

**ISSUES IN DEVELOPMENT**  
**Discussion Paper**

**1**

**The Political Economy  
of Fighting Poverty**

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## Preface

We are pleased to start off the "Issues in Development" Discussion Paper series with an essay by one of the most eminent development economists of our time, Professor Paul Streeten. The essay

is concerned with the political economy of fighting poverty, a subject that has unfortunately not yet received the attention it deserves. According to Professor Streeten, one of the reasons for the failure of policy recommendations to be implemented is the neglect by analysts of the political economy of reform. The brightest ideas in development would amount to little more than an intellectual exercise unless thought is also given to the means of making their implementation possible, not only by mustering the financial resources that are necessary but also through efforts to create a political base in support of reform. As Professor Streeten argues, the construction of such a base requires reflection on how to build constituencies for an anti-poverty strategy, how to form coalitions and alliances in favour of social action, and how to harness and organize support for rational social policies that benefit everyone in the long run. Focusing on the social sector, Professor Streeten discusses various means of creating a hospitable environment for reform and provides numerous concrete examples of successful experiences in overcoming resistance to reform by building on the common or shared interests of the rich and the poor, benefiting from differences of views among influential groups, empowering the poor, promoting participatory forms of organization and generating international pressures and support for reform. He also offers a number of recommendations to the ILO, which celebrated its seventy-fifth anniversary last year, for the reform of its actions, policies and research with a view to strengthening its capacity to influence the actual development efforts of its constituents.

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## **1. Introduction**

It is now widely recognized that an attack on poverty calls for several thrusts. Reform to more market-oriented policies is nowadays most frequently stressed, but reform of institutions (in many cases land reform, but also credit institutions and others), an appropriate technology policy, an employment policy, a population policy, and macroeconomic policies are also important.<sup>1</sup> Perhaps the briefest description of the policy package for reform is: incomes (jobs) + social services + participation. It is true that incorrect macroeconomic policies (e.g. an overvalued exchange rate) can undo much of the good done for the poor by micro-measures, but structural adjustment has been discussed in recent years very fully, if not ad nauseam, and no more will be said here. On the other hand the political pressures for macroeconomic policies and institutional reform are to some extent covered in this essay. But the main emphasis in the examples will be on reforms in the social sectors because this has been a relatively neglected area.

We devote financial, fiscal and real resources to the provision of education, health, nutrition and family planning. But in the supply of these social services the links between these resource "inputs" and the "outputs" or results reflected in a full, healthy and long life are even more tenuous than the links between inputs of labour and capital and the production of material goods. There is a wide range of outcomes, as reflected in the health of a population, for a given amount of money spent

on primary health care, or in the success of a family planning programme for given resources devoted to it. Without money, hardly anything can be done. But even large amounts of money can have little impact. The ratio of public expenditure to national income, the ratio of social expenditure to public expenditure, and the ratio of priority social expenditure (in poor countries on primary health care and basic education) to social expenditure are guidelines to achievements in human development, but they are not sufficient for the desired results. What one should aim at is to get the best possible results from any given amount of expenditure. This is particularly important in times of financial stringency. But this will depend on a number of factors other than money. What then are these determinants of the effective use of funds for social purposes? They can be grouped under five headings: institutions, skills and aptitudes, attitudes, levels of living, and policies.

*Institutions* determine the organizational basis from which the energy, commitment and enthusiasm of the beneficiaries can be enlisted. Too much centralized decision-making may fail altogether or, if successful, will prove extremely expensive; too much reliance on "bottom-up" initiatives will be frittered away or be taken over by local power elites. It is the right combination of participatory with governmental organizations that will yield the best results.

The *skills and aptitudes* of the teachers, village workers and health personnel will make all the difference in the delivery of these services. Training of the right type has to be provided, refresher courses should keep the workers up to date, and high wastage rates have to be avoided.

*Attitudes* are less easily measured than time spent on education, but the fact that they cannot be counted should not lead to the conclusion that they do not count (or exist). Human development is not just a question of literacy and numeracy, but of what might be called "operacy", the skills and willingness of doing. Attitudes are concerned with choosing objectives and priorities, adopting valuations, considering alternatives, making decisions, resolving conflicts, accommodating other people's views. They spring from self-discipline, pride in work well done, willingness to cooperate.

*Levels of living*, normally not regarded as being productive, are at low levels crucial in determining the efficiency of work done. The dedication and commitment to work on a health or education programme is more likely to be forthcoming from a well nourished, alert, healthy, well-educated, disciplined group of people.

*Policies* are more fully discussed elsewhere in this paper. It is plain that the right division of labour between different levels of government, NGOs and the market (and the family) will be a crucial influence on the impact of social reforms.

Each of these five factors, which themselves interact, can be positive or negative from the point of view of human development and poverty reduction. Positive institutions will draw on the enthusiasm and energy of the beneficiaries, negative institutions will set a distant, distrusted, centralized, urban bureaucracy against them. Positive attitudes comprise a readiness to cooperate, to be self-reliant, to take a long view; negative attitudes are inhibitions by rulers to implement reforms, obstacles in the form of refusal to do certain jobs as beneath the worker's dignity, dependence of beneficiaries and reliance upon others doing the job. And so on.

These five variables are themselves largely a function of human development. A society that enjoys high and widespread levels of nutrition, health and education will tend to have institutions, skills, attitudes and policies conducive to human development. The effectiveness with which money for poverty eradication and human development is used thus itself largely depends on human development. Progress in human development is both a condition and a result of human development. This explains why it is so difficult to get started in the war on poverty and on human development. But there is also a message of hope in it; for once the process does get started, it becomes self-enforcing and cumulative.

Whether the five variables work in a positive or negative direction will also depend on political pressures, political constituencies, political obstacles and political inhibitions. This essay is concerned with these forces as they determine the shape and effectiveness of social services aimed at reducing poverty.

## **2. The need for a political economy**

Research and experience in anti-poverty policy have made great strides over the last forty years. In a grossly oversimplified way it may be said that we have progressed from economic growth as the principal performance test to growth with equity, to employment, to redistribution with growth, to poverty and basic needs, and finally to sustainable human development. The ILO has contributed

at different stages substantially to this evolution. Yet, though our understanding of these issues has gained in depth, the evils of unemployment, underemployment and poverty are, in large parts of the world more serious than ever. A billion people are living in absolute poverty. Whence this gap between analysis and policy, between understanding and doing? If the objective is redistribution with growth, in many countries growth has slowed down or become negative, and no redistribution has occurred.

Three answers are possible: first, the world environment has changed so drastically that our old models, theories and recommendations are no longer applicable; second, our recommendations have always been wrong, either because we said the wrong things or because we omitted to say the right things; third, though correct both for their and our times, our advice was not accepted.

There may be an element of truth in all three answers. The world environment has certainly changed radically. Four forces have been at work. First, instead of solving the unemployment problem in the context of a rapidly growing world economy, there has been stagnation, sometimes reinforced by austerity policies for balance of payments reasons. Second, the world has become more interdependent. The hope that a regime of flexible exchange rates would give greater autonomy in policy-making to each country has not been realized. Third, there have been changes in demographic and labour market trends. Fourth and finally, technological innovation, often labour-saving, has accelerated. The Arthur Lewis surplus labour model, though not or no longer applicable to the developing countries, can now be applied to the global economy. The growth of the labour force is much faster in the developing than in the advanced countries. Cheap labour wishes to migrate from the South to the capital-rich North, with expectations of jobs in spite of existing unemployment.

Were our models wrong or misleading? It can be argued that, though errors were made, many of the problems were the result of the successful solution of a previous generation of problems. It is the rapid rise of industrial production that has led to migration to the towns and the growth of open, urban unemployment. It is also the rapid growth of industry that has shown up agriculture as the slow-coach and focused our attention on rural development. It is the success in education that has led to the brain drain. It is successful import substitution that has led to the capacity for good export performance. It is the successful reduction of mortality rates that has led to the population explosion.

Nevertheless, errors were made. The promising approaches of the future point to a greater differentiation and a move towards a typology. For purposes of analysis and policy it is important to distinguish between countries with different initial conditions, e.g. with respect to man/land ratios and endowments with natural resources, countries with different history and institutions, countries at different income levels, countries of different sizes (by population or area), the degree of openness to the world economy, the type of products exported, the relative importance of the rural and the urban sector, or agriculture, manufacturing and services, of the formal and informal sector, and so on.

There have been profound changes in our thinking. In the face of inflation accompanied by unemployment and the disarray of economic theory, incapable of explaining such phenomena, there has been a retreat from Keynesianism and from solutions sought in the public sector. Minimalism of government and pricism in markets have been the popular prescriptions.

The earlier approach may also be faulted for ignoring or neglecting important issues without an understanding of which a proper implementation of a strategy is impossible. Among these are: environmental issues, women's issues, the role of services, and the role of new technologies. But perhaps the most important issue that had been neglected is the political economy of reform.

This brings us to the third reason of why the recommendations of the 1970s have not been accepted: they were politically naive. The assumption was that if a policy is shown to be sensible in the light of the declared objectives of the government, it would be followed. By postulating implicitly a false theory of government behaviour, this approach was guilty of only a partial analysis. Therefore, the rest of this essay is devoted to a political economy of reform. The sections on political economy apply to macroeconomic, mesoeconomic and microeconomic policies, although the illustrations are taken mainly from actions in the social sectors.

### **3. Positive and normative political economy**

The political economy of financing human development is concerned with two sets of questions: first, what interests and pressures lie behind current declared policies for human development, particularly those that appear neither compassionate nor sensible, either because they conflict with declared aims or because they pursue them in an ineffective way; and second, what changes in political pressures, in coalitions and alliances, can lead to reform?

The first set of questions has been explored by the self-interest, or public choice school, also called the new political economy. The normative aspects have so far been explored mainly in the context of adjustment and stabilization policies, how to bring about trade liberalization, deregulation, and privatization, but not for anti-poverty measures and human development.

The so-called new political economy asserts that citizens, politicians, bureaucrats and states use the authority of government to distort economic transactions for their own benefit. Citizens use political influence to get access to benefits allocated by government; politicians use government resources to increase their hold on power; public officials trade access to government benefits for personal reward; and states use their power to get access to the property of citizens. The result is an inefficient and inequitable allocation of resources, general impoverishment and reduced freedom. Unfortunately, there is plenty of evidence that some regimes operate like this.

On the other hand, there are examples of political regimes that represent and promote the interests of the poor. In Malaysia, political power lies with the poorer Malays, while economic power with the Chinese and Indian communities. As a result, Malaysia has implemented policies that benefited the poor Malay community. In Zimbabwe, after power had shifted from a white to a black government, numerous measures were taken that favoured human and social objectives. For example, the share of primary education in total educational expenditure rose from 32 per cent in 1980 to 58 per cent in 1984 and real expenditure per head on primary education doubled.<sup>2</sup> In Malaysia and Zimbabwe influence does not go with affluence.

Even if it were true that we all pursue always only our self-interest, this is open to different interpretations; some of these may be in conflict with one another and with the interests of others, other interpretations may be in harmony. There may, for instance, be a conflict between smaller present and larger future gains; or between "hot," impulsive and "cool," deliberated interests; or between concentrated smaller and more widely dispersed larger gains; or between certain smaller and uncertain larger gains; or, perhaps as important as interest conflicts between groups, the conflict between perceived smaller and actual but non-perceived larger gains. In particular, when perceptions of interest by one group are in conflict with those of others, while real interests are in harmony, or when short-term interests conflict, whereas there is convergence in the long term, wise policy-makers can use the areas where there is an identity of interests to overcome resistance and opposition.

The new political economy that emphasizes the self-interested motivation of all agents has been a healthy corrective to an earlier view, according to which a benevolent government, like Platonic or Fabian guardians, always promotes the general welfare. Just as according to this view the government can do no wrong, according to the new view the government can do no right. The old view called for government intervention whenever there was market failure; the new view calls for minimum government intervention, ascribing all ills to government failure.

Economists are trained in the study of the operation of economic forces within political, social and moral constraints. This approach has to be supplemented (and in some cases replaced) by the study of the operation and manipulation of political, social and psychological forces within economic limits. More fundamentally, the distinction between economic and non-economic variables may not be tenable if the aim is to design policies and mobilize resources for poverty eradication and human development.

