INTERNATIONAL JOURNAL OF SOCIAL WELFARE

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Journal:	*International Journal of Social Welfare*
Manuscript ID:	IJSW-432-OA.R1
Manuscript Type:	Original Article
Keywords:	labour markets , cash transfers, poverty, insecurity, equality and security

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Abstract

The article sets out to evaluate the performance of conventional labour market and social policies in the era of globalised labour markets in terms of poverty alleviation, equality and security. To this end, it develops a framework based on three policy evaluation principles, centred on the normative notion of social justice, whereby the expansion of full freedom requires basic economic security for all. The article is organised as follows: After summarising main labour market trends, the paper proceeds by analysing conventional labour market policies, targeted labour schemes, regulatory interventions and cash transfers as labour market policy.

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Introduction

We are in the midst of a global transformation in which one of the most distinctive features is the painful evolution of a globalising labour market. This transformation testifies not only to the spread of capitalism to all parts of the world economy but also to the establishment of a particular variant of capitalism based on the belief that all markets should be flexible. There has accordingly been an international move to more flexible labour systems (Author, 1999a) but, more broadly, for the first time in history, all groups in all societies are expected to face insecurity and accept risk-taking as a way of life.

The outcome has been heightened social and economic insecurity, and rising economic inequality. In particular, there has been a big shift in the functional distribution of income within countries and across the global economy, giving workers (labour) a reduced share and capital (profits) a much greater share. Personal income distribution has become more unequal, and wage differentials between those with tertiary schooling and others have also tended to widen.

It is widely accepted that these trends reflect the impact of globalisation and economic liberalisation rather than the impact of technological and structural changes that have raised the return to education. Policies focused on altering the characteristics of workers (to make them more 'employable') would thus not be the appropriate answer to the inequality and poverty associated with globalisation.

The article sets out to evaluate the performance of conventional labour market and social policies in the era of globalised labour markets in terms of poverty alleviation, equality and security. To this end, it develops a framework based on three policy evaluation principles, centred on the normative notion of social justice, whereby the expansion of full freedom requires basic economic security for all. The article is organised as follows: after summarising main labour market trends, the article proceeds by analysing conventional labour market policies, targeted labour schemes, regulatory interventions and cash transfers as labour market policy.

Labour market trends

Before considering the advantages and disadvantages of specific labour market policies, it is worth summarising the main trends and challenges for the relief of poverty and insecurity in developing countries.

First and foremost, the global labour force has quadrupled since 1980. The increase in labour supply available for open labour markets has risen faster still, particularly since China and India have liberalised their economies, allowing multinationals to shift all or part of their production to extremely low-wage areas in which there is effectively an unlimited labour supply at existing wage rates. While the rate of increase may slow, the world's working-age population will continue to grow.

Second, ageing – and old-age poverty – is a global trend. Already most of the world's elderly live in developing countries. While labour market policies have understandably tended to pay more attention to the many millions of disaffected youth, policies to enable older people to have a dignifying livelihood will require a much higher priority in coming years.

Third, a majority of the world's population now lives in or around urban areas and, as part of that urbanisation process, various forms of migration are spreading. Much of the movement is linked to labour and the increasingly transient and precarious nature of labour relations. There has been a growth of international household chains, whereby millions of people migrate from low-income areas to perform menial labour in rich and middle-income countries, often leaving behind them structurally vulnerable households and families dependent on remittances.

Fourth, the global system is increasingly characterised by 'tertiarisation': most people in jobs are doing service activities, rather than agricultural, mining or manufacturing labour. Even in China and India, the two industrial workshops of the world economy, very rapid rates of industrial growth have not been associated with growth of manufacturing employment.

Fifth, the defining feature of the globalisation era has been the spread of informalisation. Far from being a residual destined to shrink as economies industrialised, informalisation has become pervasive. Large modern enterprises have been leading the way, by contracting out much of their labour function, using sub-contractors, casual labour and agency labour. In addition, partly driven by structural adjustment programmes, state enterprises in many countries have systematically contracted out large parts of their formal employment.

