which the distribution of income, and the consequences for poverty and inequality, came to be regarded as of vital importance; and second, to a recognition that development objectives are multidimensional, covering a range of capabilities or freedoms, and incomes are a means rather than the overriding objective. This evolution in part reflected learning from the consequences of previous approaches, and in part changing political economy, political ideologies, and power.

As a background to the discussions in this book, it is helpful briefly to review these changes, drawing on Chris Colclough's chapter, which categorizes significant stages in this evolution, in most of which Richard played an important part (as shown by John Toye's biography in Chapter 2, which gives a more detailed account of Richard's contribution).

While promoting economic growth was the dominant perspective in the 1950s and 1960s (Mahalanobis 1953; Nurkse 1953; Lewis 1954; Lewis 1955;

\* We are grateful to Gerry Helleiner, Richard Jolly, and two anonymous referees for very helpful comments on a previous draft.

Rostow 1960), and did indeed lead to higher growth, the failure of this strategy to reduce poverty and inequality, or to create enough jobs, led to a search for alternatives. Dudley Seers pointed to the need to 'dethrone' GNP and led ILO employment missions to Colombia and Sri Lanka that focused on employment rather than income growth (Seers 1969; ILO 1970; ILO 1971; Seers 1972). Richard was an active member of both these missions. Then, in 1972, Richard himself (together with Hans Singer) led an ILO mission to Kenya, which this time focused on the activities of the poor in the informal sector rather than modern-sector employment, recognizing that the latter could at best provide employment for only a fraction of the working population and that the majority of the poor were not unemployed but working in low-productivity activities in the informal sector. The Kenya Mission called for a set of policies that would ensure 'Employment, Incomes and Equality' (the title of the Report) and recommended a strategy of 'redistribution from growth', by which an increasing share of the fruits of economic growth would be devoted to investment in the assets of the poor and improving their opportunities in the rural and informal sectors (ILO 1972). This was taken up by the World Bank, collaborating with the IDS of the University of Sussex, with Richard a prominent participant, generalizing the approach and modifying it slightly to one of 'redistribution with growth' (Chenery et al. 1979).

These changes in strategy remained predominantly concerned with incomes as a measure of wellbeing. However, the ILO's basic-needs approach directed attention away from income alone to the goods and services people needed to live reasonably satisfactory lives, i.e. to nutrition, education, health services, housing, and so on (ILO 1976; Streeten et al. 1981; Stewart 1985). Income was recognized as a means (among others) to achieve satisfactory levels of basic-needs fulfilment, rather than an end in itself. *Adjustment with a Human Face* (AWHF), which was initiated by Richard at UNICEF, incorporated a focus on both incomes and basic needs, pointing to the adverse impact on incomes of the poor, on essential goods and services, and on human outcomes that resulted from the deflationary adjustment policies adopted in the 1980s under the auspices of the IMF and the World Bank (Cornia et al. 1987). The move away from an exclusive focus on incomes was given major impetus by Sen's capabilities approach, which defined the objective of development as advancing people's ability to be and do valuable things; here basic goods and services as well as income are regarded not as ends but rather as means to enhance such capabilities (Sen 1985; Sen 1999). The initiation of the *Human Development Report* by Mahbub ul Haq in 1990 represented a fusion of Sen's capabilities approach and the rather more pragmatic basic-needs strategy. There followed a series of reports focusing on different aspects of this broad agenda. Richard himself

took over from Mahbub ul Haq and was principal coordinator of the *Human Development Reports* from 1996 to 2000 (see Chapter 2).

For the most part, these changes could be regarded as largely a side-show, since the main thrust of development policies was determined by the international financial institutions (IFIs), who adopted a highly orthodox, income-oriented and laissez-faire approach, particularly from the early 1980s. However, the adverse consequences of these ‘Washington Consensus’ (WC) policies on poverty and inequality, as well as the influence of critics, including AWHF and successive *Human Development Reports*, led to an important change in global perspectives on development, which was embodied in the Millennium Declaration and the global agreement on the millennium development goals (MDGs) of 2000. These goals were supported by governments from across the world and entrenched a broader, human-oriented, multidimensional approach to development.

Richard Jolly thus made major contributions to the shift in focus, from growth to employment, to redistribution with growth, and then to human development; and he also contributed to the questioning of orthodox macroeconomic policies as the means to achieve human development and poverty reduction. He has continued to contribute in this area, leading the critique of the austerity programmes following the 2008 financial crisis (Jolly et al. 2012). He was involved as a leader of cooperative ventures in this area, both as a practitioner (in the United Nations and elsewhere) and as an advocate.