Expensive, heavily subsidized, urban hospitals for the middle class and the rich instead of low-cost, rural preventive health services; free university education for the children of the rich instead of primary village education for farmers' children; luxury flats instead of low-cost housing for the urban poor; subsidized food for urban officials, the military and the well-off instead of incentives for poor farmers and adequate wages for landless labourers; the support of monopolies and cartels instead of labour-intensive, informal sector micro-enterprises; these biases are the result of powerful and articulate interests. Those who benefit from these policies obviously form part of the pressures behind them.

Labour is overpriced, capital is underpriced, rents are too low, and the exchange rate is overvalued. Such policies encourage the adoption of capital-intensive and import-intensive techniques, discourage the full utilization of existing equipment, and militate against labour-intensive exports. The vested interests behind these policies are: the workers in the organized, modern sector who are lucky and skilled enough to have jobs; managers who do not want to be burdened with handling a large labour force; and businessmen who have established themselves as high-cost import-substituters hidden behind protectionist walls.

But there are also the professional interest groups -- the doctors, the engineers, the university teachers -- who claim privileges in the name of "excellence" and high professional standards. The medical and educational establishments tend to oppose attempts to restructure these services to the poor. Doctors prefer the latest, expensive medical technology to simple preventive health care. Engineers wish to apply the most advanced and sophisticated technology in settings quite unsuited to them. The current period of restricted growth and debt burdens adds further difficulties to changing the direction of expenditure, compared with the earlier three postwar decades of rapid expansion. Anti-poverty measures are easier in the context of growth, although conflicts about the division of gains from growth can be nearly as severe as conflicts over the division of a constant pie. And restructuring is easier in the context of growing total expenditure. Even an altruistic government is faced with additional problems in promoting human development and fighting poverty if it has to operate in the context of stagnation.

The picture of the state and the government painted by some contemporary writers is that of an instrument used ruthlessly to amass wealth and power by those in office, and for the benefit of those on whose support they depend, without regard either to efficiency or to the public interest. According to this view, reasonable men and women adopt policies that have harmful consequences for the societies they govern. The self-interest of bureaucrats, politicians and ordinary organized citizens leads the government to adopt policies that are neither in the public interest, nor in the interest of the poor, nor economically rational.

But surely this picture is at best incomplete. The principle of social impoverishment through competitive, short-term, self-interested political action by pressure groups that attempt to frustrate the working of Adam Smith's Invisible Hand by "rent-seeking" and "directly unproductive profit-seeking activities" has been aptly called the "Invisible Foot."<sup>3</sup> It refers to the organized activities of individuals and groups who protect themselves from the working of competitive market forces. The policy problem consists in finding ways to prevent the Invisible Foot (of political rationality) from trampling on and destroying the beautiful work of the Invisible Hand.

Governments, however, sometimes transcend individual and group interests and free themselves from the political pressures that make for allocation of scarce resources to the privileged and powerful. If there is one thing that is abundantly clear from historical evidence, it is that they can and do act in the common interest, or in the interest of the poor, the weak, the unemployed, and that they can act rationally. Otherwise, how can we account for the fact that measures are taken to protect children and future generations, who have no votes and no power? Such poor countries as Sri Lanka, Costa Rica, China and Jamaica have achieved spectacular results in longevity and health through public interventions.

A more plausible theory of the state, supported by a wealth of evidence, sees most governments as neither monolithic nor impervious to moral or social (or aesthetic) motivation and appeals, or to appeals to economic rationality. According to this view, the obstacle to progress is neither solely ignorance nor solely political self-seeking. There are large areas in which a better analysis, a clearer sense of direction, and a mobilization of the poor and their trustees and of the guardians of rationality would help, just as there are other areas where it is fairly clear what should be done, but vested interests (political and professional) prevent it from happening. Political action, according to this view, is not necessarily destructive but can be a way of resolving conflicts. Action for the poor and for improving the human condition is helped by democracy and a free press; and human development, even when it occurs in a dictatorship, eventually leads to the call for civil and political freedom, as we have seen abundantly in recent years.

#### **4. Successful restructuring of social services**

There are examples of successful restructuring of the social services towards the poor. Zimbabwe redirected public expenditure to primary education and health services after independence between 1979 and 1985. Although this was the result of a radical change of regime, the new regime was widely accepted. The ruling party, the Zimbabwe National Union, led by Mugabe, had a wide and largely rural support base. Political debate was intense and the press was relatively free and played an important role in keeping the government alert to social problems.

Free health care was available for those earning less than 150 Zimbabwean dollars a month and the immunization and diarrhoeal disease control programmes expanded rapidly. A children's supplementary feeding programme was instituted, providing a daily meal to undernourished children in rural areas. Similar restructuring took place in education, with communities participating in

contributing labour. Health expenditure rose by 70 per cent between 1980 and 1982, a growing proportion of which was devoted to preventive rather than curative services.<sup>4</sup>

A quite different picture is presented by Chile under Pinochet. It enjoyed a rapid improvement in infant mortality and the health status of the poor. Chile had a long historical record of social services and benefited from continued expansion of female education and reduction in fertility. But there can be no doubt that government policy contributed to the success by expanding public support measures. Some have explained this as an attempt to check popular discontent at a time of political repression. "The expansion of targeted nutrition and health programmes also has an obviously populist ring in a country where popular expectations of public provisioning are very high, and the Chilean government has indeed consistently endeavoured to build political capital from its achievements in the area of child nutrition."<sup>5</sup> Important lessons about political pressures and the search for popular support, even in an authoritarian regime, can be learned from Chile's achievements.

The political importance of a long history of social intervention is also illustrated by the success of Costa Rica. It has enjoyed an active democracy and social legislation since independence in 1821. Slavery was abolished in 1813 and capital punishment in 1882. Secondary education has been free and compulsory since 1869. The foundations for the present success were, however, laid in the reforms of the 1940s.

Indonesia in the 1980s restructured social expenditure to primary village schools, largely in order to reduce the risks of rural uprisings. Reforms in Morocco and Ghana also were intended to expand and improve rural primary education and to eliminate subsidies to middle class university students, and in Ghana to pupils at the upper secondary level. Most of the resistance to these reforms was directed at the withdrawal of benefits from university students and limits on enrollment. In Ghana student protests occurred in 1987 and 1988, leading to a closing down of the universities. In Morocco enrollments were increased again in response to political pressures.<sup>6</sup> Both Ghana and Morocco continue to attempt restructuring in spite of middle-class opposition, which appears to be even stronger in this field than to eliminating food subsidies for the middle class. Plentiful external assistance helps such efforts. After 1988 Jamaica benefited from funds from the World Bank for a broad-based Social Adjustment Programme that had wide political support. Its small size was an advantage in getting aid. Larger countries have much greater difficulties in getting such aid.

In addition to targeted subsidies and restructuring of the social services, there are numerous other measures a government can adopt to improve the condition of the poor. These are not the concern of this essay. Clearly, they also raise problems of political economy. A land reform aiming at the redistribution of land, in many countries the most obvious policy for both equity and efficiency, is politically the most difficult.

Channelling credit to poor people has been highly successful and has met with less opposition. If the hijacking of subsidized credit by rich and powerful borrowers can be avoided, it gives the poor access to productive assets, enabling them to earn higher incomes; it engages them in the productive process, thereby making them agents of change; and it enables them to acquire the education and skills for further raising their earning power. It also gives them the social recognition and the self-respect that is, according to John Rawls, "perhaps the most important primary good." It is for reasons such as these that Professor Yunus, the founder of the Grameen Bank in Bangladesh, has written of credit as a basic human right. The creation of efficient, small-scale, labour-intensive work opportunities is another promising area in which the interests of the better off and the poor can be made to coincide, if the activities are made complementary rather than competitive with the larger firms.

## **5. Normative political economy**

Normative political economy has been relatively neglected, and when it has been discussed, it is mainly on how to get support for trade liberalization and privatization in the context of stabilization and structural adjustment programmes and not how to mobilize action for poverty eradication.<sup>7</sup>

When it is mentioned, one frequently hears complaints that the "political will" for certain desirable reforms is lacking. But this is not a helpful way of analyzing political constraints and political action. One does not have to be a behaviourist to believe that behaviour is the manifestation of will. If the action is absent, to say that the political will is lacking does not really add anything. If the will to action is absent, there is no point in asking for the will to have the will. Alternatively, to say one thing while doing another can be described as hypocrisy. Nevertheless, political will can be subjected to analysis, pressures, harnessing, mobilization and channelling. But it is more useful

to think of the construction of a political base for reform. In view of the large literature on the positive theory of private-interest (the public choice school), it is surprising how little thought has been given to the normative application of power constellations: how to build constituencies for an anti-poverty strategy, how to form coalitions and alliances in favour of improving the nutrition, education and health of the poor; how to harness and organize support for rational social policies that benefit everyone in the long run. Instead of speaking of the need for political will, this approach would be concerned with bargains, pacts, alliances, coalitions, compromises, compensations and accommodations of conflicting interests. The focus would shift from empty phrases to an analysis of the political constituencies for successful reforms that are both efficient and compassionate. A possible reason for the failure, in the past, of the recommendations of human development and poverty eradication, the main principles of which have been known for a long time, is the neglect of heeding political constraints and of the need to create a constituency for reform.

Illustrations of such mobilization of interests for the benefit of poor people in developing countries can be found in the interest of bankers in advanced countries in liberalizing markets for labour-intensive imports from developing countries; or in the interest of independent retail chains or consumer groups in low-cost imports; or in the interest of U.S. export lobbies in debt relief for the developing countries. Alliances of this kind can build on the interest of some groups in advanced countries to improve the lot of weaker and poorer groups in the developing countries.

One reason for the failure of the recommendations on poverty eradication made by the international community and development experts, such as the employment missions of the ILO's World Employment Programme in the 1970s, to be implemented was the neglect of political constraints and of the need to create a constituency for reform.<sup>8</sup> However, the inclusion of considerations of political economy raises two difficulties, one methodological, the other political.

The methodological difficulty is this: including politicians in the analysis, or, in the jargon, making politicians and politics endogenous variables, is attractive from the point of view of a relevant and realistic approach that is likely to yield results. As long as we assume political forces to be exogenous variables, we can use them as levers to change the system: to preserve it, reform it, or change it radically. They then also lend themselves to the construction of utopias, without practical constraints. Once political forces become endogenous, they are determined within the system and advocacy of change becomes impossible. What appear to be obstacles in an analysis confined to economic variables become necessities when political variables are incorporated. If we accept determinism, we have no choice. In order to get an Archimedean point from which to lift the system, we need some degrees of freedom within which ranges of policies can be regarded as independently determined.

Fortunately, there are some ways out of this dilemma. First, persons or groups concerned with the national or social interest, rather than with sectional and selfish interests, can, from a variety of motives, become involved as political pressure groups, and economic analysis can be used by them as the basis for their campaign. Keynes thought that economists were the "trustees of rationality." International agencies such as the UNDP, UNICEF, the World Bank and the ILO may also constitute such pressure groups.

Second, normative economic analysis can show that the self-interested lobbies may not be efficient in pursuing their interests, since they could all be better off if they followed efficient lines and compensated the losers. The objection to this is that differences over the desirability and acceptability of the division of joint gains can prevent their achievement. Differences over the division of joint gains can be nearly as divisive as conflicts over the distribution without net gains, when there are absolute losses. Compensation may be regarded as either undesirable, because the losers deserve to lose, or as not feasible, or, if feasible, excessively costly.

Third, normative analysis may show the inefficiency of the competitive political lobbying process and suggest changes in institutions to produce better outcomes. In other words, lobbying need not be accepted as a given but is itself subject to reform. Of course, the reform can have costs, and may produce non-optimal results.

Fourth, the rulers themselves, or at least some of them, may have the common interest at heart, at least partly, and resist the competitive, self-interested pressures. So much for the methodological difficulty.

The political difficulty takes the form of a dilemma. Either we confine our recommendations to what is politically feasible and end up in a sterile perpetuation of the status quo, or we make

recommendations free of political constraints. The danger then is that we may end up frustrated, with unrealistic, utopian proposals. There is, however, a lot to be said for utopianism in policy analysis.

First, utopian ideas can be useful as a framework for thinking, in the same way that physicists assume for some purposes a vacuum. The assumption plainly would not be useful for the design of parachutes, but can serve well other purposes. Similarly, when thinking of tomorrow's problems, utopianism is not helpful. But for strategic purposes it is essential.

Second, the utopian vision gives a sense of direction, which can get lost in approaches that are preoccupied with the feasible. In a world that is regarded as the second-best of all feasible worlds, everything becomes a necessary constraint and all vision is lost.