Labour informalisation is associated with precariousness, lack of labour contracts and widespread illegality. On average, incomes and wages are much lower for informal labour (see e.g. Fundação SEADE 2005; Sengupta, Kannan & Raveendran, 2008). However, it would be a mistake to interpret informalisation simply as chronic impoverished under-employment, a distinct and homogenous 'informal sector'. Informalisation increasingly applies to jobs associated with formal enterprises, and many people work informally by choice.

Sixth, another feature of the globalised labour system is global feminisation (Author 1989, 1999b). This reflects a double trend – a spread of precarious forms of labour and a relative growth of employment of women, the latter partly reflecting the restructuring of employment and labour towards the sort of jobs traditionally taken by women.

Conventional labour market policies

What we might call conventional labour market policies were developed during the course of the twentieth century as part of welfare state capitalism, based on an 'industrial citizenship' model linking social entitlements to holding a formal job. They include minimum wage policy, unemployment insurance benefits and labour market training schemes, as well as schemes to promote various forms of mobility – geographical, occupational and social. Implicit is the assumption that jobs are there to be had, if not now then in the near future.

With all forms of labour market policy – and social policy in general – there has been insufficient evaluation of their effects and effectiveness. This is particularly true for policies that have been tried in developing countries. In some cases, there is what should be described as monitoring, but not evaluation. Thus, official statistics may show that 1,000 workers were covered by a wage subsidy, leading some commentators to claim that the subsidy generated

1,000 jobs, whereas the workers or firms benefiting from the subsidy may simply be displacing others not receiving the subsidy.

A further difficulty with evaluating labour market policies is that they usually have several and sometimes conflicting objectives. For instance, they may be rationalised as instruments for reducing poverty or unemployment and as instruments for improving economic growth and productivity. But which of those objectives has priority? If short-term growth and productivity improvement were uppermost, the policy might concentrate on raising the employment of the highly educated and others with formal skills, since their short-term productivity would be greater than would be likely among the poor and less educated. Indeed, in some cases, laying off workers would be a way of raising average productivity and boosting profitability and growth; this was a deliberate policy pursued by the Chinese government in the 1990s.

We shall consider the main pillars of labour market policy from the vantage point of poverty alleviation, coupled with certain policy evaluation principles. The principles are elaborated elsewhere (Author, 2002; ILO, 2004) but, for our purposes, the three most important are:

- A policy is socially just only if it improves the security and work prospects of the least secure groups in society (*the security difference principle*);
- A policy is socially just only if it does not impose controls on some groups that are not imposed on the most free groups in society (*the paternalism test principle*);
- A policy is socially just if it enhances the rights of the recipient of benefits or services and limits the discretionary power of the providers (*the rights-not-charity principle*).
- First, we may make a few remarks on direct regulatory interventions with respect to child labour and discrimination.

Child labour policy

Child labour and poverty are obviously closely related. Very poor communities with limited resources usually rely to some extent on the work input of children. It is often not easy to ban child labour of all kinds in these societies. In recent years, the International Labour Organisation has modified its stance and its International Programme for the Elimination of Child Labour (IPEC) has pursued a policy of banning hazardous forms of child labour.

Such labour threatens children with permanent impoverishment, as well as injury and illness. However, the optimum way to curb child labour is to give families adequate economic security and incentives for them to ensure that their children enrol and attend primary and secondary school. Schemes such as the *Bolsa familia* in Brazil and *Oportunidades* in Mexico, whereby mothers receive a monthly basic income on the condition that their children attend school, have shown themselves to be much more effective in tackling child labour and in reducing poverty than simple bans.

Anti-discrimination measures

All countries experience patterns of discrimination in the allocation of labour and work, for example, against women, migrants or ethnic minorities. Measures to combat discrimination are essential tools against poverty and inequality. But too often laws are passed and then grossly inadequate resources are devoted to ensure that they are effectively implemented.

