WORLD POVERTY

New policies to defeat an old enemy

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Poverty, social exclusion and social polarisation: the need to construct an international welfare state

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During the last half-century, the conventional wisdom has been that poverty can be diminished automatically through economic growth. This has got to change. During the next half-century, the world's most fundamental problem – as agreed by the biggest international agencies and a growing number of governments – is that wealth and poverty are becoming increasingly polarised, and that a different priority has to be followed.

Any resolution of this problem depends on connecting three concepts – *poverty*, *social exclusion*, and *social polarisation* – and bringing them into sharper and more distinguishable focus. Together they provide the basis for the scientific breakthrough to explain the problem, and develop the exact policies required to deal with it, as well as steer the international community away from impending disaster.

Poverty

Poverty was at the top of the agenda of problems formulated by Robert MacNamara, Director of the World Bank, at the end of the 1960s. Despite the mixed story since then (development, indebted nations, multiplying barbarism, extreme inequalities in living standards in the aftermath of the collapse of the former Soviet Union, the East Asian economic crisis, and much more besides), it has again risen for the last decade to the top of the Bank's agenda. From 1990 onwards, reports on the subject from the international agencies have multiplied. The number of general, country-specific and methodological reports issued by the Bank that may be said to be poverty-related threatens to swamp us all. The Bank's eagerness is supported by the International Monetary Fund (IMF) and other international agencies, especially the United Nations Development Programme (UNDP), and by non-government organisations, especially Oxfam (for example, see Oxfam, 1995; Guidicini et al, 1996; Oyen et al, 1996, among others). In 1989, John Moore, as Secretary of State in the Department of Social Security (DSS), stated that the problem did not apply to the UK (Moore, 1989). Early in 1999, Alastair Darling, Secretary of State in the

DSS, proudly announced a programme to undertake a poverty audit "and so place the problem at the top of the nation's agenda". Poverty is a recognised evil but has lacked precise agreed definition and a scientifically constructed remedy[1]. The US has its own definition and measure, which the international agencies do not relate to their priorities for development. Indeed, the amendments recommended by the National Academy of Sciences seems to have served the purpose of bolstering an independent American approach which is becoming highly sophisticated as well as impenetrable from outside (Citro and Michael, 1995). Root and branch reform on an avowed scientific or international basis has not been seriously considered.

In the national as well as the international context, it cannot be said that a public or political consensus about meaning and scale exists. For that to happen, social scientists themselves will have to give the lead.

Social exclusion

This is even more true of 'social exclusion'. Analysts such as Hilary Silver, Graham Room and Ruth Levitas, have in their own different ways written about the potentialities of the concept. It is, as Ruth Levitas shows in *The inclusive society* (1998), highly 'contested'. Her approach is helpful in revealing the origins and motivations of three alternative models – redistributive (RED), moral underclass (MUD), and social integration discourses (SID).

Earlier Hilary Silver (1994) had also adopted three paradigms to illustrate the various treatments of the term: solidarity (breaking of social ties), specialisation (differentiation of individual behaviour and exchange), and monopoly (coercive domination – "the excluded are simultaneously outside and dominated"). Each one is grounded in a different political philosophy – republicanism, liberalism and social democracy – and attributes exclusion to a different cause. "Each provides an explanation of multiple forms of social disadvantage – economic, social, political and cultural – and thus encompasses theories of citizenship and racial-ethnic inequality as well as poverty and long-term unemployment" (Silver, 1994, p 539). Ruth Levitas has gone much further than others in showing which policies operate to strengthen which models.

Another procedure is to trace the history, covering at least 25 years, of the treatment of social exclusion in different countries and regions. Apparently the concept was coined in France to explain the problems which were arising because of poor coverage of social insurance (Gore and Figueiredo, 1996, p 9; see also Gaudier, 1995; Rodgers et al, 1995). The implication was that coverage should be improved so that fewer social problems arose.

For observers in the UK this is ironic. At a time when the institution of social insurance is under threat, the government has seized on social exclusion as the governing factor in constructing domestic policy – especially at the neighbourhood level. In France the concept was quickly extended in the 1980s to reflect the increasing concern with long-term unemployment, the worryingly large numbers of unskilled workers, and the problems of integrating immigrants. In formulations of policy Jacques Delors, then president of the European Commission, backed up by a range of organisations such as the European Labour Forum (see for example Coates and Holland, 1995), re-iterated these concerns. The problem has been interpreted even more variously in the republics of the former Soviet Union, and related to multiple forms of deprivation (Tchernina, 1996).

What is needed is scientific precision in the operational definitions of both poverty and social exclusion, so that trends and the extent of national and international problems can be properly measured, causes identified, and priorities for policy put in place. The best illustrations of social exclusion (for example, Walker and Walker, 1997) are built on a variety of imaginative studies on a common theme rather than on a commonly accepted measure. Current examples are Atkinson and Hills (1998), Burchardt et al (1999) and Hills (1999). A research team at the universities of Bristol, York and Loughborough completed a new national survey of both poverty and social exclusion (Bradshaw et al, 1998; Gordon et al, 2000). This proposed an operational measure distinguishing four precise components – impoverishment, labour market exclusion, service exclusion and social exclusion (Gordon et al, 2000).