Third, excessive concern with the feasible tends to reinforce the status quo. In negotiations, it strengthens the hands of those opposed to change and reform, and leads to the defeat of the reformers.

Fourth, it is sometimes the case that the conjuncture of circumstances changes quite unexpectedly, suddenly and dramatically, and that the constellation of forces turns out to be favourable to even radical innovation. What yesterday was utopianism, today becomes realism. Unless we are prepared with a carefully worked out, detailed plan, that yesterday may have appeared utterly utopian, reforms will lose out by default. Nobody would have expected only a few years ago the dramatic changes in Central and East Europe, the ex-Soviet Union, China, South Africa and the Middle East. Suppose someone a short decade ago had predicted that within ten years the world would see the disappearance of the Soviet Union, the end of communism in Eastern Europe, the fall of the Berlin wall, the unification of Germany, the bloody breakup of Yugoslavia, the end of apartheid in South Africa, the introduction of capitalism into China, near-revolutionary political upheavals in Japan and Italy, and the handshake on the White House lawn between the Prime Minister of Israel and the head of the Palestine Liberation Organization. These events would have been regarded quite recently as utterly unthinkable. Although the subsequent fate of the Special Drawing Rights was disappointing, when they were established the creation and acceptability of an international liquid asset came as a surprise to many. Maynard Keynes said, "The inevitable never happens. It is the unexpected always."

It may take some time for sensible recommendations to be adopted. Kenya put into effect the recommendations of the 1972 ILO Employment Mission on the informal sector after fifteen years. Similarly in the Philippines, after major political upheavals, some of the proposals of the Mission are now being implemented. Utopians may need patience.

Fifth, the utopian reformers themselves can constitute a pressure group, countervailing the self-interested pressures of the obstructionist groups. They can act as the trustees of rationality, the guardians of the poor, and the keepers of ideals. If it were not for such countervailing pressures, the field would be left free for the most conservative and reactionary forces to win. Ideas thought to be utopian have become realistic at moments in history when large numbers of people support them, and those in power have to yield to their demands. The demand for ending slavery is a historical example.

It is for these five reasons that utopian reformers should not be discouraged from formulating their proposals, and from thinking the unthinkable, unencumbered by the inhibitions and obstacles of political constraints, in the same detail that the defenders of the status quo normally devote to its elaboration.

On the other hand, it must be admitted that there is a danger that the best becomes the enemy of the good, the optimum the enemy of improvements. To be successful, it is essential to have a feel for the politically possible, and more than a feel, to make a careful political analysis of actual and potential power constellations. If the recommendations of the Missions of the ILO World Employment Programme had paid more attention to both positive and normative political economy, both to what could be done and to how pressures could be mobilized for their recommendations, they might have been more successful. There is much to be said for building political pressures, constraints and inhibitions into our models. A danger of such a procedure is that it encourages lobbies to become more vociferous in opposing reform. One answer is to provide alternative scenarios. The message of this section is to emphasize the need to include political feasibilities in the recommendations on employment strategy, without losing the vision of a better society. It is a plea for informed fantasy.

It is sometimes said that there is a trade-off between measures for the poor and economic growth; that it is the rich who save, invest and take risks, and that poor countries cannot afford to forgo these benefits. But reducing poverty is also a form of investment, and in labour-surplus

countries the best form. An alert, healthy, well-nourished, educated and skilled labour force is the best productive asset for a country. There is, however, a trade-off, at least in the short run; it is not that between the well-being of the poor and growth, but between the poor and non-poor, at least for a time. And since the non-poor frequently also have access to political power, and are vocal and organized, the question is one of politics or political economy. Although in the longer run this conflict often disappears, the opposition is not always foresighted and wise enough to realize this. Poverty and its eradication are ultimately not economic or technical, but political and power problems.

In the political economy of human development in general, in promoting and financing the well-being of the poor in particular, and in embarking on restructuring social services to the poor, six areas are worth exploring:

- (1) common or shared interests between rich and poor;
- (2) mutual interests and bargains between rich and poor, including the payment of compensation;
- (3) interest conflicts within the ruling groups that can result in benefits for the poor;
- (4) empowerment of the poor and participatory forms of organization;
- (5) organization of distinct "trustees for the poor" and "guardians of rationality;" and
- (6) international pressures and support.

These six sources of a political power base can be directed at: (a) raising the ratio of public expenditure to national income; (b) raising the ratio of social expenditure to public expenditure; (c) raising the ratio of priority social expenditure (for low income countries primary education, health care, water for the rural poor) to social expenditure; or (d) making any given ratio more effective in achieving its objectives by improving institutions, skills, attitudes, and levels of living.

Obviously, these goals should be achieved in the context of a growing national income, growing public expenditure, and growing social expenditure, or at least not declining ones. In addition to the obvious reason that there would be no point in raising these ratios by shrinking income, public expenditure or social expenditure (the three denominators), it is politically easier to raise tax rates and reallocate funds from, say, military to social expenditure, and from, say, higher education to primary education, when total income and public expenditure are growing than when they are constant or declining. In addition, much of public expenditure, such as interest payments, is committed and not available for reallocation. In the following sections some successes and failures are discussed.

## **6. Common interests**

It is fairly widely recognized that the government has to play a strong role in financing certain basic health and education services. Immunization and vaccination against infectious diseases and spraying to protect all residents from vector-borne diseases such as malaria are almost pure public goods.<sup>9</sup> So-called "merit goods," that is goods to which all citizens have a basic right (primary health and education), irrespective of their ability to pay, fall into the same category. The universal desire that no child should die of hunger or malnutrition can be similarly regarded as a public good, a concern of the whole community.

Some of these measures cost very little. For 10 cents per child oral rehydration can save children from dehydration, the result of diarrhoea, the biggest killer today. Instruction in washing hands, boiling water and sanitary practices prevents this illness. Immunization for life against the six leading child-killing diseases in poor countries can be achieved by spending 50 cents per child. In spite of this, these diseases kill 10,000 children a day.<sup>10</sup>

The pharmaceutical companies do not spend money on research into vaccines against malaria and other tropical diseases because these account for only one per cent of their profits. These diseases cause half the world's illness but receive only three per cent of medical research funds.<sup>11</sup> Neither common nor mutual interests can activate profit-seeking agents to devote efforts to the solution of these problems.

One reason for the neglect of relatively cheap, preventive health services in favour of expensive, curative ones has nothing to do with interest conflicts or special political or professional interest groups. The preference for curative over preventive health services is partly a matter of perception. A disease suffered is felt by some individual and those who care for him or her. An illness prevented is a mere shadowy statistic. The bias in favour of curative health services is, partly, a matter of human fallibility, especially where it could be shown that prevention would be in almost

everyone's interest. Although the difference between a visible and felt ill and an invisible possibility remains, education and training can help to change such perceptions.

Even here political participation can overcome resistance. Intended beneficiaries of a health project in Lesotho were going to traditional healers rather than government health workers because the healers offered curative remedies whereas the health workers had prepared only lectures on preventive health. The traditional healers were then integrated into the formal health system and government health workers provided also curative remedies. As a result, the impact of the preventive service improved.<sup>12</sup>

The interest of employers in a well-paid, well-nourished, healthy, educated, alert labour force has been known at least since Robert Owen. The "economy of high wages" has recently been reinforced by the efficiency wage literature. The interests of some non-poor groups can be enlisted for the benefit of the poor, if these groups gain from the pro-poor measures. For example, raising the productivity of small farmers and small businesses may lower the prices of the goods and services they produce. Of course, there should also be some increase in their incomes to avoid the productivity gains being too widely diluted. The buyers of these goods and services, and those who employ workers who buy them, will benefit and support the measures. Similarly, when the real incomes of the poor rise, the interests of those who gain from their higher purchases can be enlisted. Consumers of goods produced by the poor, and the employers of these consumers, and the producers of goods consumed by the poor, can be enlisted for productivity gains of the poor. Much of what the poor buy will be produced by the poor, and what the poor produce will be bought by them. To this extent, productivity-raising pro-poor policies will have multiplier effects. But some of these benefits will spill over to the non-poor, and this, although a drawback from the point of view of narrow targeting, will be a source of political support by the non-poor.

## **7. Mutual interests and compensation**

*Financing* a service must be distinguished from its *provision* and its *production*. Social services may be wholly privately, or wholly publicly, produced, provided and financed. But these services may also be financed by the state and provided privately; or they may be provided by the state but, through user charges, privately financed. Governments can issue vouchers for private schools to deprived parents unable to pay for them, who are then free to choose the school for their children. Governments can provide goods and services that they sub-contract to private producers. University students may receive loans which are repaid out of the higher income the education enables them to earn. In the USA states are now considering whether to subsidize private health insurance by poor people.

Some health and education programmes, as has been seen, are almost pure public goods. Others are almost entirely private goods, such as an appendectomy or a pain reliever. Most services combine features of public and private goods. A person treated for tuberculosis benefits, but the people who might otherwise have been infected also benefit. Family planning services benefit both the parents and the community. The public goods aspects fall under the previous heading of common interests, the private goods aspects imply that a benefit to one may mean a loss to someone else. Paying for services by those who can afford it does, of course, still leave benefits for those who pay and relieves the government of losses.

There are three ways of combining the virtues of markets and decentralization with those of the government in the finance and provision of public goods: the use of selective user charges (public provision, private finance); decentralization of health care (greater responsiveness and accountability of public provision and public finance to the needs of the poor); and government use of private-sector providers (public finance, private provision), both profit-seeking and NGOs. Each of these has merits and drawbacks. User charges which exempt the poor require means tests. They are discussed elsewhere in this essay. Decentralization can be more responsive to needs and more accountable to the beneficiaries, but local tax capacity is often weak and central grants are required; these present a dilemma between automaticity and conditionality to prevent their use for local political purposes. Private providers paid for out of government revenue present problems of quality and cost control.

*Compensation* can take two radically different forms. First, in the process of implementing social protection against austerity measures or other policies that would otherwise hurt the poor, particular groups of the non-poor may have to be compensated or "bribed" into accepting the policies; secondly, particularly vulnerable groups may be insured against deprivation, irrespective of their political power, as a matter of public policy.

Various "targeted" subsidies, food aid, employment schemes and the redirection of social services to these groups fall into the second category. In Costa Rica, during the stabilization policy 1982-83, the government set up a temporary food aid programme which distributed food to 40,000 families, about 1 in 12 households, designated as needy by local committees. In Chile employment programmes were expanded during the depression of 1983, and nutrition, health and subsidy programmes for poor children and mothers were strengthened.<sup>13</sup> During the Busia administration in Ghana the devaluation of 1971 was accompanied by various "sweeteners," such as an increase in minimum wages and the price of cocoa. Donors' programmes of compensating the poor are discussed under "international support."

These palliatives, often temporary, can be interpreted in two different ways. They can be seen either as sops for the poor that keep them quiet and prevent the fundamental, structural measures that would permanently and substantially improve their lot. Or they can be regarded as part of a piecemeal campaign that, like numerous termites in the rotting woodworks, undermine the structure of an old system, or like pioneers demonstrate the way and build the constituencies that eventually lead to its replacement by an improved order. Albert Hirschman tells of cooperatives in Pílcuyo in Peru's Altiplano, which expanded their activities and gained power.<sup>14</sup> Consumer stores were a stepping stone to the elaboration of new schemes. "The Pílcuyo sequence which, incidentally, had close parallels elsewhere among our projects, spells out an effective reply to one frequently voiced 'radical' criticism of cooperatives: that cooperatives divert energies for social change into innocuous channels when these energies could otherwise produce far-reaching 'structural transformation.' Whereas cooperatives could surely on occasion have this diversionary effect, the Pílcuyo example shows that the opposite sequence is just as conceivable: first, a 'harmless' cooperative comes into being, but the ensuing discussions and deliberations among its members lead in due course to more ambitious projects and actions for change."<sup>15</sup>

The chances of compensatory measures leading to long-term reforms are better if the measures protecting the poor are not, as it were, stuck on after the event, but are built as an integral part into the adjustment programme from the beginning.