One consequence of the ideological onslaught on public expenditure around the world has been the rundown of labour inspectorates. Poorly paid labour inspectors are subject to bribes and threats, and cannot monitor discriminatory practices and such matters as non-payment of wages, and neglect of health and safety procedures. Anecdotal evidence suggests that numerous workers in Asia, Africa and Latin America are impoverished by non-adherence to basic labour laws. A simple but rather overlooked policy would be to pay labour inspectors higher wages and benefits, improving their quality and enabling them to resist 'backhanders' and other forms of pressure that make them so ineffectual. They play a small, unglamorous role in limiting labour market poverty.

Minimum wages

Statutory minimum wages really only work moderately to reduce poverty in industrial labour markets where formal employment is high and collective bargaining is widespread. Although they still exist in many countries, they have dwindled in their effectiveness. They are hard to apply in flexible informal labour markets, and require institutions to monitor them.

Critics have long claimed that minimum wages hurt rather than help low-skilled, low-productivity workers, who make up a large proportion of the poor in most countries. If minimum wages are set at subsistence level, low-skilled workers are either excluded from employment or are employed only in unregistered activities, leaving them vulnerable to exploitation and a lack of protective safeguards. Yet the critics surely exaggerate the negative effect of minimum wages, if only because they cannot be and are not effectively implemented. They may, at best, provide a standard of decency, to guide employers and workers on what would be fair and reasonable. That in itself is reason enough to maintain them.

Unemployment benefits

Unemployment insurance benefits, where employees paid contributions or had them paid for by their employers, were conceived in the late nineteenth century, and spread to all industrialised countries in the early decades of the twentieth century. Attempts were then made to introduce them to developing countries, with very limited success. In the rich welfare states, benefit schemes started to diverge in the 1970s, with some countries moving to unemployment assistance (means-tested benefits given to those who could demonstrate that they were both poor and involuntarily unemployed) and others adopting workfare-type schemes (benefits provided only on the condition that the recipient complied with some behaviour linked to the labour market, such as taking a low-status, low-paid job or entering a labour market training scheme).

The fact is that old-style unemployment insurance benefit schemes are rapidly disappearing in industrialised countries. Very few developing countries have functional unemployment benefit systems at all, one exception being the Republic of Korea. In most of those that have some scheme, only tiny minorities of the unemployed have entitlement to benefits. There is no reason to believe that, in the foreseeable future, state-based unemployment protection could become an effective weapon against poverty and labour market marginalisation in developing countries.

Social insurance versus social assistance

The underlying principle of social insurance has been that contributions, whether paid by employers or employees, would match benefits paid out, making the system fiscally neutral. In the process, a loose system of social solidarity would be established, with those fortunate enough not to need benefits subsidising those who did need them. Benefit entitlements would be determined by contingency risks, linked to unemployment, illness, maternity and so on.

Even in the rich industrialised countries, it has not worked out quite like that, and in developing countries social insurance has failed dismally as an anti-poverty policy. In flexible labour markets with high levels of informality, only very small proportions of the labour force are covered by social insurance schemes. Indeed, they are regressive since, to the extent that they work at all, they provide benefits and protection for higher-income employees. Social insurance contributions are easy to avoid in informal labour markets, while for many workers in casual or informal economic activities building up entitlements can be practically impossible.

The trend in industrialised countries has been to shift towards much greater use of social assistance in determining entitlement to benefits, through means testing and so-called ‘targeting’. Advocates of moving further in this direction claim that determining who is poor by checking on their income will direct benefits to the poorest, and that such targeting will ensure good use of scarce resources and help legitimise tax-based social transfers with middle-class voters.

All parts of that argument are dubious. Evidence shows that means testing is costly to undertake and notoriously inequitable and inefficient (see ILO, 2004 and sources cited there). In developing countries, it is very hard to define or measure the poverty line reliably and meaningfully, and whatever measure is used the take-up rate is very low. Those who do manage to receive such benefits are often the near-poor rather than the poorest. And means testing produces severe poverty traps, since anybody who begins to earn income risks losing the benefit. There are other objections, including the stigmatizing effects of such schemes. And ultimately they turn out to be discretionary, since local bureaucrats and politicians can manipulate them to give to those they wish to support and exclude others.