Since the new millennium there has been definite progress in shifting the goals of development towards egalitarian, anti-poverty, and multidimensional perspectives, but how much has actually been achieved? Part Two of this book provides some answers to this question with respect to aid to education (Colclough), employment (van der Hoeven), social protection (Kanbur), and equality (Wade, Stewart). In brief, on the ground there has been some limited progress in education policy, and definite progress in social protection. But there has been no progress in terms of employment—indeed, there has possibly been regress here. Moreover, the world has generally become more unequal. Even though Séverine Deneulin argues that one can ‘read’ capabilities and human-development approaches in many different ways—which implies that no single evaluation is universally acceptable—however one reads it, there does seem to be much less progress in reality than in the language of development.

Part Three of this book considers the same issue with respect to macroeconomic policies. Cornia analyses some recent changes in macro-fundamentals leading to reduced inequality in a number of developing countries, particularly in Latin America, but also elsewhere, and discusses an alternative strategy (‘new structuralist macroeconomics’) that would promote a more

egalitarian and employment-intensive pattern of development. Helleiner analyses trade, exchange rates, and global poverty. Martorano, Cornia, and Stewart explore whether the human-development paradigm has affected adjustment policies, contrasting fiscal policy in the early 1980s and in the late 2000s, and find some progress. Kaplinsky explores how innovation can contribute to a strategy of redistribution through growth. Finally, Griffith-Jones and Ocampo deal with one of the key unresolved problems of our times, which simultaneously affects human development, inequality, and macroeconomic stability: the regulation of global finance.

## 1.2 Progress in Human Development?

The idea of human development as representing progress provides the foundation stone for the theory and evidence presented in this book, underlying all our analysis. Hence we need briefly to consider what we mean by human development. As the first *Human Development Report* stated: 'Human development is a process of enlarging people's choices. The most critical ones are to lead a long and healthy life, to be educated and to enjoy a decent standard of living. Additional choices include political freedom, guaranteed human rights and self-respect' (UNDP 1990: 10). Progress in human development consists in the enlargement of people's potential to live productive, creative, and autonomous lives. It thus extends well beyond per-capita income to focus on the many conditions that make this possible, including health, education, work, political freedoms and social cohesion. The human-development approach represents a fusion of the basic-needs approach that preceded it and Amartya Sen's capability approach, the first putting particular emphasis on meeting the most fundamental needs of poor people, and the second on extending the choices people have to lead lives that they value.<sup>1</sup> Both turn away from income as the objective and see it as means to improve human conditions. In this volume, Séverine Deneulin develops a more sophisticated account of the different ways that the capability approach can be interpreted.

Hereafter, we briefly review the main findings of the chapters in relation to this basic question: have policy and outcomes moved in a pro-human-development way, and if not why?

We start by discussing the conceptual framework of capabilities and human development, drawing on Chapter 3 by Séverine Deneulin. The capability

<sup>1</sup> Indeed, the people involved in writing the first *Human Development Report* (working for Mahbub ul Haq) included (among others) those previously associated with basic needs (Gustav Ranis, Frances Stewart, Paul Streeten, and Mahbub ul Haq himself) and Amartya Sen and Meghnad Desai.

approach that underlies human development is very open; it defines the space in which progress should be assessed, but leaves the choice of which capabilities and functionings to choose, and priorities among them, to societies, communities, and individuals. Nor does it dictate a particular way of achieving any chosen direction. As Deneulin argues, the approach has been interpreted in different ways by various authors. She herself describes it as a ‘normative language’ in which wellbeing, capability, functioning, and agency are critical components, displacing utility as the basis for assessing social arrangements. Others have interpreted it as a partial theory of justice and as such given it more specific content (Nussbaum 2000). Although the approach has been criticized as lacking a political perspective—pointing to a desired, though ill-defined, direction of change, but not to the major obstacles to progress or how to overcome them (Feldman 2010; Stewart 2010)—this does not need to be the case; political analysis can be added to the approach, albeit with some constraints, given its fundamentally individualistic and freedom-oriented basis. Given this openness, following Ricoeur (1981), Deneulin argues that the interpretation of the capability approach will necessarily differ according to the context and the perspectives of the interpreter. Does this mean that anything goes? We believe not. Two aspects are fundamental: one is that progress is multidimensional and is inevitably misinterpreted if measured by a single aggregate, such as GNP or even HDI; the other is that the *process* is important as well as outcomes, which is another reason for not assessing progress with a single number.

The *Human Development Reports* have provided a pragmatic interpretation of the approach, revealed by the topics they have chosen to analyse and the types of policy they have chosen to explore. These provide the framework of interpretation that Mahbub ul Haq, Richard Jolly, and others initiated, and that we adopt in this volume. According to the interpretation of human development (HD) revealed by these reports, HD involves a focus on progress in critical aspects and determinants of human lives, particularly among those who are most deprived. These include health, education, incomes of the poor, employment, and inequality, as well as on environmental sustainability and political freedoms, among others. This multidimensional perspective—with a consistently prime emphasis on the conditions of poor people—represents a major change from a growth-oriented approach, in which one number (income growth) is used to measure progress, ignoring the dimensions just listed except instrumentally. The chapters in this book all interpret human development in these terms.