So far compensation to poor losers has been discussed. The other type of compensation may have to be paid to comparatively better off losers when progressive, pro-poor reforms are implemented, either because equity requires it, or, in spite of the fact that compensation would be inequitable, or otherwise undesirable, because political opposition has to be overcome. These compensation payments can be particularly important in periods of transition, in order to conciliate opponents, maintain coalitions and appease hostile antagonists. Since urban wage earners are often the losers in periods of adjustment, wage increases, redeployment payments or retraining schemes to these vocal and powerful groups may be necessary. When over-staffed bureaucracies have to be reduced, civil servants, particularly in Africa, also suffer from dismissal. Some of them have other sources of income, and can return to farming, but again for political reasons compensation may be necessary. Temporary subsidies for specific goods and services, investment in certain types of infrastructure projects, public housing, or, as in Turkey, rebates paid to consumers on value-added tax are other examples of such compensation payments.<sup>16</sup>

In implementing compensation payments, policy makers will have to consider seven questions. First, are the losses for which compensation is considered real or only perceived? The Repeal of the Corn Laws in 1846 was feared to lead to the death of British agriculture; in fact it flourished; the Factory Laws were thought to lead to the death of British industry; in fact it prospered. The imposition of anti-pollution legislation has often led to the discovery of new, previously unexploited, profit opportunities that arise from the commercial use of substances previously discarded.

Second, are these payments politically necessary? Would not persuasion or weakening of the political opposition do? The answer will depend on the strength of the government and its commitment to the reform.

Third, is the compensation deserved? This is a moral or humanitarian question, the answer to which is likely to conflict with that to the previous one. It is the weak, powerless, poor and inarticulate who are likely to be the most deserving, though they are also most likely to benefit directly from the reforms.

Fourth, can the payments be afforded? Information and administrative costs may be excessive, or the effects on incentives and the allocation of resources may be undesirable. These costs can be

reduced by deferring the payment of the compensation, e.g. by issuing government bonds to be cashed in some future year, when production will have increased.

Fifth, do they have undesirable side effects that cancel the benefits? In addition to the blunting of incentives and allocational distortions, they may lead to capital flight, to strikes, to sabotage, or even to coups d'état.

Sixth, can compensation be offered in non-economic forms. In Peru in 1976 President Morales Bermuda offered the restoration of civilian democratic rule for acceptance of his stabilization measures. Similar attempts were made in Argentina, Brazil and Algeria after food riots in October 1989 and in Jordan after riots in the spring of 1989. The Maharashtra Employment Guarantee Scheme in India, which transfers income from the urban middle class to the rural poor, has gained the political support of the urban groups because it reduces migration to Bombay; and the support of landowners, because it stabilizes the rural labour force and creates infrastructure in the countryside.

Seventh, can the policy makers rely on support by the international community? This question will be discussed later in a separate section.

The first type of compensation, targeting subsidies to the poor, and the second type, overcoming opposition of the non-poor, are combined when a targeted scheme is broadened. Narrow targeting of, say, food subsidies on low-income groups should aim at covering *all* the poor and *only* the poor. If it achieves this objective it has the advantage that it saves scarce budgetary resources and meets priority needs. But it has two great defects. First, while it avoids the leakage to the non-poor, it is bound to have another, possibly worse, leakage: some poor will be left out. Second, it does nothing to recruit the self-interested support of at least some non-poor. For both these reasons it is therefore better to err on the side of excess coverage than deficient coverage. In this way some of the beneficiaries who are not in dire need will support the scheme. Some of the benefits may then be recouped, e.g. by a tax on tobacco or alcohol, which does not hit children.

## **8. Some country experiences**

Sri Lanka switched in 1978-80 from a general rice subsidy and ration scheme (including occasionally free rations) to a targeted food stamp programme aimed only at the poor. Previous attempts to reduce the heavy budgetary commitment to these subsidies had been disastrous. But the new government had been elected by a large majority; foreign aid was plentiful, the weather was good, international prices were low, and after years of stagnation growth was resumed. Rice farmers whose prices had been depressed, supported the elimination of the rations.

In spite of these favourable circumstances, the reforms showed both the political pressures to cover many non-poor, and the failure to reach many poor. It also involved considerable administrative costs. In 1978 the subsidy was removed from the richest part of the population. In 1979 the rations were converted into non-indexed food stamps and an attempt was made to target somewhat larger benefits to the poorest third.

The share of food subsidies in total government expenditure was reduced from 15 per cent in the mid-1970s to 3 per cent in 1984. Their share in GNP fell from about 5 per cent to 1.3 per cent.<sup>17</sup> Subsidized rice rations were given to half the population. Subsidies to other food items, such as wheat and sugar, were available to all, and benefited the high-income households.

There was widespread under-reporting of incomes, especially rural incomes, which went unchallenged, in spite of attempts by the government, because members of parliament pressed against checks. As a result, it was later estimated that almost 30 per cent of households in the upper half of the income distribution received food stamps. At the same time, about the same proportion of households in the bottom half were *not* receiving them. Between 1978 and 1987 poverty rose from 23.3 per cent to 27.4 per cent of the population and income distribution became more unequal. In subsequent years inflation accelerated and by 1985 the real value of the food stamps had been halved. Nutritional status among the poor and other indicators of the human condition declined. A survey of 480 households showed that food stamps increased the calorie consumption of pre-school children by 5.4 per cent, while increasing the consumption of all other members of the household by nearly 10 per cent. Income transfers have to be much larger to affect pre-school children. At the same time, the calorie consumption per head of the bottom 20 per cent declined by about 8 per cent, from the already low level of 1,490 calories in 1978/9 to 1,368 calories in 1981/2.

The government attempted again to check the incomes of claimants, but once again parliament opposed it successfully, although special measures for the very poor were adopted. Aiding the poor

is politically acceptable; cutting benefits to the middle classes is not. The objective of benefiting *all* the poor and *only* the poor is impossible to achieve; excess coverage is preferable to deficient coverage, both for political and administrative reasons.

In Morocco as in Sri Lanka, subsidies on food items were removed between 1985 and 1988, and the impact on the poor softened by "food for work" programmes. Only the subsidies on flour, sugar and cooking oil remained. But the grade of flour that remained subsidized had accounted for about 80 per cent of all flour milled before the reforms. Again as in Sri Lanka, a good part of the middle income groups had to be included among those covered by the reduced subsidies. Covering *only* the poor proved politically unacceptable.<sup>18</sup>

In Argentina, Chile and Peru tax reforms that benefited the poor depended on the agitation of middle class professionals, white collar workers, small and medium-sized business men and bureaucrats, who shared in the transfers that were primarily intended for the poor.

In some cases narrow targeting has been more successful. The Colombian food stamp programme of 1978-82 and the Philippine food price discount of 1983 have successfully combined geographic targeting with additional indicator targeting based on the nutritional status of pre-school children. Indicator targeting refers to a method by which benefits are allocated according to correlates of poverty, such as region of residence, land holding, health and nutritional status, sex, race, and age, from sample surveys. Indicator targeting is also used in South Korea for those over 65, the disabled, children under 18 without parents or parents over 60, and people residing in welfare facilities. Programmes targeted to women can tackle the male-female disparities. Bangladesh has combined geographical targeting with sex targeting in a scholarship programme. Targeting by self-selection or self-targeting has also been used in Bangladesh for subsidies to sorghum, not much consumed by the better off. Although it is therefore possible, in some conditions, to overcome the technical defects of narrow targeting, the political support cannot be mobilized in this way.

The lessons from these experiences, particularly for attempts to restructure services to the poor, are four. First, the administrative costs of narrow targeting are high, and they rise the narrower the targeting is. In Colombia the administrative costs of food subsidies were higher than the value of the food distributed.<sup>19</sup> The less efficient the bureaucracy, the stronger the arguments against a targeted anti-poverty programme. Secondly, targeting is very difficult because the poor are heterogeneous and hard to identify, and their composition and location changes in time. There is therefore a substantial risk that some poor people will be left out. Thirdly, if small children in poor household are to benefit, the transfer to these households has to be substantial. Fourthly, and most importantly in the present context, the interests of at least some groups among the non-poor, especially the urban, middle income groups, must normally be mobilized or appeased, if measures intended to help the poor are to be successful. These conclusions point to the need for a broad coverage, unless special circumstances make narrower targeting advisable.

It may be objected that resources are scarce, budgets are constrained and countries cannot afford the broad coverage. At first sight, this objection seems plausible. Poor countries have perhaps 1/50 of the income per head of rich countries. On the other hand, the proportion of the population aged 5 to 15 and to be educated (primary and secondary education) is perhaps twice as large as in rich countries (25-30 per cent compared with 15 per cent) and teachers' salaries, which are near or below the national average in rich countries, are four or five times (in Africa seven times) the average in poor countries. This means that a vastly greater share (typically eight to ten times as much) of a much smaller national cake would have to be devoted to education, with the inevitable result that less would be left over for the implementation of other objectives. Similar calculations can be made for food subsidies.

But on further reflection, I wonder how severe the resource constraint is compared with the lack of political commitment and of a political base. The very same countries that pleaded financial and fiscal shortages spent a multiple of the required sums on their military, on large prestige projects, on loss-making public enterprises, not to say anything about corrupt pocketing of funds and capital flight. Between 1960 and 1988 military expenditures in constant dollars quintupled in the developing countries. This was twice the rate of growth of incomes per head and almost equal to total expenditure on health and education.<sup>20</sup>

Within the social sectors, tertiary education for the children of the middle class and expensive, curative, urban hospitals absorbed a multiple of what was needed for primary education and preventive rural health services. In 1988 Iraq and Somalia spent five times as much on the military than on all

education and health; Nicaragua, Oman, Ethiopia, Pakistan and Syria between two and three times as much, and even Tanzania spent more than 100 per cent. In 1987 there were 6.3 soldiers per teacher in Iraq, 5.9 in Somalia, 4.2 in Ethiopia, 3.5 in Nicaragua, 3.0 in Syria and Mauritania, 2.9 in Vietnam, 2.8 in Singapore, 2.7 in the United Arab Emirates and 2.6 in Cyprus. Only Costa Rica has a ratio of 0 and no poverty to speak of.<sup>21</sup>

## **9. Conflicts within ruling groups**

Conflicts within powerful groups can often be used for the benefit of the poor and powerless. The improvement of the living conditions of the British working class in the nineteenth century was the result of a conflict between Tory landlords and skilled operatives on the one hand, and capitalist industrialists on the other. Before the poor were permitted to organize themselves in trade unions, before they had the vote and before they had access to free public education, their fate improved as a result of the factory laws which introduced safety regulations, shortened the working day, and got women and children out of the mines, and of the repeal of the Corn Laws, which reduced the price of food for urban workers. The capitalists predicted that the factory laws protecting the poor would be the death of British industry; the landlords said that the repeal of the Corn Laws would be the death of British agriculture. In fact both industry and agriculture flourished for a quarter of a century. It shows how self-interest can be misperceived and how benefits can accrue from measures judged at the time to be harmful. The same is true for measures improving the condition of the poor in most developing countries. The long-term interests of the rich, properly perceived, are not likely to be harmed.

The expansion of food stamps in the USA provides another example. Congress approved because there was an alliance between welfare-minded liberals and the representatives of food-producing rural districts. The nutritionist and President of Tufts University, the late Jean Mayer, organized a conference in 1969 that led to the big expansion of food stamps.<sup>22</sup>

Similarly, rich farmers have an interest in higher prices for their agricultural products, which benefit poor growers too, if they grow and sell the same crops, or if the higher prices affect all crops. There may be common interests in rural schooling and health services, rural infrastructure, and improved varieties of crops. On the other hand, the urban middle class, students, the military and civil servants want low food prices, from which the urban poor also benefit. The urban sector will gain strength in post-agrarian societies, although for reasons of collective action it can be very strong while its size is still quite small. When food prices are raised, protest movements comprise members of all these groups. Riots over food price increases have been common and fear of them has been an important motive for keeping them low. Reductions in food subsidies have led to riots in Egypt, Tunisia, Morocco, the Dominican Republic, Brazil, Bolivia, Peru, Zambia, among others; and to a coup in Liberia in 1980. But in spite of substantial reductions, they were tolerated in Sri Lanka in 1978 and 1980; and in Senegal in 1982 and 1983. Important lessons in political economy can be learned from this.

Industrial employers have an interest not only in cheap food in order to keep wages down, but also in upgrading the skills of their work force. Their education and training adds power to previously weak workers. Such coalitions of interest of powerful groups with weak and poor people hold out promise for reforms.

