Combating Poverty and Inequality
The role of social policy

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Global poverty trends

FIGURE 0.1: Global and regional trends in extreme poverty, 1981–2005

A: Number of people living on less than $1.25 a day

- Europe and Central Asia
- Middle East and North Africa
- Latin America and the Caribbean
- South Asia
- East Asia and Pacific
- Sub-Saharan Africa

Number of people (millions)

<table>
<thead>
<tr>
<th>Year</th>
<th>Europe and Central Asia</th>
<th>Middle East and North Africa</th>
<th>Latin America and the Caribbean</th>
<th>South Asia</th>
<th>East Asia and Pacific</th>
<th>Sub-Saharan Africa</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>212.25</td>
<td>546.29</td>
<td>1071.49</td>
<td>297.51</td>
<td>579.2</td>
<td>595.58</td>
</tr>
<tr>
<td>1990</td>
<td>297.51</td>
<td>579.2</td>
<td>873.3</td>
<td>297.51</td>
<td>588.92</td>
<td>595.58</td>
</tr>
<tr>
<td>1999</td>
<td>382.62</td>
<td>588.92</td>
<td>635.06</td>
<td>382.62</td>
<td>595.58</td>
<td>595.58</td>
</tr>
<tr>
<td>2005</td>
<td>388.38</td>
<td>595.58</td>
<td>316.21</td>
<td>388.38</td>
<td>595.58</td>
<td>595.58</td>
</tr>
</tbody>
</table>
And rising inequality

- Income and wealth inequalities have risen in most countries.

**FIGURE 2.3: Global patterns of inequality over time, 1963–2002**

Source: Kum 2008.
Other inequalities...

- as have inequalities based on gender, ethnicity and region.
- Egs – (graphs/diagram – to add)
Combating poverty and inequality: Key Questions

• What accounts for the persistence of poverty when concern for its reduction has been high on the policy agenda?
• Why have some countries been more successful than others in reducing poverty and inequality?
• What can be done to reduce poverty and inequality, especially in low-income countries?
Five Key Messages

1. Poverty reduction requires **growth and structural change** that generate **productive employment**

2. **High levels of inequality** are an **obstacle** to poverty reduction

3. **Comprehensive social policies** are **essential for successful poverty reduction**

4. Effective **state capacity and politics** matter for poverty reduction

5. Poverty is reduced when economic and social policies, institutions and political arrangements are **mutually supportive**
Inequality and poverty are linked

1. Poverty is closely related to inequalities based on class, gender, and ethnicity.

2. These inequalities are often interlocking and dysfunctional for development.

3. And ethnic and gender inequalities persist in many countries despite growth.

4. Poverty and inequality must be treated as part of the same problem.

➤ High levels of inequality are an obstacle to poverty reduction.
Inequality is an obstacle

Inequalities…

• make it harder to incorporate the poor in the growth process;
• limit the size of the domestic market and prospects for sustained growth;
• may contribute to crime, social unrest and conflict and
• encourage the emergence of institutions that lock the poor into poverty traps
Addressing inequalities

Countries can adopt a number of redistributive policies to tackle the multiple dimensions of inequality, for example:

- provide the poor with greater access to productive assets and credit
- strengthen legal rights (eg tenure)
- pursue affirmative action policies within a universal framework;
- invest in social infrastructure to reduce the drudgery of domestic work;
- stimulate investment in rural infrastructure and creating public works programmes;
- improve tax administration, prevent tax evasion, and limit opposition to progressive taxation;
- create a stable global economic environment that responds to the needs of low-income countries.
The role of social policies

Comprehensive social policies are essential for successful poverty reduction.

- The most significant reductions in poverty have occurred in countries with comprehensive social policies that lean towards universal coverage.
- Universal social policies are feasible and affordable for countries at fairly low levels of income.
Fragmented social policies

- Public expenditures are increasingly pro-poor with increased spending on services and social assistance (e.g., cash transfers).
- But social protection interventions are largely oriented towards targeting the poor.
- The emphasis remains on privatisation or commercialization of services.
- Social policies are therefore fragmented resulting in gaps in coverage and high costs.
- Comprehensive systems that lean towards universalism are more socially inclusive and contribute to security and social cohesion.
Different approaches to social policy

- Universal approach to social policy
  - economically sustainable, socially inclusive and democratically anchored
  - Universalism
  - Equality of outcomes
  - Macro-impact of SP:
    - economic stabilization
    - social cohesion
    - political legitimation

- (Post-) Washington Consensus social policy:
  - SP as safety nets, poverty reduction and part of risk management tool kit
  - Targeting
  - Equality of opportunities
  - Micro-impact of SP
    - adverse incentives
    - market distortions
    - behaviour
Outcomes depend on social policies

<table>
<thead>
<tr>
<th>Table 5.1: Inequality and poverty by welfare state regimes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inequality among working-age population</td>
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<tr>
<td></td>
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<td></td>
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<tr>
<td></td>
</tr>
<tr>
<td>Social democratic welfare states[^a]</td>
</tr>
<tr>
<td>Christian-democratic welfare states[^b]</td>
</tr>
<tr>
<td>Liberal welfare states[^c]</td>
</tr>
<tr>
<td>Grand mean</td>
</tr>
</tbody>
</table>