Building on international agreement

There is scope, therefore, for an analytical ground-clearing operation. However, if we are to adopt practical policies to reduce the two problems of poverty and social exclusion, we need to be clear about how to distinguish them, as well as how they are to be applied cross-nationally, rather than erratically and variously in different cultures. I say 'erratically' because the links between country- or region-specific definition and international definition have neither been investigated thoroughly nor justified – even when we can acknowledge that the research in question is helpful in understanding some internal conditions. 'Erratically' also, because the absence of scientific precision makes for political ambiguity – the great escape for holders of wealth. 'Erratically' too in relation to the international agencies. Here the World Bank's adoption of the crude criterion of \$1 per day at 1985 prices for the poorest countries, \$2 per day for Latin America, and \$4 per day for the transitional economies, without regard to the changing conditions of needs and markets, affronts science as it affronts reasoned development of priorities in international policies[2]. In 1997, UNDP topped this absurdity by suggesting that the US criterion of \$14.4 per day might be applied to the Organisation for Economic Co-operation and Development (OECD) countries (UNDP, 1997).

If measurement is arbitrary and irrational, it is impossible either to concoct the right policies for the alleviation or eradication of poverty, or monitor their effects closely. The World Bank persists broadly with the anti-poverty approach of the 1960s, despite continuing evidence of that approach's failure. Thus, following reports in the early 1990s (for example, World Bank, 1990, 1993), there was little sign in the Bank's reports of the mid- and late 1990s of a change in the threefold strategy that continued to be stated time and again:

- broad-based economic growth;
- development of human capital;
- social safety nets for vulnerable groups (World Bank, 1996, 1997a, 1997b, 1997c; Psacharapoulas et al, 1997).

Each of these three requires detailed exposition, documentation and discussion.

The job of social policy analysis is to keep alive alternative strategies and policies that seem to fit the account of global problems and needs. For purposes of illustration, one alternative strategy might consist of:

- equitable tax and income policies;
- an employment creation programme;
- regeneration or creation of collective, or 'universal', social security and public social services;
- accountability and a measure of social control of transnational corporations and international agencies.

There are no signs yet of a debate taking place about the merits of even two alternative strategies, or sets of policies, to establish beyond reasonable doubt which alternative is the most successful – or indeed popular in democratic terms – in reducing poverty and contributing to social development.

We are dealing here with a strategy that has become the conventional wisdom and that wields extraordinary influence throughout the world. We are compelled to elucidate the international social impact of recent models of monetarist theory and neoliberalism.

The discussion of these doctrines cannot be conducted in (over)generalised terms. We have to examine the text and outcomes of international agreements, such as Maastricht and the Multilateral Investment Agreement. We have to review scientific evidence about key issues, such as economic growth. For example, does the empirical evidence that growth is 'trickle-up' oblige us to abandon the blithe assumptions about 'trickle-down' that have been taken for granted for many years (Newman and Thomson, 1989)[3]?

Social polarisation

Whatever the social or political justification for treating poverty and social exclusion ambiguously and overgenerally, it is worth exploring the possibilities of a consensus on precise meaning among social scientists. Despite some obvious problems in adopting exact and perhaps more restricted meanings, measures might be operationalised, trends established by common agreement, and disputes about cause reduced if not eliminated.

Present developments in environmental policies offer a model. There are scientific disagreements about exact thresholds of safety or minimal bad effect, and there are attempts to conceal, or distort, the extent of progress in bringing down levels of pollution, for example. However, scientific measures and accounts of causes have the effect of restricting the range of argument about appropriate policies and measurable effects.

One possible line of attack is to seek clarification, not just of the meanings of poverty and social exclusion, but of other, related ideas, such as deprivation. Another is to get better purchase on structural trends and upheavals.

One virtue ascribed to many interpretations of social exclusion is that it signifies interest in process rather than state, and points to the need to scrutinise actions of governments. But if the problem with the concept of poverty is believed to be its calling attention only to a negative state or condition, then the problem of the concept of social exclusion is to call attention only to a negative process. Both concepts direct attention to only parts of the population. As a direct consequence, scientific investigation becomes distorted and priorities for policy hard to establish. By contrast, the concepts of inequality and social polarisation, which correspond with the ideas of state and process, are all-embracing. These two concepts are necessary, therefore, to the understanding of poverty and social exclusion, the other two concepts discussed so far.