The impact of some policies, such as tariff reductions or exchange rate devaluations or food pricing reforms, does not follow divisions between rich and poor, but cuts across them. Higher import prices benefit both rich and poor producers of domestic substitutes, lower import prices benefit both rich and poor consumers of these imports. In Ghana smallholder cocoa producers and other export cultivators have benefited from the devaluation and higher producer prices, although a widespread impression is that the gainers were foreigners, both resident and abroad.

Sometimes regional (or ethnic) lines can define interest alignments. Pressure for irrigation in a district in India, if successful, can raise the productivity and incomes of both rich and poor. An increased flow of resources to the Northeast of Brazil benefits the landowners there and, with higher employment, also the landless labourers. A regional development programme for Northeast Thailand was motivated by the fear of regional disaffection. Ethnic groups that cohere comprise both rich and poor, and the poor can benefit from benefits accruing to them.

There can be a harmony of interests between the providers of social services and their beneficiaries. Although it has been seen that some of these professional interest groups can interfere with basic needs, by insisting on over-qualification and excess standards, others can be recruited to

the effort. Primary school teachers, paramedical personnel, nurses, social workers, extension workers, all stand to benefit from an expansion of services and are often better organized and more vocal than the recipients of their services. Kenya and Sri Lanka have powerful teachers' unions, both the result and the cause of the large amount of resources devoted to primary education in these countries. In Peru the expansion of primary education was largely the result of efforts by political parties to win teachers' votes.

In Costa Rica, which, incredible though it may sound, abolished its army in 1949, health workers and educators are favoured by policy, policemen are not. The political influence of the public sector employees has strengthened the welfare measures, just as the welfare measures have strengthened these groups.<sup>23</sup> Some regard the public sector as over-extended. It is ironical that President Rafael Angel Calderon, Mr Oscar Arias's successor, whose election promises included free housing and free food for the neediest and profit sharing for workers, created a new bureaucracy -- the Ministry for the Reform of the State -- in order to cut down the bureaucracy: a Ministry to reduce Ministries.<sup>24</sup>

## **10. Empowerment and participation**

The poor, like the rich and powerful, are a heterogeneous group. Action to reduce the poverty of one group, such as the urban poor, may increase the poverty of another group, such as the rural poor. One useful distinction among the chronically poor (as contrasted with those who are poor only temporarily) is that between the "working poor" and those who are excluded from the labour force. The "working poor," who sell the product of their unskilled labour and perhaps of a few, small assets, can organize themselves in order to raise the returns to these assets. The second category of poor cannot participate in the labour force either because they are old, infirm or otherwise incapacitated, or because they are excluded by social or economic discrimination. The alleviation of their poverty has to be sought through pressures for social services and transfer payments, and elimination of the discrimination. In the short-run conflicts may arise. In the long run, poverty reduction of both groups can be in the general interest of society, by both raising productivity and lowering desired family size (for an important reason for over-insuring against destitution if incapacitated is to plan for a large family size).

The most obvious way in which political pressures can be used to benefit the poor is the vote in democracies. Some have even argued that voting should be made compulsory. Although this may not help the poorest, coalitions between them and some better-off groups, both self-interested and altruistic, are frequent, and the poorest 40 per cent have fared well in countries with multi-party systems and free elections: Costa Rica and Chile in the 1960s and early 1970s in Latin America, Botswana, Mauritius and Zimbabwe in Africa, Sri Lanka in Asia.

The standard prescription for improving the condition of the poor is, of course, first, their combination in organized pressure groups for more vocal representation of their interests and concerns, and, secondly, self-help, "bottom-up" and "people-centred" development through participatory organizations. The former may be backed by withholding their labour in strikes as a bargaining weapon. For the latter various participatory forms of organization and self-help by the poor also can reduce their dependence, add to their power, help formulate policies, make them more self-reliant and provide some of the resources.

Participation and decentralization are sometimes used more as slogans than as a thought-out strategy. Participation can be both an end in itself and a means to the efficient provision of goods and services. It can take many different forms, such as co-determination (as in German factories), shop-floor participation in workers' councils, financial profit-sharing, collective bargaining, Swiss canton-like voting, representative elections, cooperatives, etc.

Some have claimed that even the market is a form of participation. And small village markets certainly can be, though large anonymous markets are less likely candidates for direct participation. On the other hand, it should be remembered that free, competitive markets, in conditions in which assets are fairly equally distributed and production is conducted in an efficient, labour-intensive manner, do create demand for labour and therefore raise its bargaining power. As the economy progresses, there is growing demand for upgrading skilled labour and this, again, adds to the power of workers.

Some forms of participation are incompatible with democratic government. Mussolini's and pre-Hitler Austria's fascist states took the form of corporate states, in which workers, employers, and farmers participated, being represented in separate chambers. Yugoslavia's Tito got the idea for his

worker-managed enterprises from Mussolini's fascist state. Taiwan, Province of China, and South Korea, both authoritarian regimes, have practised successful participation. Communist China, a dictatorship, practised participation on a grand scale. Democratic government, in which unrepresentative "representatives" are elected, can be a far cry from participatory government. Direct democracies have had short lives. The meetings of the Paris sections of the *sans culottes*, briefly, before Robespierre's fall, the Russian soviets for a brief period, Chinese villages briefly after the revolution, have enjoyed it. The Swiss cantons have lasted longer.

If participation goes together with decentralization, the result is often increased regional inequalities. This happened in Chile under Pinochet. Poorer municipalities could afford only inferior services.

There is also the problem that not everyone will want to or be able to participate. As Barrington Moore has said, *homo committicus* is not the most admirable species of *homo sapiens*.<sup>25</sup> A precious part of human freedom is the right not to make decisions. Many poor people, especially women, do not have the time to participate in meetings. Oscar Wilde said, "the trouble with socialism is that it takes too many evenings." The same can be said about participation. Better cooking stoves, water nearer the home, and relief from domestic drudgery may be preconditions for women's participation in village councils.

Most forms of participation require central government support. The paramedical personnel chosen from among the villagers need training at the centre. Central legislation is needed to get access to education, health, credit. Without it, local power elites tend to take over decentralized participatory organizations and central countervailing power may be needed to combat them. Finance for participatory institutions often depends on central government.

West Bengal has one of the more successful anti-poverty programmes. Its Communist state government maintained strong central control and replaced local leaders by its own cadres, while simultaneously pursuing a strategy of decentralization. It is a good example of the combination of centralized and decentralized state action.<sup>26</sup>

Another example is the civil rights movement in the USA. Here was indeed a grass-roots movement, with heavy involvement of volunteers. But it depended for its success on strong support by the central government and the Supreme Court. Anyone concerned with the fate of the Blacks in Mississippi would not want to decentralize power to the state of Mississippi. Control by local elites would not be a force for liberation or prosperity. But mobilization of the Blacks themselves, with the support of central legislation and judicial rulings, has advanced their cause.

Similarly in Pakistan the "basic democracies" instituted in the sixties under Ayub Khan were attempts to decentralize government and to mobilize local people. But the rich landlords took over, without improving the fate of the poor. In Nepal, where political parties were banned, the local elites used the system established under the 1982 Decentralization Act to benefit the richer farmers. Fernando Henrique Cardoso warns that local participation leaves the way open to oppressive dictatorships and elitist institutions when it is confined to small-scale, problem-solving efforts without political activity.

In other cases, however, the interests of local elites coincide with those of the poor, and decentralization then will lead to reform. In India, communities have joined forces to protect themselves against invasion by outsiders who wanted to denude their forests and pollute their rivers. Their defence cut across class lines and decentralization worked for the benefit of the poor.

In small-scale enterprises such as those that have grown up in the Third Italy, and in the informal sector of some developing countries interest alignments do not follow the lines of workers against employers, but buyers against sellers. What has come to be known as flexible specialization has presented quite new constellations of interest, different from those appropriate for the age of mass production.

A unity of interests also exists for educational and health reforms, from which the whole community benefits. But when the allocation of scarce goods is at stake, such as a land reform, agricultural credit, or the distribution of fertilizer, the local elites will tend to undermine the reforms. Even here, however, short-term interests of the rich and their long-term interests, or their perceived and real interests may be in conflict. In the longer run the higher productivity and production of the poor can benefit the rich, just as an alert, educated, skilled, healthy labour force is beneficial to its

employers. Empowerment of the poor can therefore be in the real (as opposed to perceived), and long-term (as opposed to short-term) interest of the rich and powerful.

The South Korean experience of financing universal primary education illustrates how parents, local institutions, the private sector and the national government can combine to produce good results. The government contributes to financing primary schools. Parent-Teacher Associations contributed initially up to 75 per cent of primary school expenses, more recently this has dropped to 28 per cent. (Parents finance the bulk of secondary and tertiary education.) They supplement teachers' salaries and participate in decision-making. Local government contributes 10 per cent.<sup>27</sup>

One of the most successful self-help projects in Africa is the Malawi Rural Water Supply Project. Again, it is based on strong government-community cooperation. It started in 1969 in two villages with 3000 participants, and now benefits over a million people. The government provides parts of equipment and assistance in training, the community the voluntary labour for construction and maintenance.

In the Dominican Republic small coffee farmers have pooled their resources and formed the Nucleus of Coffee Farmers Associations. They do their own marketing, and provide credit and training. They are supported by Oxfam, an international NGO.

There is another area in which participation has to be modified. Highly technical decisions, such as those about whether to change the exchange rate (or leave it as it is), or about a weapons system, or even about an irrigation or a credit system cannot be left to participatory organizations but must call on experts who, of course, should be accountable to the public, and should be socially sensitive. The question is how to avoid technocracy in favour of democracy, while benefiting from technical expertise.

But as we have seen, experts, doctors, scientists, engineers and bureaucrats, constitute also a power group that can be hostile to poverty eradication and human development. The Mandwa project in India, a highly successful rural health care project, foundered on the resistance of the local power structure and medical professionals.<sup>28</sup> Semi-literate village women were selected by village leaders as part-time health workers. The success was striking: birth rates, death rates and infant mortality rates plummeted, and immunizations shot up. But the local richer and more powerful leaders joined hands with the government health services in open hostility and violence and demanded that the project be abandoned. The poor, who had greatly benefited, were too dependent on the local power structure to oppose it.

In spite of the above qualifications and limitations of participation, it is highly desirable to involve the beneficiaries of projects and policies in decisions that involve their lives and work, for at least three reasons, which are also three aspects of poverty reduction and human development: participation is an end in itself and expresses the autonomy of the citizens; it makes the projects and policies more responsive to real needs; and it reduces the costs of constructing and maintaining them. A World Bank study found that of twenty-five completed agricultural projects only twelve appeared to be showing long-term benefits. The successful ones developed or strengthened institutional capacities for the participation in management by the beneficiaries.<sup>29</sup>

## **11. Success stories**

A good example of cost reductions comes from the Baglung district of Nepal. Local bridge committees working under village council auspices, with little outside help (steel cables supplied by UNICEF and a small grant from the central government), constructed sixty-two suspended bridges covering the whole district in five years. Local materials and artisans were used with unpaid labour and management. The bridges, some as long as 300 feet, cost only one quarter of what the government had spent, and were built three to four times faster.<sup>30</sup>

A study conducted in the Philippines found that for the same levels of enrollment and quality, schools that relied more heavily on local funding were also more efficient. The savings were done mostly through reducing the cost of personnel.

There are now many examples of successful forms of centrally or externally assisted self-reliance, combining bottom-up and top-down forms of organization that have changed the lives of the villagers. Some of the most successful are in East Asia, such as the Farmers Associations and the Irrigation Associations in Taiwan, Province of China, and the New Community Movement and the Village Forestry Associations in South Korea. In India the Amul dairy cooperative benefits 5.5 million mainly poor households in sixteen states.<sup>31</sup> It is often cited as a highly successful non-governmental

grassroots organization. But it was the government of India that drew on it for the design of the country's National Dairy Development Programme, known as "Operation Flood." The new programme also drew on people who had worked with the NGO.<sup>32</sup>

The Grameen Bank in Bangladesh has achieved world fame with its new approaches to credit for the landless and near-landless, and for women, its use of peer pressure for repayments, and its 96 per cent repayment record. Within two years over 300,000 poor people have raised their incomes by 30 per cent on average. Although started in 1976 as a private voluntary organization, it was established by government order in 1983 and 25 per cent of its capital is owned by the government. Here again, as with the Amul Dairy project, the government replicated its success nationwide, leaving the leadership to its founder, Professor Yunus.<sup>33</sup>

Yet, the Grameen Bank covers only a small proportion of poor women and an infinitesimal proportion of total credit. One reason for its slow rate of expansion lies in the scarcity of village workers. Even of those trained, many leave. And the recruitment of new staff is difficult. Another reason is to be found in the correct resistance by Professor Yunus to have the government's objectives imposed on him. While government backing in some areas is crucial to the success of NGOs, in others it can be a cause of failure.