Notes: Mean values. ^a Data refer to 1995 for Sweden, Norway and Finland, and to 1992 for Denmark. ^b Data refer to 1992 for Belgium and Switzerland; 1994 for the Netherlands and France; 1989 for Germany. ^c Data refer to 1994 for Australia, Canada and the United States; 1995 for Ireland and the United Kingdom. Source: Adapted from Stephens (2007).
## CCTs in Latin America

<table>
<thead>
<tr>
<th>Country</th>
<th>Project</th>
<th>Per capita GDP in 2006 (PPP$)</th>
<th>Population below national poverty line (%)</th>
<th>Poverty headcount ratio at PPP $1.25 a day (% of population)</th>
<th>Budget ($</th>
<th>Coverage (households)</th>
<th>Monthly monetary benefits in 2008 ($)</th>
<th>Administrative costs (% of programme budget)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mexico: Progresa/Oportunidades</td>
<td>12,176 (2004)</td>
<td>17.6 (in 2000)</td>
<td>2 (in 2007)</td>
<td>$3.1 billion in 2006 (0.4% of GDP)</td>
<td>5 million (of which 3.5 million were rural)</td>
<td>Education: $12–$77 per child (variable by school level/gender); $2 per child for school supplies</td>
<td>Nutrition: $18 per child</td>
<td>9</td>
<td></td>
</tr>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td>Pension: $25 per elderly</td>
<td>Energy and food: $16 per family</td>
<td>Youth: $3–$27 per young person</td>
<td></td>
</tr>
</tbody>
</table>

Cost of commercialization

FIGURE 6.6: Out-of-pocket health expenditure as a percentage of total health expenditure and per capita GDP, 2005–2006

Transformative Social Policy

- Is social policy grounded in universal rights that aims to:

  ✓ enhance the **productive** capacities of individuals, groups and communities;
  ✓ reinforce the progressive **redistributive** effects of economic policies;
  ✓ reduce the burden of growth and reproduction of society, including care-related work, and
  ✓ **protect** people from income loss and costs associated with unemployment, pregnancy, ill-health or disability, and old age.
Extension and Reform of Social Insurance

• Labour markets are key:
  – Contribution-financed schemes for “formal economy”
  – Challenge in countries with high degree of informality
  – Implement measures for difficult-to-cover groups
  – Increase efficiency and equity in current systems

• Privatization revisited: poor record in terms of
  – Coverage, poverty reduction, redistribution
  – Resilience in times of systemic crisis (economic, financial)
  – Stabilization of macro economy
  – Gender equality
Different pathways

• Developmentalism and industrialization
  – Rep. of Korea, Taiwan PoC

• The ‘social democratic’ model
  – Costa Rica

• Dualist economies
  – Argentina, Brazil, South Africa

• Agrarian-informal contexts
  – India, Tanzania
Costa Rica: a social-democratic welfare model in Latin America?

- Strong commitment to universal provision of education and health
- Efforts to increase coverage of contribution-financed social insurance:
  - Mandatory affiliation for self-employed
  - State subsidy for contribution payments of difficult-to-cover groups (self-employed, peasants, domestic workers)
- High expenditure on social assistance (5.6% GDP in 2006), financed through progressive payroll taxes
Coverage of health and maternity insurance in Costa Rica, 1970–2008 (% of total population)

**FIGURE 5.5: Coverage of health and maternity insurance in Costa Rica, 1970–2008 (% of total population)**

Source: MIDEPLAN-SIDES 2009b.
Brazil: towards more social inclusion

• Reforms of social insurance programmes
  – Reform of civil servant pension regime frees up funds and increases equity

• Extension of Social Assistance
  – *Fome Zero/Bolsa Familia* programme
  – Social pensions (rural pension, not means-tested, reaching more than 7 million people)
Social assistance in South Africa

![Diagram showing number of social assistance beneficiaries by programme in South Africa, 1993-2006 (millions)]

Source: Seekings and Natrass 2008.
China

• To add
Recommendations

• The state needs to assume key responsibilities in terms of financing, administering and regulating social protection programmes and institutions
• Social assistance programmes are most effective when designed as an integral part of long-term comprehensive social protection strategy that leans towards universalism
• Avoid complex mechanisms of targeting and conditionality
• Universal programmes are more likely to get broad support from groups with ability to pay and political influence
• Strategic alliances, social pacts and social dialogue are important for building a national consensus or social pact
• Social policies need to be part of sustainable and employment-intensive growth paths which support more equitable and cohesive societies
Multiple paths to poverty reduction

Poverty is reduced when economic and social policies, institutions and political arrangements are mutually supportive.

Combating poverty and inequality is not just about having the ‘right’ economic policies; it is also about pursuing comprehensive social policies and types of politics that elevate the interests of the poor in public policy.
Details of report

**Combating Poverty and Inequality**
*Structural Change, Social Policy and Politics*

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