In Chapter 4, Chris Colclough attempts to trace the impact on policy of the widespread acceptance of human development following the publication of the *Human Development Reports*, starting in 1990, and in particular the agreement on the multidimensional MDGs in 2000, by exploring the impact of

aid for education. He notes that the overall volume of aid has increased since 2000, as has the proportion allocated to the social sectors (including education). By comparing the determinants (or correlates) of aid and education in 1998/9 and 2008/9 he is able to capture changes that can arguably be attributed to the change in objectives. He finds no significant correlates in 1998/9, but in 2008/9 the number of children out of school and the enrolment ratio are significantly related to both DFIDs (the UK aid agency) and total aid to education, indicating that the MDG of universal primary education seems to have influenced aid. Per-capita income is also negatively associated with both DFID and aggregate aid, indicating a shift to a poverty focus. However, when a broader range of variables is included in the model, country population size and Commonwealth membership, as well as country income per capita, explain most of the variance. He concludes that 'HD criteria appear to have somewhat increased influence on the allocation of both DFID and global aid to education over the past decade, but they remained of minor significance in comparison with more macro variables'.

A positive spillover of the human development debate is the widely accepted idea that universal social protection is needed to protect the poor against adverse developments and to fight poverty, as argued by Ravi Kanbur in Chapter 5, and this is undoubtedly a change from the pre-1990 era (see also Barrientos et al. 2010). Social protection 'focuses on reducing risk and vulnerabilities' (Shepherd et al. 2004: 8), and includes a range of public, private, and NGO interventions. Kanbur 'presents a broad overview of the main areas of consensus and challenges in the analytical and policy discourse on social protection'. He starts with a framework in which 'improving the wellbeing of the poorest...depends on (i) increasing their assets and opportunities in the medium term, (ii) improving insurance mechanisms, and (iii) addressing the actual outcome of shocks when they hit'. Kanbur emphasizes that an intervention on one of these can have effects (positive or negative) on the others. Protection of the poor against shocks can play a vital role in improving human development, as negative shocks (brought on, for example, by drought, ill health, or unemployment) often have a devastating and long-term adverse effect on poor households. Although there are many informal mechanisms that poor households access as forms of insurance, these are almost invariably inadequate, and state and civil-society action is needed to supplement them. Prominent among state schemes are cash transfers—conditional ones that often exclude the poorest, and unconditional transfers that tend to be more redistributive and inclusive. Among civil-society mechanisms, Kanbur points to the example of SEWA (the Self-Employed Women's Association), which provides insurance for poor self-employed women in India. Kanbur discusses four challenges faced by social protection schemes. The first is whether the schemes only

provide insurance or include a redistributive element. While in practice all schemes contain elements of both insurance and redistribution, interventions can differ greatly in the extent of each of these elements. For example, the Mexican *Progres/Oportunidades* scheme is intended primarily to be redistributive, providing cash transfers for those below a poverty line; but in practice, subject to a major shock, it also acts as a form of insurance, as families who were previously above the poverty line fall below it and are then entitled to receive transfers. In poor countries, both elements are undoubtedly needed. Social protection schemes tend to be concentrated in middle-income developing countries on grounds of affordability as well as institutional capacity. Yet, as Kanbur points out, they are needed even more in low-income countries. A second challenge, then, is to extend social protection comprehensively to low-income countries. A third issue concerns selection of the agents involved. These may include the public sector, the private sector, NGOs, and communities responsible for informal mechanisms. State support is often needed because the private sector typically excludes those most in need, as they cannot finance adequate private insurance and yet may be most vulnerable to shocks. Moreover, NGO-supported or informal mechanisms tend to be inadequate. The challenge for the state is to supplement the activities of other agents, rather than replace them. He cites the successful example of SEWA, which is an NGO but receives some state and donor support. A fourth challenge is whether to adopt conditional or unconditional transfer schemes. Conditional transfers seem to have been effective in changing behaviour (e.g. towards increasing education of children of recipients). But, as Kanbur points out, they may be more regressive than unconditional transfers, while the latter may also generate behavioural changes. He argues for more research in this area.

In any society, there exists a complex mixture of relevant mechanisms that contribute to social protection, and a starting point for evaluating the situation and suggesting reforms is to compile a full inventory, and then to recognize and allow for the fact that new formal schemes may partially or fully displace existing informal ones.