Another successful NGO in Bangladesh is the Bangladesh Rural Advance Committee (BRAC), which has organized cooperatives for women and the landless, work projects for the poor, and education in basic literacy, numeracy and social studies for the children of poor households, in vocational training for women, in organizational training for local leaders, in specialized skills for paramedical personnel, and in literacy for adults.

In Nepal, the Small Farmer Development Programme has made credit and technical assistance available to 45,000 households. In northern Pakistan, the Agha Khan Rural Support Project has promoted self-help in a large number of communities, improving the lives of about 400,000 people in remote areas hardly served by the government. This was done through their own village organizations. In Sri Lanka, participatory irrigation management, rehabilitated with USAID assistance, has been extended to all major irrigation schemes.

Other examples can be cited from the Philippines, where the National Irrigation Administration, with Ford Foundation assistance, devised participatory irrigation management; from Thailand, where a national programme of evaluating data and participatory development for meeting basic needs has been designed by a provincial governor; from Malawi, where 2000 villages are served by a gravity-flow system of piped water supply, constructed and maintained by communities with assistance from the government and donors; from Zimbabwe, where a rural savings movement has mobilized deposits of over 2 million dollars and farmers' associations have spread the new varieties of seeds and raised agricultural output; from Kenya, where the *harambee* self-help movement, with government contributions, mobilizes funds and labour in rural areas; from Burkina Faso, Mali, Senegal, where a network of grassroots organizations, based on traditional work groups known as "naams," create jobs and incomes during the dry season, and from many other countries.<sup>34</sup>

Participation has frequently to be combined with help by central, provincial or local government, private firms and voluntary organizations. It is much to be preferred if there are several of these channels, so that the poor do not have to depend on a single agent and can exercise options between different institutions. These may also be strengthened by promoters, facilitators, animators, or similar agents of change, knowledge about whose role has been growing recently.<sup>35</sup> The relationship between all these agents should be one of mutual learning and understanding.

An outstanding example of a successful participatory non-governmental organization that has politically organized very poor people is the Self-Employed Women's Association (SEWA), based in Ahmedabad, in Gujarat, India. It was founded in 1973 by Mrs Ela Bhatt who is its General Secretary. Its members are poor, illiterate women from the informal sector -- junk dealers, street hawkers, domestic servants, artisans, sellers of scrap clothing, basket weavers, producers of handicraft, prostitutes -- who have through self-help efforts and political action enormously improved their lot. It has established a cooperative bank and formed cooperatives for specialized activities. Its aims are both political and economic. The people the organization fought were not the conventional exploiters, capitalist employers, but money lenders, middlemen, merchants, trade unions and the government. The government had discriminated both against the informal sector and against women in providing credit, technology, and information. The local government and the police evicted them from the

streets, or extracted bribes. SEWA also remained independent, and sometimes in opposition to other large-scale organizations, such as trade unions, political parties and big firms.

Superficially, SEWA looks like a case of pure conflict between a poor people's organization and the government. But although clearly elements of conflict are present, SEWA also depended on the government for subsidized credit through the nationalized banks, for market outlets in government shops of their handicrafts, for purchases of their vegetables by government hospitals and prisons, and other services. At SEWA's suggestion, the government created a maternity benefit scheme and backed a life insurance scheme for self-employed women.<sup>36</sup> A state minister backed the fight for higher piece rates for scrap clothing sold to merchants, and the government responded to pressure to make the Plan more responsive to the needs of self-employed women and set up a commission on the subject. Mrs Ela Bhatt, the moving spirit behind SEWA, is now a member of the Planning Commission. In spite of all these positive, not advertised, links to the government, SEWA has remained autonomous and has not become an arm of the state.

One lesson to be learned from some of the success stories is the political need to package policies, so that total gains and losses become acceptable to powerful constituencies. In Egypt, for example, economic liberalization was made acceptable to the politically powerful by high food subsidies. By linking policies that provide benefits for different groups political support can be mobilized.

The benefits of participation, and the need for government or donor support, are now beginning to be well understood. It is no longer believed that, for social reforms to occur, it is necessary and sufficient to seize the central power of the state. But the precise level for specific decisions (central, province, local or participatory), the combination of government, markets, NGOs and self-help organizations, the allocation between producing, providing, and financing the goods and services, and the precise division between central, external, and locally generated finance, the blend between cooperation and conflict, the need for accountability and democratic control, and the phasing of the decisions, raises complex questions, the answers to which will vary from case to case.

## **12. "Guardians of rationality" and "trustees for the poor"**

The state is normally neither monolithic nor impervious to outside pressures (including pressures for rational and altruistic policies). Governments consist of many departments, ministries and agencies, and many layers, from central government via provincial or, in a federation, state government to village and town councils. Power is divided between the legislature, the judiciary and the executive. Each of these pulls in a different direction and the final outcome is the resultant of these forces. Pressure groups can influence these outcomes. Economists, and other professional groups committed to certain standards, action groups, the churches, voluntary organizations, can constitute themselves as both "guardians of rationality" and "trustees for the poor."<sup>37</sup> In the former capacity they exercise influence on policies aiming at reducing poverty; in the latter on policies that do not waste resources in an attempt to distort their allocation in favour of special interest groups. It is not their function to acquiesce in the results of the free play of market forces.

Sometimes showing that the interests of a group can be more effectively pursued by other, more benign, and fewer means can win acceptance. The military may not be convinced by the greater social value of village pharmacies than that of tanks, but they may be persuaded if its own objective, viz. national security, can be achieved with fewer weapons. Channelling expenditure from swords to plough-shares, and from tanks to baby food, can be achieved by showing that national security is served better by a smaller military budget, and then redirecting the resources saved to the social sectors.

In a democracy, if all always acted and voted exclusively in their individual economic self-interest, the poorest 49 per cent of voters would lose. For in order to get a majority it is necessary to bribe only the middle two per cent of voters to vote with the top 49 per cent to achieve a majority of 51 per cent. And the top 49 per cent have more money for this purpose than the bottom 49 per cent.<sup>38</sup> Of course, the example is highly artificial, because people do not act like this, because people do not know to which percentile they belong, and because redistributive policies cannot be targeted precisely. Nevertheless, there is some evidence that in democracies there is, indeed, redistribution towards the middle, and little redistribution towards the poor, except in times of war. But the assumption of purely selfish voting is too unrealistic, and many quite well-off citizens, at least as voters, do show concern for the poor and vote for measures that reduce their poverty. "Welfare

payments" may have acquired a bad name, but reducing the number of malnourished children or helping single mothers has great general appeal, as the 1990 World Summit on Children showed.

It is the middle income groups, including civil servants, military officers, workers in the urban organized sector, teachers, doctors, engineers, lawyers, university students, whose incomes may have to be reduced, or their growth slowed down, and who are also the most vocal and influential political groups. These groups are open to appeals to solidarity and patriotism, and they can be enlisted as trustees for the poor. In launching such appeals, it is helpful if any burdens that have to be accepted are seen to be equally and equitably shared, by the bureaucrats and the politicians as well as by the rest.

A free press is important in avoiding famines.<sup>39</sup> Starvation comes with autocracy. A.K. Sen has demonstrated this in his comparison of India and China. Zimbabwe also escaped famine during the drought of 1982-84 because of its relatively free press, one of the most active in Africa. Sudan under its democratic regime may have been an exception. On the other hand, submerged malnutrition, which over a longer period has demanded more victims than a famine, is not so eye-catching and newsworthy, and India has suffered from it more than China.

### **13. Phasing the transition**

Should the transition from a wasteful, repressive, inhuman regime to a strategy of rational allocation and human concerns for the poor be sudden or gradual? Shock therapies have recently been recommended to East European countries in their transition from centrally planned to market economies. It has been said it would not be wise to attempt jumping over an abyss in two successive steps. It is certainly true that the shock approach can be appropriate in an economy that responds quickly and flexibly to changes in policies, in which signals are speedily heeded and incentives work in desirable directions, that has provisions to look after its victims, in which external assistance is plentiful, and the demand for whose exports is high and expanding. If there is spare capacity in the sectors into which workers are to be redeployed, if foreign capital is rapidly repatriated, and if cuts in consumption can soon be reversed or in which those worst affected can be rescued, shock treatment may well be best. This is not the case in most African economies.

It is also true that sudden shocks may lend credibility to government intentions, without which the measures may not be sustainable, and that gradual and slow reforms provide more scope for oppositions to be formed, for hostile coalitions to be organized, and for opportunities for evasion to occur. But sometimes there is stronger opposition to sudden and large changes. There have been massive protests, riots and coups d'état in response to sudden and large cuts in consumption, employment, and output. Gradual change can be carried out with less pain and less opposition. In the context of a growing economy, resources can be reallocated between sectors without the need to dismiss workers; it is sufficient not to replace those that drop out as a result of age, death, or voluntary retirement. The same is true of capital equipment. There will be less need to scrap good machines; it will be sufficient not to replace them when they wear out. If general food subsidies are to be reduced in order to concentrate them on the poor, a gradual phasing out will be accompanied by increases in the supply of food, so that the sufferers from the price increase are somewhat cushioned. The avoidance of deprivation and extreme hardships will also reduce the chances of racial, ethnic and religious strife, and contribute to a more peaceful society. One of the great merits of economic growth is that it makes change and adjustment easier, less painful, to bear.

Restructuring for reform imposes strains and costs on some people. They may become unemployed and lose their source of income and self-respect, while the society loses their productive contribution. If the society does not have a social safety net to catch these victims of the reform process, suffering can be great, and political opposition to the reforms can mount. The effects of economic policies are never certain, and a gradual approach makes it easier to reverse course when errors are made. International support is often crucial in deciding on the speed of change. It has to be large enough to induce leaders to accept the risks of reform, but not so large as to make them avoid the necessary domestic measures. The reforms in Sri Lanka in 1977-79 provide an example of how aid, combined with favourable economic conditions, can permit reforms towards more targeted policies to be carried out successfully.<sup>40</sup> The reforms in late 1980 in Jamaica under Prime Minister Seaga were less successful, in spite of international support, because of a failure in determination to implement painful domestic measures, such as devaluing the currency and reducing the civil service.

### **14. A coalition for peace**

The resources freed from military expenditures can be devoted to development, environmental protection, and poverty reduction. Old military bases that are being phased out can be converted to community centres, recreation facilities or holiday resorts. Reductions in arms build-up and arms trade are an important source of the peace dividend. A global compact between advanced and developing countries can comprise the use of the peace dividend for mutually agreed purposes.

What political support can be mobilized? Worker-initiated groups are concerned with the production of socially useful goods. Action groups, self-help groups, churches, academics (such as the old "Economists Against the Arms Race," rechristened, so as to keep the initials, "Economists Allied for Arms Reduction"), exercise pressures for social programmes, budgetary reallocation towards environmental protection, and anti-poverty campaigns. Trade unions, eager to avoid unemployment, have combined demands for conversion from war to peace with greater work-place democracy. Conversion can be a theme on which different groups converge. Forty days' worth of global military expenditures would fund a 20-year UN action plan to halt desertification.<sup>41</sup>

China and the ex-Soviet Union show that reductions in military expenditures are possible without popular participation and that they can be initiated by governments.

Are there conflicts between full employment, sustainable environment and development? There is a need to bring together the interests of workers, environmental activists and those concerned with development and poverty eradication. We have to avoid peace groups alienating the labour movement by asking for the shutting down of factories. How can we weave a conversion coalition?

International pressures and bilateral and multilateral aid conditionality can be used for arms reduction by developing countries. Even the World Bank is beginning to pay attention to this. But military expenditure is now encouraged by donors through arms trade, military bases, military pacts, and local wars. Consistency in the pursuit of peace is a necessary condition for its success.