Social polarisation – the third concept in this chapter's title – is therefore the key ingredient. Early in this century it is the correct focus for scientific accounts of development. It is a structural process creating reverberations the length and breadth of global, national and local society. And while there are other concepts and themes that have to be employed to describe and analyse world social problems, social polarisation is indispensable. Poverty and social exclusion are inevitable by-products. I shall try to explain.

A personal history of social polarisation

In the late 1980s, inequality in the UK became fast-growing. In a book entitled *Poverty and Labour in London*, reporting a survey of London households, the authors used the term 'social polarisation' to describe a trend, because it was far from being either small or temporary (Townsend et al, 1987). In its scale and change of direction, this trend was also unprecedented, certainly in the history of recorded measurement during the 18th and 19th centuries. Since the causes had to be unravelled, and because it would be strange if rapid polarisation were to happen in one country and not in another, I began to ask whether the process applied elsewhere.

Although the UK was exceptional, I found that inequality was growing in other European countries – including Belgium and Sweden (Townsend, 1991). During a research and teaching trip to the US in 1992, I found that inequality had widened as dramatically there during the 1980s as in the UK. In one respect the situation there was worse. Average earnings of the poorest 20% in the labour market had decreased significantly in real terms between 1979 and 1992.

An illustration can be given. The 1999 Human Development report from the UNDP shows that the industrialised countries with the greatest inequality (measured by comparing the richest and poorest 20% of each population) are Australia and the UK, with the US third (with a GDP per person ratio of 9.6:1, 9.6:1 and 8.9:1 respectively) (UNDP, 1999). These are also the countries with the largest proportions of the population with less than 50% of the median income (UNDP, 1999, p 149). Although polarisation is well testified for the UK and the US during the 1980s and 1990s, there is some doubt about Australia. In late 1999, I discovered that the international agencies' information about income inequality in Australia was hotly contested by organisations there, who argued it was misleading and outdated. Too little detail is said to be provided in the agencies' reports about methods of standardising comparisons of trends in income distribution across countries.

While there is no doubt of a predominant trend among industrialised countries of growing inequality, there exists wide variation in the extent of that inequality. There are, for example, industrialised countries such as the Czech Republic, Japan, Spain, the Netherlands and Sweden, where the richest 20% have only 3.9, 4.3, 4.4, 4.5 and 4.6 times, respectively, more income than the poorest 20% (UNDP, 1999, p 149).

Turning to developing countries, I have found over the last 15 years a similar growing divide (see, for example, Townsend, 1993a, Chapter 1). There is a problem in a substantial number of countries about civil disorder and war, and the impossibility of giving information about collapse into poverty. For many of the other countries, qualifications have to be entered because of the scarcity of data in some of the poorest countries for different years, or because of doubts about reliability.

After the collapse of the Soviet Union at the end of the 1980s, there was an even bigger growth in inequality in the countries of the Commonwealth of Independent States than elsewhere. The economic transformation had dramatic social effects, including increases in the rates of mortality for different age groups in the 1990s (Nelson et al, 1997; Clarke, 1999; Cornia, 1999; Cornia and Pannicia, 1999; and see Ferge in Gordon and Townsend, 2000). In a visit to the Republic of Georgia in the former Soviet Union, on behalf of UNDP, I found severe impoverishment, especially among poor families, sick and disabled people and pensioners, not only because of the collapse of industry, but also the erosion of unemployment insurance benefits, pensions and other benefits to levels worth a few pence a week (Townsend, 1995, 1996).

A global trend

How can the accumulating evidence of this unprecedented trend now be generalised? Reporting in mid-1999, UNDP found that income inequality had increased "in most OECD countries in the 1980s and early 1990s. Of 19 countries only one showed a slight improvement" (1999, p 37). Data on income inequality in Eastern Europe and the CIS "indicate that these changes were the fastest ever recorded. In less than a decade income inequality, as measured by the Gini coefficient, increased from an average of 0.25-0.28 to 0.35-0.38, surpassing OECD levels" (1999, p 39). In China "disparities are widening between the export-oriented regions of the coast and the interior: the human poverty index is just under 20 per cent in coastal provinces, but more than 50 per cent in inland Guizhou" (1999, p 3). Other East and South East Asian countries that had achieved high growth while improving income distribution and reducing poverty in earlier decades, like Indonesia and Thailand, were similarly experiencing more inequality (UNDP, 1999, p 36).

The gap *between* countries, as well as within them, has also widened. The latest studies show how the trend has accelerated: the average income of the world population's poorest 20% was 30 times as large as the average income of the poorest 20% in 1960, but 74 times as large by 1997 (UNDP, 1999, p 36).

Of course, widening inequality has to be addressed at both ends of the spectrum. Executives' pay, and the disposable income and wealth of the richest people in the world, has been growing at an astonishing rate. For example, the UNDP points out that "the assets of the 200 richest people are more than the combined income of 41% of the world's people" (1999, p 38). The top three have more than the combined GNP of the 43 least developed countries.