In contrast to the growing acceptance of the need to fight poverty—including through social protection—there has been no parallel consensus shift about the need to reduce income inequality. In Chapter 6, Robert Wade reports that inequality has increased in most regions of the world since the 1980s, though improvements have been recorded recently in a number of developing countries (see Table 9.4). Large increases in inequality were recorded, for example, in the USA, where the share of the top 1 per cent rose from 8.5 per cent to 23.5 per cent of GNP between 1978 and 2007, partly due to a concentration of corporate power. Wade argues that there is no strong political force challenging this rise. In developed countries, changes in the



tax system have been mainly in an unequalizing direction, while for developing countries poverty reduction rather than reduced inequality is widely accepted as the most important objective, as indicated by the MDGs, which notably omit reference to inequality. He contends that the neoliberal philosophy, which opposes government interventions for ideological as well as 'efficiency' reasons, is largely responsible. He argues against the so-called efficiency costs of equality put forward by some economists, pointing to the fact that the more equal Nordic economies performed just as well as the more unequal UK and US economies. Moreover (Lansley 2011) shows that high inequality can raise the risk of financial fragility, which also threatens growth.

The surprising fact is that democratic electorates have mainly accepted this inegalitarian philosophy. Wade suggests this is due to a combination of 'ideas' and 'interests'. The ideas stem largely from mainstream economists who argue that the market produces an optimal and 'fair' distribution, and that any intervention would have high efficiency costs by reducing incentives. Their views are well publicized by right-wing think tanks. The 'interests' arise because, while income distribution has become more unequal and the share of the rich has soared, this has been at the expense of the bottom 40 per cent, while the middle 50 per cent have not seen a squeeze of their incomes. This middle, who could swing politics in a redistributive direction, fear that any redistribution would be mainly from them to the poorest 40 per cent, and they would therefore stand to lose, or at best would find their position unaffected. Moreover, this middle group feels no solidarity with the poorer deciles. For these reasons, as well as the power of corporations through political financing, even centre-left political parties have supported strategies of poverty reduction rather than egalitarianism.

Frances Stewart's Chapter 7 is also concerned with why countries do not adopt more egalitarian policies, with a particular emphasis on horizontal (or group) inequality. While Wade focuses mainly on developed countries, Stewart uses evidence from four African countries. She starts by reviewing the implications of some major philosophical approaches to justice in relation to both vertical and horizontal inequality, as well as—like Wade—the arguments of economists. While both philosophers and economists provide some justification for vertical inequality (for efficiency reasons, as Wade indicates), in neither case can one find much justification for horizontal inequality, or inequality between major groups, divided by race, gender, or ethnicity. Although some incentives may be needed to motivate individuals, there seems no good reason why this should lead to inequalities across groups, since one can expect a similar range of talents and motives within every major group. Consequently, from the perspectives of both justice and of efficiency, the case for horizontal equality appears to be stronger than for

vertical inequality. Yet, ironically, social psychology suggests that people's view of the 'scope of justice'—or the universe of people among whom it is broadly accepted that justice and a fair distribution should apply—is likely to apply more within groups than across them. Consequently, one might expect more support for policies to reduce vertical than to reduce horizontal inequality.

The second part of Stewart's chapter uses data from perceptions surveys in Ghana, Kenya, Nigeria, and Uganda to explore how far there is indeed objection to cross-group transfers. This shows strong support for redistribution across groups in Ghana and Uganda, but much less support in Kenya and Nigeria. Using logit analysis, the chapter explores some possible determinants of support for redistribution. It finds that while significant relationships vary across countries, a person's perception of being *politically excluded* is associated with approval for redistribution in all four countries. It finds no evidence to support the view that a person's expressed identity, ethnic or national, determines their support for redistribution, thus challenging the 'scope of justice' hypothesis. Stewart concludes that the country differences observed are likely to stem from the different histories of the four countries. The findings suggest, however, that it is possible to find support for redistribution in multi-ethnic societies, and the different histories of the countries may suggest ways in which such support can be further promoted.

A rather negative assessment of progress towards human development is told in Chapter 8 by Rolph van der Hoeven with respect to employment. Employment was at the forefront in the 1970s, given prime emphasis by Seers and others. However, the era of stabilization and adjustment in the 1980s and then the increasing focus on poverty in the 1990s and 2000s gave it rather low priority. While the ILO has led the call for 'decent work' and it has always been recognized as an important feature of human development, it was not at first part of the MDGs and was only added to them in 2005. Employment has once more come to prominence, however, with the widespread attribution of the Arab Spring rebellions to unemployment among youth, as well as the rising unemployment in advanced economies due to the recession. Trends in employment have not been encouraging, as van der Hoeven reports. There has been a decline in the employment-to-population rate in most regions and a high rate of informal work (at 70 per cent of the total in low-income countries, 64 per cent in middle-income, and as much as 46 per cent in high-income countries), partly due to the rising share of services in total employment. The wage share has been declining in two-thirds of developing countries, with some Latin American countries being the major exception. There has also been a rise in inequality among wage earners. As van der Hoeven notes, these trends may be associated with the growing internationalization of the production process. Taken as a whole,