## **15. The politics of aid**

Aid policies, just like domestic policies, are motivated by a mixture of political and commercial pressures, national interests, idealism and human solidarity. Military security, altruistic and Machiavellian motives and profit-seeking export interests inspire foreign assistance policies. It would be one-sided to criticize national policies for being subjected to political constraints without looking at international efforts in the same light. And it would be remiss in making recommendations about the redirection of aid, not to say anything about how political constraints can be overcome. Business interests are behind the provision of inappropriate, capital-intensive technologies (tractors and combine harvesters to countries with large rural surplus populations), and the interests of consultancy and training firms behind the provision of inappropriate technical assistance. Denmark and Sweden have bought off the business lobby by earmarking a fixed percentage of the aid programme for programmes of interest to businesses and the donor country.<sup>42</sup> The answer to the pressures from consultancy firms and training institutions lies in decentralizing technical assistance programmes to the donor offices in the developing countries. The local representatives who are in continual touch with the needs and people of the recipient countries are more likely to choose the right local people.

The interests of banks that had lent to developing countries and are eager to have their debts serviced are clearly partly behind the switch in donor policies from project aid to programme lending. The policy conditionality that accompanies such lending is often based on the premature crystallization of flawed orthodoxies. Unfortunately or fortunately, depending on whose point of view one takes, policies, like projects, are substitutable for one another, and it is sometimes not difficult to evade the conditions imposed in programme loans.

It is often said that aid is inevitably given in the national self-interest of the donor country; it is just a branch of foreign policy. A lot depends, of course, on how narrowly or broadly national self-interest is interpreted. It is, however, noteworthy that countries like Holland, Sweden, and Norway, whose aid programmes are inspired by moral concerns of human solidarity, have given more aid, and of a better quality, than countries like the USA and the UK, which have defended aid in terms of national self-interest. Australia conducted a public opinion survey which showed that people regard development aid as an expression of human solidarity.

Frequently NGOs and action groups agitate for more and better quality aid. Expanding the role of NGOs would help in reducing the bias in favour of large projects that create few jobs, and might raise aid effectiveness. To some extent this has occurred. But NGOs might object to becoming too dependent on government funds and government objectives. This objection might be met by

expanding government contributions to NGOs more slowly, so that they can keep in step with non-governmental contributions, and by permitting the NGOs to preserve their autonomy.

Frequently the obstacles to restructuring aid policies to the priority sectors do not lie with outside pressure groups but have to be sought within aid ministries. Reducing conditionality would reduce the amount of work to be done by the donor, but would also reduce leverage. It could be replaced by actually giving aid only to those who have shown a commitment to human development policies. Quiet signalling can be more effective than ham-fisted conditionality.

An objection to supporting human development programmes consisting of basic education, primary health care, and family planning, that has sometimes been raised by aid ministries, is that they involve supporting recurrent expenditure, with the complaint that they present a bottomless pit, indefinite donor commitment. The answer should lie in designing strategies with gradually growing recipient contributions, or with self-liquidating cost-recovery over a specified period. This may be accompanied by jointly working out new sources of tax revenue to finance the human development and anti-poverty projects, for which cost recovery would be wrong.

## **16. International support**

The international community can be mobilized both as a pressure group and as a source of finance for human development. Feeding and educating deprived children has a powerful appeal to human beings everywhere. A well-designed human development programme that benefits the poor in a poor country can count on support by citizens from all countries. Eliminating hunger and starvation in the world can be regarded as a public good. My satisfaction of being successful in this endeavour does not detract from yours. And providing each human being born into this world with the potential for the full development of his or her capacities is part of the enlightened self-interest of mankind.

The United Nations Children's Fund (UNICEF) has been a highly successful pressure group for protecting the poor, and particularly children and pregnant women, in the adjustment processes that had been initiated in the 1980s. Since 1985 it has propagated the use of growth charts and growth monitoring, oral rehydration, breast feeding and inoculation as cheap and effective methods of dramatically reducing child mortality and improving children's health. Through its book *Adjustment with a Human Face*, and through its dialogues with the International Monetary Fund and the World Bank, its pro-poor advocacy influenced the policies on conditionality of these two institutions and other donors so that they moved away from a merely technical, economic approach for stabilization and balance of payments corrections, towards a more humane, compassionate approach, concerned with the human and social dimensions of stabilization and adjustment. It also drew attention to the need and the political advantages of protecting the poor (by a form of compensation) from the burdens of adjustment. There were, of course, groups inside these institutions and in some developing countries that had been responsive to pro-poor policies and that had been continuing the traditions of the basic needs strategy of the 1970s.

The success of UNICEF in getting governments to restructure their expenditure has been due not only to the general appeal of improving children's health, but also to the low costs at which substantial improvements can be achieved, to external financial support for these measures, and to the fact that they included many children in the middle-income groups. On the other hand, the political benefits to governments of the special campaigns that accompanied these drives may not be applicable to other areas with less public appeal, more narrowly targeted to the poor, fewer resources contributed by other sectors such as the military, and less external finance.

Donors have funded programmes that compensate the poor during adjustment periods. The best known are the Bolivian Emergency Social Fund (ESF), started in 1986, and the Ghanaian Programme of Action to Mitigate the Social Costs of Adjustment (PAMSCAD), which started in 1988. These are programmes of employment creation through local public works, credit and social services. They are mainly intended to be temporary and for workers dismissed from the tin mines in Bolivia and from the over-staffed public sector in Ghana. Local communities and NGOs play an important part in proposing and designing these programmes. Bolivia's ESF in particular involved minimum government involvement and full delegation to local communities and private contractors. Another similar scheme is the Economic Management and Social Action Programme in Madagascar. It includes measures to provide drugs and support family planning. The projects are broadly targeted so as to gain wide political support. The World Bank is planning similar programmes for many other countries.

The Bolivian and Ghanaian programmes have been criticized because the foreign funds were not additional to other aid, and in any case quite small compared with Bolivia's debt service and the drop in the world price of Ghana's principal export, cocoa. A second ground for criticism is that the poorest among the dislocated did not benefit. However, in countries like Bolivia and Ghana, with so many poor people, it is hard not to benefit some poor people with almost any scheme. A deeper criticism is that both projects are remedial to adjustment measures, whereas the desirable policy would incorporate human concerns right from the beginning in the very structure of the adjustment process.

If a country that has in the past neglected human development intends to adopt reforms that promote it, it runs into short-term problems. These may take the form of heavy burdens on the budget and on administration, or of political discontent and riots by those who are likely to lose from the reforms. If there is redistribution of income to the poor, there is likely to be an additional impetus to inflation arising from the sectors producing goods (especially food) on which the poor spend their money, because their supply is inelastic in the short run. This may be accompanied by unemployment in the trades that had previously catered for the rich, because it takes time to shift resources. There may be a reduction in productive investment and balance of payments problems caused by additional food imports and capital flight, as the rich try to get their money out of the country. If the reform-minded government replaces a dictatorship, previously oppressed groups will assert their claims for higher incomes, with additional inflationary results. If some groups become disaffected they may organize strikes, sabotage or even coups d'état. All these are familiar troubles for reform-minded governments that wish to change the course of policy in favour of the poor. They account for the disillusion after a honeymoon period.

In such critical situations the international community can help in making the transition less painful and disruptive, and more likely to succeed. It can help to overcome an important obstacle to reform -- the fear that the cost of the transition to more appropriate policies is too high. It can add flexibility and adaptability to otherwise inert policies set on a damaging course. Structural adjustment loans have come to be accepted in other contexts, such as the transition to a more liberal international trade regime and more market-oriented domestic policies. By an extension of the same principle, adjustment loans should be given to the transition to a regime oriented more towards human development. They can take the form of financial or technical assistance to a land reform, or a tax reform, or of well-designed food aid or of international food stamps to support of national nutrition programme. An international economic order built on international support of domestic efforts for human development and poverty eradication is more sensible and more likely to succeed than one built on the hope of trickle-down effects.

Combining development aid with conditions for policy reform, poverty reduction, social objectives and political freedom has become popular among bilateral and multilateral donors. The concessionary component in the assistance buys, as it were, the policies that a purely commercial lender cannot insist on. In Zambia, for example, a housing subsidy was given to high-level bureaucrats who often did not pay even the small, subsidized rents they owed. The World Bank exercised pressure to raise the rents and use the revenue for sites and services schemes for the poor.<sup>43</sup>

It is controversial how desirable and feasible such conditionality is. Some observers have said that conditions can be successfully imposed only if the recipient government is in any case committed to the policies. Complaints have been voiced that conditionality imposed by foreigners is intrusive, incompatible with national sovereignty, and can be counterproductive if it discredits domestic groups aligned with such reforms. It can also be evaded by substituting other undesirable policies for the ones eliminated by conditionality. The same objectives can be achieved by adopting a quieter style than imposing performance criteria, by supporting regimes determined to promote human development, withdrawing aid from those that do not, and thereby signalling unobtrusively to all the conditions for receiving aid. Alternatively, institutional innovations might be considered that put a mutually trusted intermediary between donors and recipients, who would insist on the condition of poverty reduction. Under Marshall Aid the European countries monitored each other's performance. The time may have come to revive this pattern of peer review. Or a council of wise men and women might form a buffer between donors and recipients. Or we might move towards a genuine global secretariat of the multilateral aid institutions, with global loyalties and social and political sensitivity, that would be trusted by both sides.

## **17. The ILO: Some tentative suggestions**

In 1994 the International Labour Organization celebrated its 75th birthday. Since its inception, the world has seen revolutionary and evolutionary changes and challenges, to which the ILO has responded admirably. Its basic needs strategy, launched in 1976, and the employment programme of the 1970s were imaginative and innovative initiatives, although implementation at the country level left much to be desired. Hence the need for this essay on the political economy of reform and anti-poverty action. In sketching out some proposals for future action I shall not say anything about the much discussed topics of the rapid growth of the service economy and white collar workers, which makes such terms as "industrialized countries" obsolete; or about the growing importance of technology, education and human capital; or about the globalization of the world economy and the tensions between this trend and the nation state. But I shall make nine additional suggestions for reforming the actions, policies and research of the ILO.

First, how can the ILO (and, indeed, other UN agencies) become more participatory? We hear a lot about the need for greater participation, but the international organizations preaching this gospel have not been outstanding in practising what they preach. It has something to do with the blind spot of auto-professionalism, a subject on which I keep a secret file. It contains facts about dentists' children having bad teeth, marriage guidance counsellors suffering from broken marriages, management experts being unable to manage their own affairs, and the auditors of the Royal Economic Society refusing to audit its books. The International Labour Organization is unique in the United Nations family in that it already contains the germs of participation. It is not just an inter-governmental body, but its tripartite structure consists of the representatives of workers and employers as well. We have heard a lot recently about the need to decentralize government and draw more on participatory organizations in the political arena. The world has found unworkable and has rejected the process of centralized decision-making in centrally planned economies. But the very same process governs the relations between management and labour within both capitalist and socialist firms. We know that under regimentation people do not give their best. Democracy and participation should be introduced not only in politics but also in the private sector; and not only in government and in profit-seeking firms, but also in private voluntary societies and non-governmental organizations such as trade unions and churches; even in some families there is a need for greater participation, particularly of women and in some areas even of children. This might be called vertical participation: to make the membership of the ILO (and other agencies) more responsive to the needs of all its members through a higher degree of participation.

By horizontal participation I mean the inclusion in the Organization of some representatives of the civil society. Civil society can be a necessary condition for well-working government. But the state can also strangle civil society, and civil society can corrupt, undermine or even destroy the state, as we have seen in Lebanon, Sri Lanka and ex-Yugoslavia. The ILO is an agency particularly fitted to show the way of how people with different interests and values can live and work together peacefully and creatively.

Second, a principal task of the ILO should be directed at making informal sector and small-scale firms (in which many poor people are to be found) complementary to large, formal sector firms, both domestic and foreign, both private and public, in agriculture, manufacturing and services in a non-exploitative manner. At present the large firms often compete the small ones out of existence or exploit them ruthlessly. Institutions, incentives, infrastructure, innovation, training, research and policies should be applied to a fruitful, non-exploitative synergy between the two. In agriculture this has worked well in the form of nucleus estates that combine activities done more efficiently by a large, modern institution, such as giving credit, processing and marketing crops, and training people, with a cluster of smallholder growers. But in manufacturing only the Japanese have succeeded so far in their kanban system. Certain labour-intensive processes, making components and spare parts, providing ancillary services, can be done more efficiently by small firms. In the interest of both sides a symbiosis between the two sectors should be promoted.

Third, the accelerating growth of new technologies and the accompanying need for high technological skills has produced the phenomenon of jobless growth. Kurt Vonnegut, in his novel Player Piano, describes a future nightmare society in which the divine right of machines, efficiency and organization has triumphed, and a large underclass of unemployed is handed out, by a small group of powerful and affluent managers, plenty of goodies, but lacks what the philosopher John Rawls regards as "perhaps the most important primary good," which is self-respect. Vonnegut's unemployed welfare recipients eventually revolt.