A new report for the World Institute for Development Economic Research of the United Nations University confirms the trend. An econometric analysis of 77 countries (accounting for 82% of world population), found rising inequality in 45, slowing inequality in 4, no definite trend in 12, and falling inequality in only 12 (Cornia, 1999a, pp vi and 7). "For most countries, the last two decades have brought about slow growth and rising inequality.... Growing polarisation among countries has been accompanied by a surge in inequality between countries.... Income concentration has risen in many nations of Latin America, Eastern Europe and the former Soviet Union, China, a few African and Southeast Asian economies and, since the early 1980s, almost two-thirds of the OECD countries" (Cornia, 1999a, p 2).

> Since the early 1990s, the international community has made the eradication of poverty its foremost development objective. Yet, the decline of poverty in the years ahead depends also on trends in income inequality, a fact which still attracts little concern by the policymakers. Much of the recent rise in income inequality must thus be viewed with alarm, as it may well prove to be incompatible with poverty reduction objectives. (Cornia, 1999a, p vi)

Explaining polarisation

Defective structural adjustment policies

What are the reasons for this structural change? There is an international analysis that has to be tied in with nationally circumscribed investigation. What has to be accepted is the increasing impact of international developments on national subgroups and local populations. I mean that exposition of familiar problems to do with gender, ageing, disabilities, and families with children, for example, now displays overriding international determinants. I mean also that local problems, such as conflict on inner city housing estates, drugs, closure of local factories, and unsatisfactory privatisation of local services, are generated or enlarged by global market and other international factors.

Among the major policies of the international agencies, national governments and transnational corporations, for which a powerful consensus had been built up during the 1980s and 1990s, are the stabilisation, liberalisation, privatisation and welfare targeting and safety net programmes adopted as a result of the worldwide influence of monetarist theory. For example, the so-called *stabilisation and structural adjustment programmes*, that were advocated and supported by the international agencies, have entailed the reduction of subsidies on food, fuel and other goods, retrenchments in public employment, cuts in public sector wages and other deflationary measures. This not only generates recession, but also distributional outcomes which, as Cornia has argued (1999b, pp 11-12) are adverse in the poorer countries compared with industrialised countries, where wage systems are strongly institutionalised and self protecting, and where long-established social security provides a better cushion for downturns in the economy. Policies to cut public expenditure, and target welfare on the poorest (for example through means testing and the introduction of healthcare charges), have increased inequality and perpetuated poverty, especially in countries where, because of globalised trade and growing influence of transnational corporations, there has been a particularly rapid concentration of wealth.

In recognising what policies have brought about greater inequality within and between countries we have to understand the similarity of the programmes influencing developments throughout the world, at the same time as we recognise that they are calculated to vary in extent and force in different regions. The terminology is not always consistent. Governments as well as international agencies are often eager to adopt new names for conformist (rather than 'convergent') policies, especially when evidence that they are not working begins to accumulate.

In a remarkable shift from its long-standing policies, the World Bank has admitted that poverty has tended to increase during recessions in sub-Saharan Africa, Eastern Europe, and Latin America and not to decrease to the same extent during economic recoveries. Examples were given in a report showing that "crises and recessions may result in irreversible damage to the poor: malnutrition or death from starvation (in extreme cases) and lower schooling levels" (World Bank, 1999, p 109). Higher food prices in the stabilisation programme in Côte d'Ivoire and elsewhere are cited. "Sudden fluctuations in income or food availability can be fatal to already malnourished children". Consequences include lower IQ, retarded physical growth, mental disabilities, lower resistance to infections, and associated problems like dropout from schools (World Bank, 1999, p 103; see also Huther et al, 1997).

Greater sensitivity to the encroachments of poverty also helps to explain the reactions of the international agencies to the financial crisis in East and South East Asia. The magic wand of liberalisation and structural adjustment programmes could no longer be waved, as it had been in Latin America and Africa and then in Eastern Europe and the Commonwealth of Independent States (and in similar strategic form in the industrial countries). The World Bank expected poverty rates, especially in Indonesia, to rise very sharply. Revealingly, the Bank no longer emphasises privatisation and extreme targeting. At one point it even suggests that the possible remedies in a difficult situation "include waiving charges for the poor and extending health care to workers dismissed from their jobs" (World Bank, 1999, p 109).

The concentration of hierarchical power

Due to deregulation and privatisation by governments, often at the behest of international agencies, control of labour markets has veered away from states and towards transnational corporations. Paradoxically, states in which the headquarters of the biggest transnational corporations are located have acquired greater power to influence global economic developments. The G7, or G8, has exerted influence on the development of world trade (for example through the World Trade Organisation and the Multilateral Investment Agreement), and the management of debt.