Labour market training

Training is often regarded as the definitive ‘active’ labour market policy. The common belief is that an important source of poverty and unemployment is a lack of skills and inadequate training schemes. Yet the evidence for this is scarce.

First of all, statistics on the possession of skills are rare. Most of the available information refers to the distribution of jobs and the numbers having primary, secondary and tertiary schooling, both very crude indicators of skill. There is also little convincing evidence that skill shortages are major impediments to economic growth, or a critical barrier to poverty alleviation.

Labour market training refers to government schemes. In some cases, the government funds a training centre and funds the attendance of trainees, giving them a stipend or simply subsidising the training costs. Such schemes tend to suffer from an understandable pattern of 'creaming', whereby most of the trainees - particularly most of the trainees who successfully complete the training course and who subsequently obtain employment - are not from the poorest groups in society.

In the other, more popular, type of training scheme the government or donor provides a subsidy to firms to provide more training. This policy suffers from three major drawbacks. First, the training is unlikely to be provided to the most disadvantaged and poor groups, since they are likely to be perceived as the hardest to train and the least likely to yield a high rate of return to the employer. Second, the schemes are likely to have a large deadweight effect, that is, the subsidy will be provided to firms that would have done the training anyhow. And third, they are likely to have a large substitution effect (or displacement effect), that is, they are likely to result in firms substituting workers receiving the training subsidy for workers or trainees who are not doing so.

More broadly, there has been an international trend towards shaping educational policy in general in the direction of 'human capital' formation. Universities and colleges are being encouraged to focus increasingly on preparing young people for jobs. There is also a strong trend towards the privatisation and commercialisation of schooling at all levels, not just at the tertiary end of the spectrum. These trends are controversial, since they are transforming the nature of education, eroding it as preparation for life and culture in the narrower interest of 'employability', and making schooling a matter of investment, which make it more selective of those who can pay and of those interested in subjects that promise a market return.

State pensions as labour market policy

Old-age and other pensions might not be seen as labour market policy. However, their existence and design are crucial determinants of patterns of work and labour as well as the extent of old-age poverty and the income status of others receiving a form of pension, such as those qualifying for disability benefits.

The story of pensions in the globalisation era is fairly clear. There has been shrinking coverage by defined-benefit contributory schemes around the world. Instead, governments and corporations have been shifting to defined-contribution schemes, while many more workers are finding that they have no state or corporate pension linked to their employment. In developing countries, only tiny minorities receive adequate corporate (so-called occupational) pensions or public sector pensions.

Instead, the two types of schemes that have spread are individual savings accounts, as developed in Chile in the 1980s and has been copied to a certain extent in many countries since then, and so-called social pensions. Whereas the Chilean experience has demonstrated clearly that the individualised defined-contribution route leads to greater old-age inequality and poverty among a large proportion of pension-age people, social pensions offer a realistic means of lowering poverty, not only among the elderly but also among their younger relatives. There is convincing evidence that they have had a positive effect in reducing poverty and community deprivation in countries such as South Africa, Namibia, Nepal and Mauritius (for a review of evidence, see Author, 2007, 2008).

By definition, social pensions are universal and rights-based. Where they exist they result in a very high take-up rate, in excess of 90 per cent of the age group, which compares extremely well with all other types of pension scheme. They offer a social protection floor and they are also an effective redistributive fiscal instrument. In South Africa, for instance, it has been argued that the basic old-age pension has been the only effective means of reducing income inequality in the country (Case & Deaton, 1998). Social pensions have also proved to be affordable, admittedly partly because of the low amount of income provided but partly also because of the low administrative cost. Moreover, they have the rather valuable property of transparency, in that everybody knows what should be paid and who is entitled, making political or bureaucratic corruption harder.