The situation in the OECD countries is even worse than that. Increases in output per worker are welcome as long as total output grows rapidly enough to absorb all those seeking work. This was so in the quarter century of the golden Keynesian age after the last War. But recently output in the OECD countries has grown insufficiently fast to generate full employment for the work force with the new phenomenon of jobless growth. As a result we find ourselves in societies in which J.K. Galbraith's private affluence amid public squalor is joined by the phenomenon of private affluence amid private squalor. Anyone walking through the streets of our cities is a witness to this. Whether the cause is inadequate growth of demand (due to fears of inflation, balance of payments deficits, and rising budget deficits), or technological change that calls for new skills that are and will remain scarce, or to high interest rates in the past, or to competing low-cost imports displacing low-skilled workers, the unemployed underclass does not even benefit from Vonnegut's handouts.

It is an important matter for research whether an adequate increase in demand (e.g. through public investment) and a long-term lowering of interest rates would remove much of the "structural" unemployment, as we saw during the last War; or whether education, training and adjustment assistance would help workers thrown out of work as a result of technical progress and the large increase in low-cost imports from the developing countries; or whether the answer lies in shortening the working week; or whether the rising need for health workers, nurses, gardeners, protectors of the environment and others who do not have the high and scarce mathematical skills demanded by modern technology could not restore full employment. Many of these jobs are, however, in the currently despised public sector. A reappraisal of its role in productive job-creation would be very useful.

Fourth, with the growing pressure of legal and illegal migrants from the South and the increasing number of economic, political and environmental refugees, the ILO will have to take a view on the negative and positive rights and responsibilities of these migrants. It is well known that mass migration from the poor South to the rich North is not only economically beneficial, but also in the now popular spirit of *laissez-faire* and *laissez-passer*. But it also causes social and ethnic tensions and is politically unacceptable. The ILO can contribute to a resolution of such conflicts.

Fifth, with the end of the Cold War, the role of the United Nations and its agencies can once again become what it was intended to be at its foundation, but with adaptation to the new power constellations of the present world. Japan and Germany must be given bigger roles. They should be encouraged to take positive initiatives in raising resources, and in the many activities surrounding various aspects of human security. Peace-keeping and peace-making applies to military and territorial security; President Clinton talks of personal security and health security; food security is the mandate of the FAO; financial security that of the International Monetary Fund and the World Bank, environmental security that of the United Nations Environment Programme and job and income security that of the ILO. The creation of productive, remunerative, secure, satisfying, freely chosen jobs should be a top priority for policy makers. The ILO can give a lead in this.

Sixth, the ILO, always concerned with standard-setting, should draw more clearly the important distinction between uniform (sometimes also called general) and universal standards and reexamine the role of trade unions. Universal standards may be highly specific and highly complicated, provided that they contain no uneliminable reference to individual cases. Uniformity is out of place when circumstances differ. Different labour standards and different roles for trade unions are in order for low-income countries at early stages of development from those that apply to middle-income countries, and again to high-income countries. In some areas, uniform standards do apply: the banning of child labour, of the exploitation of people, of slave labour. These are based on universal human rights. But in others, uniformity can serve as a concealed weapon of protecting the high wages and working conditions of the best-off, high-productivity workers in the richest countries. A thorough reexamination of the applicability of labour standards is a task for which the ILO is particularly suited. Issues such as the length of the working day and week, some safety regulations, minimum wage legislation and even free wage bargaining and the ban on a conscripted labour corps, as well as environmental standards should be reexamined. The present aspirations of trade unions in advanced countries were formulated after industrial revolutions had occurred and when labour had become scarce. Collective bargaining, in such conditions, benefits both the workers and the community, by giving an impetus to mechanization. In pre-industrial societies, with the labour force increasing by 2-3 per cent per year and a large proportion of people of working age without hope of a job, collective bargaining and minimum wages can be irresponsible policies, aggravating from that in advanced countries. They should act as a channel of communication between the Government and the wage earners (as well as between employers and workers); they should organize training and

productivity campaigns; they should reduce industrial tensions and unrest. They can also promote social services, organize cheap holidays and welfare facilities, etc.

When discussing the ILO and its concern with poverty in the developing countries, it is helpful to remember its origins. It was founded in 1919 after the first World War, in order to protect the standard of living of the industrial workers in rich countries against the cheap imports made by sweated labour in low-income countries. Its aims were inspired by Samuel Gompers, the great American trade union leader. It has propagated trade unions on Western lines, collective bargaining, minimum wages and welfare legislation. It has set uniform standards for safety and health, some of which rightly assert our common humanity, but others have been criticized by some as excessive and inappropriate for low-income countries. The possible trade-offs between wages and employment in labour surplus countries have never been squarely faced by the ILO.<sup>44</sup>

Seventh, while the ILO has done much work on productive and remunerative employment opportunities (including always self-employment) less thought has been given to the need for satisfying jobs. With modern technology and the electronics revolution we have the opportunity to substitute machines for drudgery and the most boring tasks. We can ask that work should be interesting and even fun. If it is not, thought should be given to how it can more easily be married to play. Man (and woman) cannot live by income alone; recognition is also needed. The underclass in Kurt Vonnegut's *Player Piano* who get handed out goodies by the managerial rulers, but who do not participate in active work, eventually rebel. Boring, unsatisfying, unfulfilling, alienating work can have the same effect. Thought should be given to how the problems posed by repetitive industrial drudgery can be solved, not, or not only, by more pay and fewer working hours, but by removing the tedium. Such exploration would include part-time work, work at home, and possibly a fundamental redefinition of the very meaning of "work."

Eighth, the emphasis in much of ILO work is placed on the generation of primary and secondary incomes: incomes through productive and remunerative employment (including self-employment), whether through macro-economic policies or more specific measures (meso- and micro-policies), and transfer incomes that create and improve human capital through better nutrition, health, education and training. What is missing may be called the creation of tertiary incomes: incomes for the unemployables, the lame ducks, the old, the infirm, the chronically handicapped, sick and disabled. They constitute perhaps 10 to 20 per cent of the total population in many developing countries. The "centrality of employment creation" does not look after them, particularly if accompanied by the breakdown of the extended family, and sometimes even of the nuclear family.

It could be argued that if society looks after the unemployables, although this will not add to productivity, it will tend to lower reproductivity. An important motive for large families, and particularly for having many sons, is to be looked after in old age or if an accident occurs. And this motive will be removed. But there are other good reasons to look after the unemployables in a civilized society.

The World Bank approves of government interventions only when they are market-friendly. I would add that market-friendly interventions should be accepted only if they are people-friendly. For this to be so, several conditions have to be met. Among them are a fairly equal distribution of productive assets, particularly land, the provision of certain public goods and of social services, participatory organizations and general access to power. But even the most market-friendly interventions do not do anything for the unemployables. With the breakdown of the extended family only the state can provide the safety net for these victims.

Finally, let the ILO critically and self-critically evaluate its technical assistance efforts. Far too much bilateral and multilateral technical assistance is now ineffective or counter-productive. How can its contribution to the development objectives, and in particular to the eradication of poverty, be improved? But by and large the ILO's technical assistance has been extremely useful, and even some of the standard-setting that has been criticized has been reversed when it launched the World Employment Programme.

Let us not be afraid of being idealistic and even utopian in these reforms. As we have seen, we are, however, faced with a dilemma. Either we confine our recommendations to what is politically feasible and end up in a sterile perpetuation of the status quo, or we make recommendations free of political constraints. The danger then is that we may end up frustrated, with unrealistic, utopian proposals. But there is, as I have argued above, a lot to be said for utopianism in policy analysis. Let me summarize the argument again.

First, utopian ideas can be useful as a framework for thinking, in the same way that physicists assume for some purposes a vacuum. The assumption plainly would not be useful for the design of parachutes, but can serve well other purposes. Similarly, when thinking of tomorrow's problems, utopianism is not helpful. But for strategic purposes it is essential.

Second, the utopian vision gives a sense of direction, which can get lost in approaches that are preoccupied with the feasible. In a world that is regarded as the second-best of all feasible worlds, everything becomes a necessary constraint.

Third, excessive preoccupation with the feasible tends to reinforce the status quo. In negotiations, it strengthens the hands of those opposed to change and reform, and leads to the defeat of the reformers.

Fourth, it is sometimes the case that the conjuncture of circumstances changes quite unexpectedly, suddenly and dramatically, and that the constellation of forces turns out to be favourable to even radical innovation. Unless we are prepared with a carefully worked out, detailed plan, that yesterday may have appeared utterly utopian, reforms will lose out by default. Nobody would have expected only a few years ago the dramatic changes in Central and East Europe, the ex-Soviet Union, China, South Africa and Latin America. Suppose someone a short decade ago had predicted that within ten years the world would see the disappearance of the Soviet Union, the end of communism in Eastern Europe, the fall of the Berlin wall, the unification of Germany, the bloody break-up of Yugoslavia, the end of apartheid in South Africa, the introduction of capitalism into China, near-revolutionary political upheavals in Japan and Italy, and the handshake on the White House lawn between the Prime Minister of Israel and the head of the Palestine Liberation Organization. These events would have been regarded quite recently as utterly unthinkable.

Although the subsequent fate of the Special Drawing Rights was disappointing, when they were established the creation and acceptability of an international liquid asset came as a surprise to many. It may take some time for sensible recommendations to be adopted. Kenya put into effect the recommendations of the 1972 ILO Employment Mission on the informal sector after fifteen years. Similarly in the Philippines, after major political upheavals, some of the proposals of the Employment Mission are now being implemented. Utopians sometimes need patience.

Fifth, the utopian reformers themselves can constitute a pressure group, countervailing the self-interested pressures of the obstructionist groups. They can act as the trustees of rationality, the guardians of the poor, and the keepers of ideals. If it were not for such countervailing pressures, the field would be left free for the most conservative and reactionary forces to win. Ideas thought to be utopian have become realistic at moments in history when large numbers of people support them, and those in power have to yield to their demands. The demand for ending slavery is a historical example.

It is for these five reasons that utopian reformers should not be discouraged from formulating their proposals, and from thinking the unthinkable, unencumbered by the inhibitions and obstacles of political constraints, in the same detail that the defenders of the status quo normally devote to its elaboration.

On the other hand, it must be admitted that there is a danger that the best can become the enemy of the good, the optimum the enemy of improvements. To be successful, it is essential to have a feel for the politically possible, and more than a feel, to make a careful political analysis of actual and potential power constellations. If the recommendations of the Missions of the ILO World Employment Programme had paid more attention to both positive and normative political economy, both to what could be done and to how pressures could be mobilized for their recommendations, they might have been more successful. The principal message of this essay is to emphasize the need to build political pressures, constraints and inhibitions into our models. A danger of such a procedure is that it encourages lobbies to become more vociferous in opposing reform. One answer is to provide alternative scenarios. The message is to emphasize the need to include political feasibilities in the recommendations on employment strategy, without losing the vision of a better society.

## **18. The struggle for human progress**

It has taken the more enlightened advanced societies three centuries to achieve the civil, political and social dimensions of human development. The eighteenth century established *civil* rights: from freedom of thought, speech and religion to the rule of law. In the course of the nineteenth century *political* freedom and participation in the exercise of political power made major strides, as

the right to vote was extended to more people. In the twentieth century the welfare state extended human development to the *social* and *economic* spheres, by recognizing that minimum standards of education, health, nutrition, well-being and security are basic to the civilized life, as well as to the exercise of the civil and political attributes of citizenship. These battles had not been won easily or without resistance. Each progressive thrust has been followed by reactionary counter-thrusts and setbacks.

The struggle for *civil* liberty was opposed, after the French Revolution, by those fearful that it can lead only to tyranny; the fight for *political* participation that it would bring about enslavement for the masses. We are now witnessing one of these counterattacks on the *economic* liberties of the welfare state, and on some fronts partial retreat. The argument again is that the opposite of the intended results is achieved. Just as civil liberty was said to lead to tyranny, and political liberty to slavery, so compassionate concern for the poor, it is now said, can lead only to their pauperization.<sup>45</sup> This is, however, far from inevitable. Well-designed public expenditure programmes, that contain both a vision of a good society and a careful analysis of the political economy, can contribute substantially to improving the human condition.

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