Therefore, in trade the emphasis on exports from the poorer countries was supposed to favour rural agricultural production and diminish poverty, by removing the imbalance between rural and urban living standards. This has not worked, partly because of the low wages induced by cash cropping, and the corresponding substitution of employed labour and technology for subsistence farming. This has also had a knock-on weakening effect on the vitality of urban markets. In many countries, self-sufficiency in growing a range of crops has given way to a precarious dependence on sales from the export of those crops to finance the purchase of imports at affordable prices. Transnational companies have exceptional power to cut the costs of what they buy and raise the costs of what they sell.

The growth of transnational companies is one of the greatest economic and social changes of the late 20th century. Only 25 countries of the world are now listed as having larger GDP than the annual value of the sales of the biggest transnational corporation – General Motors. The top ten transnational corporations (General Motors, Ford Motor, Mitsui, Mitsubishi, Itochu, Royal Dutch Shell Group, Marubeni Sumitomo, Exxon and Toyota Motor) have bigger sales than the GDP of Malaysia, Venezuela and Colombia, and some of them more than Saudi Arabia, South Africa, Norway, Greece and Thailand. New Zealand's GDP is dwarfed by the sales of each of these corporations, and Australia accounts for only about three times the value of the average sale of all ten (UNDP, 1999, pp 32, 184-7).

The social policies of transnational corporations take at least two forms. On the one hand their internal policies, in relation to their senior staff and permanent and temporary workers scattered through subsidiary companies in many different countries, have to be explained. On the other, the larger role they play in contributing to social change, by influencing developments in world trade, government taxation and redistribution and investment, as well as recommendations for privatisation, also has to be explained (ILO, 1989; Lang and Hines, 1994; Deacon et al, 1997; Hoogvelt, 1997; Kozul-Wright and Rowthorn, 1998).

There are serious shortcomings in both national and international company and social law in relation to transnationals. While capable of contributing positively to social development, one review found that few of them were doing much of consequence. The activities of some were positively harmful (Kolodner, 1994). Recent books on transnational corporations (for example, Korten, 1996) have been assembling a case that governments and international agencies are going to find hard to ignore.

One feature of mergers between companies and the absorption of workforces overseas into the subsidiaries of corporations is not just the extension of the labour force accountable to management, but the elaboration as well as extension of the hierarchy of pay and rights in the corporation. There are many layers in workforces consisting of scores of thousands, sometimes hundreds of thousands, of employees working full-time, part-time, permanently and temporarily in 50, 60 or even more countries. Salaries at the top have been elevated, those at the bottom depressed.

This fast-developing occupational system invades the systems of social class in every country, and alters those systems. In Europe and the US we are aware of the debate about the appearance of an 'underclass', provoked by the work of Charles Murray and others. Critics have fastened on to the stigmatising and inexact reasoning of the proponents (for example, Katz, 1993). But they have also seized on the possible emergence of an *economic* underclass, consisting largely of long-term unemployed and prematurely retired, but also impoverished, people. When considering the debate some years ago there seemed to be grounds for the emergence of an underclass in this sense. Of course, there were also grounds for the emergence of an 'overclass' (Townsend, 1993b). Even if this is a small elite of the super-rich, it is distinctive, not only because of its wealth, but because of its working associations with many different countries and its ephemeral relationships with any social network in the 'host' countries of its members.

This can be characterised as increasing vertical control while diminishing horizontal participation and reciprocation. Some of the social consequences of the new structure of control appear to have been misinterpreted. Therefore, a lot has been made of the so-called 'culture of dependency' as a strategy for enforcing further control instead of questioning the new elite's culture of coercion.

The evolving hierarchy comprises new occupational sets, ranks and classes, involving housing and locality, and not simply workplace. Ideas of supra- and subordination are played out internationally as well as nationally and locally, and are carried over from one context to the other. This evolving hierarchy is also reflected in the development of the interrelationships of states and international agencies – by means of disproportionate representation among senior personnel, origins of finance for research, and responsibility for the publication of statistical and other information to the media. There are different senses in which social stratification is becoming strongly internationalised.

Privatisation

The international financial agencies have been eager to encourage privatisation. They argue that:

- it would enhance global market competition;
- it would weaken the intervening role of the state and reduce government taxation, so that public expenditure in general, and public services in particular, would cost less;
- private companies would have greater freedom to manage their affairs as they wanted.

However, the agencies have thereby adopted a very narrow interpretation of the economic good, and have tended to ignore the fact that economic development is an integral part of social development.

World Bank advocacy of privatisation is explicit or implied in almost every published report of recent years – even in relation to poverty. A key text for the Bank's position was published in 1997. Its author, Pierre Guislain, is a development specialist who has advised many African countries on their privatisation programmes. The book (Guislain, 1997) covers a lot of ground and is testimony to the accelerating scale across the world of privatisation. However, its attempts to be dispassionate are not successful. The arguments especially for public service and cooperative companies are largely absent, and there are no conclusions about the balance that might be struck between the public and private sectors in particular contexts and according to particular objectives. There is a strange indifference to the historical reasons for the growth of public ownership and the welfare state. Certainly there is no dispassionate argument about alternative strategies.

Another Bank report looks at privatisation in different countries and the rapid growth of equity markets in these same countries (Liebermann and Kirkness, 1998). The book interprets the process favourably. Privatisation is said to 'kick-start' newly created capital markets, such as those in Central and Eastern Europe and the Commonwealth of Independent States. It can 'awaken' moribund markets in Egypt and much of Latin America. Examples of well-publicised privatisation programmes in Argentina and Mexico are compared with the less well-known 'achievements' in Egypt, Morocco and Peru. "There are many more privatisations to come in developing and transition economies" (Liebermann and Kirkness, 1998).

In the analysis of many experts, much is made of the necessity of financial deregulation and the privatisation of insurance and the pension funds in order to create the right market conditions. The conflict of public interest in relation to the historical establishment of social insurance (for good reasons) is not discussed.

The rapid growth of privatisation is not, even now, widely appreciated. In 1989 the gross annual revenue from the process was estimated to be $25 billion. In 1994 and 1995 annual revenue reached $80 billion. Over five years $271 billion were generated. By the mid-1990s the developing and 'transition' countries accounted for much of the revenue. Guislain concludes that privatisation is "likely to remain a key policy instrument in many countries for decades to come" (1997, p 3; see also Lieberman and Kirkness, 1998).

Assets have often been sold extraordinarily cheaply, by market standards. Academic reviews, as in the UK, have failed to demonstrate evidence of privatisation being successful in terms of growth and price. There are examples either way (see, for example, Parker and Martin, 1997).

The shortcomings of targeting and safety nets

In developing their structural adjustment programmes, first in Latin America and Africa, and then in the 'transition' countries of Eastern Europe and the former Soviet Union, the IMF and the World Bank tried to balance the unequal social consequences of liberalisation, privatisation and cuts in public expenditure with proposals to target help on the most vulnerable groups in the population. For some years, and still to a large extent today, this has been presented within the principle of means testing. Even if coverage was poor, large sums of money would be saved if the 'almost poor' were no longer subsidised by public funds.

Therefore, a report for the IMF (Chu and Gupta, 1998) seeks to pin responsibility on the transition countries for a failure to transform universal services into targeted and partly privatised services. Unfortunately, this report also reveals serious amnesia about the institutional history of the introduction of legislation establishing public services and social security in particular (see, for example, pp 90-2, 111-12). Ways in which former universal provisions might be modified to allow market competition to grow but not create penury among millions were not seriously considered.

IMF loan conditions demanding lower government expenditures in the poorest countries have led to sharp reductions in general social spending at a time when the poorest fifth of the population in those countries have been receiving only about half their share of education and health expenditures – thus making access worse. This is evidence drawn from the IMF's own studies (IMF, 1997), which shows that "the poorest three-fifths of these nations are being excluded from whatever social 'safety net' exists for education, health, housing and social security and welfare" (Kolko, 1999, p 56).

However, loan conditionalities affect economic security in other ways. There are cuts in the number of government employees and in their salaries, and there are private sector cuts and lay-offs, both of which are designed to raise cost-effectiveness in the world's export markets. Price subsidies for commodities such as bread and cooking oil are cut. Higher value added taxes that are advocated are regressive on income distribution.

In December 1987, the IMF introduced a new stage of its existing structural adjustment programme – the 'Enhanced Structural Adjustment Facility' (ESAF). Of the 79 countries eligible for these ESAF loans – on condition they complied with the IMF in setting "specific, quantifiable plans for financial policies" – 36 had done so. Since World Bank aid also depends on fulfilling IMF criteria there is intense pressure on governments to accede. Critics have now concluded that countries which stayed out of the ESAF programme "began and remained better off by not accepting its advice". Those accepting the programme "have experienced profound economic crises: low or even declining economic growth, much larger foreign debts, and the stagnation that perpetuates systemic poverty". The IMF's own studies provided "a devastating assessment of the social and economic consequences of its guidance of dozens of poor nations" (Kolko, 1999, p 53).

The problem applies sharply to rich and not only poor countries. The biggest struggle of the coming years is going to be between restriction of social security, or 'welfare', largely to means-tested benefits. Those who have assembled evidence for different European countries over many years (for example, van Oorschot, 1999) point out that such policies are poor in coverage, administratively expensive and complex, provoke social divisions, are difficult to square with incentives into work, and tend to discourage forms of saving. What is notable is the recent tempering of World Bank and other agency reactions. It is now conceded that targeting can include 'categorical' policies affecting vulnerable or disadvantaged groups in the population. The prime example of this shift in policies is the social crisis in Eastern Europe and the former Soviet Union (UNDP, 1998).

The World Bank has itself begun to offer grudging concessions. "Safety nets are programmes that protect a person or household against two adverse outcomes: chronic incapacity to work and earn (chronic poverty), and a decline in this capacity from a marginal situation that provides minimal means for survival; with few reserves (transient poverty)." Although social insurance programmes constitute the most dominant form of cash transfer in most countries of Eastern Europe and the former Soviet Union, and provide relief for the poor in the formal sectors, these programmes are not addressed here because issues pertaining to pensions were the focus of a recent World Bank policy study (Fox, 1994 as reported in World Bank, 1997a, pp 2-3).

This is a revealing qualification. When structural adjustment programmes began to be applied in the early 1990s to Eastern Europe and the former Soviet Union, it was clear they would compound the problems of poverty, following liberalisation. Social insurance, and social security generally, were a substantial part of the institutional infrastructures of these states, and the collapse of industry might have led to some external efforts to maintain at least a residual system in order to protect people, especially children, the disabled and the elderly, from the worst forms of destitution and even starvation. Unhappily World Bank and IMF teams lacked expertise in such institutions. They were also influenced by a prevailing ideology of the 'short, sharp shock' following the collapse of communism. An additional factor was that social security systems were weak if not non-existent in the poorest developing countries, and the possibility that structural adjustment as applied to those countries was inappropriate in Eastern Europe.

From an anti-poverty perspective one analyst of events in the former Soviet Union concludes:

> Consideration of social policy has hitherto been dominated by fiscal considerations, which has led to radical proposals for reform of the pension and benefits systems which would have devastating consequences if they did not work as intended. The dependence of many households on age-related pensions and the inability of the majority of wage-earners to support even one dependant make the preservation of the real value of retirement pensions and the restoration of the real value and regular payment of child benefit much the most effective anti-poverty measures in a context in which the introduction of means-tested social assistance is completely unrealistic. (Clarke, 1999, p 240)

A report from UNDP is the most explicit concession yet to the need for change in development policies (UNDP, 1998). In describing the growth of poverty in the early 1990s in Eastern Europe and the former Soviet Union this concedes the strengths of the former institutions of social security.

> Policy-makers attempted to create a relatively egalitarian society free from poverty. Socialist income policy was based upon two main objectives: 1) To ensure a minimum standard of living for all citizens; and 2) To achieve a relatively flat income distribution. (1998, p 90)

> Governments regulated overall salaries and fixed minimum wages high enough to ensure a basic standard of living.... At the core of the social security systems were work-related contributory insurance programmes. The public came to expect that most social benefits would depend upon work-related factors such as years spent on the job and wages earned.... Social insurance schemes were comprehensive. Pensions, like employment, were virtually guaranteed.... Social insurance itself covered numerous exigencies, including accidents, sickness, parental death and child birth.... Overall, means-tested social benefits were almost non-existent, representing on average less than 1% of GDP. This was due largely to the inefficiency and high administrative costs associated with means-testing programmes. (1998, pp 90-2)

The *socially inclusive* advantages of these schemes was recognised. Therefore, pension programmes "became a kind of contract between generations, whereby people invested their efforts in the collective welfare and were rewarded by a guarantee of supplemental income.... Because social assistance allowances are very low in all transition countries, moving pensions towards means-tested social assistance programmes would push practically all pensioners into poverty" (1998, pp 108-9).

All in all, this is the first substantial acknowledgement from any of the international agencies I have read in the last ten years that the 'socialist welfare state' actually had certain strengths (see, in particular, UNDP, 1998, pp 92-3). What is striking is that the authors go on to claim there is a consensus for active labour market policies and work for social benefits as necessary components of the social insurance system. "At the core of welfare policy ... there must also be a comprehensive social insurance scheme that compensates all people in time of need" (UNDP, 1998, p 105). Funding should be both public and private forms of 'Pay-As-You-Go'. "Categorical benefits should be offered to all in need, or at least to all those near or below the poverty line. It is very important to avoid providing support only to the 'poorest of the poor' while neglecting the relatively poor" (UNDP, 1998, p 105). This plea for group or 'categorical' benefits in place of means-tested benefits was qualified by a recognition that some such benefits could be conditional in different ways.

Conclusion: the invention of the international welfare state

Where does this analysis lead? Different contributors to this book develop at length some of the themes that have been raised in this chapter. An alternative international strategy and set of policies concerned with arresting the growth of inequality and radically reducing poverty has been outlined and will be substantiated in later chapters. The 1995 World Summit on Social Development in Copenhagen provides a good precedent of the model of theory, strategy and policy that we are seeking to develop (UN, 1995). However, it will be evident from this book that, despite its strengths, the Copenhagen Agreement and Programme of Action, failed to address, or illustrate, the key explanatory concept of social polarisation discussed earlier in its necessary relationship with concerns about growing poverty and social exclusion.

What elements might the overall international strategy include? First, unless a scientific consensus is achieved in operationally defining, and measuring, international forms of poverty and social exclusion, the fact that the defeat of poverty worldwide has been put at the top of the international agencies' agenda will turn out to be empty rhetoric. Perhaps one hope is to build on the 1995 World Summit agreement to measure, and monitor, agreed definitions across countries of 'absolute' and 'overall' poverty (Gordon et al, 2000; Gordon and Townsend, 2000).

Second, unless, the *policy-related causes* of poverty and social exclusion are properly traced and publicised in relation to structural trends in all societies, we will find it difficult to discriminate effectively between what are the successful, unsuccessful and even counterproductive measures working towards, or against, the agreed objectives.

Third, since poverty and social exclusion can neither be traced nor explained except in the context of the structural changes embodied in social polarisation, it is this phenomenon that has to be explained.

The effect of policies that have been tried has to be clarified. The *stabilisation and structural adjustment programmes* of the 1980s and 1990s are alleged to have contributed to growing inequality. Policies contributing to the *institutionalisation of unequal power* are argued to deepen that process. Far more attention has to be given to the entire hierarchical *system*, and especially rich institutions and rich individuals at the top. The international agencies, regional associations and national governments must begin to analyse the extraordinary growth of transnational corporations, and ask what reasonable limits can be placed upon their powers. All that has happened so far is that agencies such as OECD have issued 'guidelines' exhorting corporations to be socially responsible. The International Labour Organization (ILO) has gone further. In 1977 its governing board put forward a declaration. This sought to exert influence upon governments, concluding that gradual reinforcement could pave the way for "more specific potentially binding international standards", turning codes of conduct into "the seed of customary rules of international law" (ILO, 1989). Policies contributing to the occupational structures or systems of transnational companies seem to deserve special examination.

Agencies have tended to be shy of relating observed impoverishment or unemployment to the policies of transnational corporations. And they have not been keen on self-examination either. Their growing role in shaping social as well as economic development badly needs critical examination. This has sometimes been provided by outside observers (Payer, 1982, 1991; Deacon et al, 1997; Hoogvelt, 1997) but needs to be addressed institutionally by governments and the agencies themselves.

Privatisation policies are a key element. They have been initiated and encouraged by the international agencies, but without much attention being paid to the problems of creating a much weaker public sector. Some of the biggest transnational corporations have adopted a 'Big Brother' relationship with the public sector. This could damage national identity and cohesion and divide society. Research is needed, for example, to systematically compare the performance of the public and private sectors in different fields, and recommend what is the right mix (as well as how the two might be reconstituted).

Policies representing the principles, or ideologies, of *targeting and safety nets* also deserve better assessment. There are grave doubts that they provide the right strategy to compensate for the inequalities and impoverishment induced by liberalisation and the enhanced power of markets. The international agencies are beginning to recognise that, as policy, means testing is neither easy to introduce nor successful. The advantages of modernised social insurance, for developing as well as industrialised countries, are beginning to earn renewed international interest. This is a sign of hope.

There are of course new policies that have to be found as well as existing policies that deserve to be abandoned or corrected if the damaging structural trend of social polarisation is first to be halted, and then turned round. There seem to be two stages. At the first stage the whole critique has to be pulled together and made more forceful. This includes the reformulation of the measurement of poverty, social exclusion and unemployment. It includes insistence on the monitoring and determined fulfilment of international agreements. And it includes the mobilisation of new coalitions or alliances across countries – of parties, unions, campaigning groups and voluntary agencies – to question the conventional wisdom and promote alternative strategies. At the second stage measures for international taxation, regulation of transnational corporations and international agencies, reform of representation at the UN, and new guarantees of human rights, including minimal standards of income, have to be introduced and legally enforced.

Recognition of social insurance as one of the best means of building an 'inclusive' society and preventing the slide into poverty, as well as contributing to social and economic stability, would represent one major step forward.

New legal and political institutions for social good in a global economy have to be built. A start would come with new international company and taxation law, combined with the modernisation and strengthening of social insurance and more imaginative planning and investment in basic services, such as health and education, so that they reflect international and not just national or regional standards.

This amounts to calling for an *international* welfare state (Townsend, with Donkor, 1996). One hundred years ago, different governments, including those of Britain and Germany as well as of smaller countries like New Zealand and Norway, responded to the manifest problems of poverty in those days. There were innovations which led to the establishment of national welfare states and a more civilised form of economic development.

Early in the 21st century the prospect of even greater social self-destruction, experienced as an accompanying feature of social polarisation, looms before us – unless urgent countervailing measures are taken. Collaborative scientific and political action to establish a more democratic and internationalised legal framework to protect human living standards has become the first priority.

Notes

[1] This was the basis of our previous book *Breadline Europe: The measurement of poverty* (Gordon and Townsend 2000). This book is concerned with remedies and policies, rather than definition.

[2] For an extended account, see Chapter Fourteen in this volume.

[3] In 1989, Newman and Thomson provided one of the first elaborate cross-national demonstrations that 'trickle-down' could no longer be, if it ever had been, regarded as a viable assumption.

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