Evidence shows that social pensions can and do help fund the schooling and nutrition of grandchildren. They also help elderly people participate in the economy, and help families in rural areas take risks by buying seeds and fertilisers, knowing that they have a regular source of income on which to rely. As such, social pensions have beneficial effects on livelihood regeneration. They also score highly on the three key policy evaluation principles, reaching those in most need, being non-paternalistic (no behavioural conditions) and being based on rights rather than discretionary acts of state or private charity.

Targeted labour schemes

The world has accumulated vast experience and knowledge about selective or targeted labour market schemes. We may focus on four types of schemes that have figured in many developing countries – food-for-work schemes, public works, employment and wage subsidies, and microcredit and finance.

Food-for-work schemes

Under this rubric we may include all schemes that offer participants some specific commodity in return for labour. It has usually been food, but in some cases it has been clothes or other items. The distribution of food parcels in return for labouring on an infrastructural project has been an instrument of state policy for many generations all over the world. Some countries have relied very heavily on food-for-work schemes. In Ethiopia, for instance, albeit an extreme case, the Government has devoted 80 per cent of its food assistance to food-for-work projects.

The primary claim is that such schemes effectively target the poor: they are self-selecting, since they require applicants to go and queue for opportunities. And like all direct employment measures of the workfare kind, they are relatively easy to legitimize among the middle class, who can see people working for their food. It is also argued that such schemes can be relatively easily focused on pre-determined vulnerable groups, notably women. Indeed, the World Food Programme, which has been a major player behind food-for-work schemes, has required governments to make women the major beneficiaries.

The main shortcoming of food-for-work schemes is the onerous labour often involved so that those working in the heat and dust use up more calories than they gain from the food given to them at the end. The schemes may actually be detrimental to participants' health, particularly women, as has been observed in Ethiopia, India and Nepal (Osmani, 1997; Quisumbing, 2003).

Besides being inefficient and rarely producing much of lasting value, another failing of food-for-work schemes is the powerful tendency for officials to misappropriate the food, either for their own consumption or, more often, to sell it for profit. A study of the National Food for Work Programme in Andhra Pradesh, India, found that in the villages examined, the proportion of rice misappropriated by politicians and bureaucrats varied between 49 and 98 per cent (Dreze, 2006).

It is doubtful whether food-for-work schemes are an appropriate policy for promoting livelihoods except in extreme circumstances. They are unlikely to reach the most desperately in need and they are obviously paternalistic, presuming that what is missing is food. They are also more consistent with charity than with the extension of human rights.

Public works

Public works have a hallowed place in both development policy and anti-unemployment strategies. As social policy, public works are often presented as self-selecting or self-targeting, on the grounds that only those who are desperately in need of income will offer to work on public works projects. And it is often claimed that public works not only bring the poor up to or above some poverty line but also help to lower wages in the labour market.

Public works can and often do create some infrastructure. The question is whether the results are sustainable, durable or more efficient than other ways of producing such infrastructure. There are too many stories of shoddy output from public works, with roads hastily and cheaply built being washed away by the first heavy rains. This is particularly likely where the objective of maximising employment leads to highly labour-intensive methods based on unskilled, poorly supervised and ill-trained labour.

A related criticism of public works is that they tend to be predominantly short-term 'make-work' schemes. Productivity is low, and the labour is temporary, so they do not provide either value for money or sustainable employment. Inefficiency is compounded by high administrative and monitoring costs, which severely cut the proportion of funds spent on public works that goes to the intended beneficiaries. It is generally estimated that, of all forms of social protection, public works have the highest administrative costs as a share of total expenditure.

It is also clear that often there are large-scale substitution and deadweight effects. In other words, those employed on public works may merely displace others doing the same work for private firms, or they may be doing something that would have been done anyhow.

Another criticism is that the degree of effective targeting is, in practice, very limited. The usual objective is to provide labour for the poorest and for the unemployed in greatest financial need. However, numerous evaluation studies have found that this is not what usually happens. One obvious problem is that public works discriminate against labour-constrained households. Another is that those living far from the worksites have the greatest difficulty in taking the available work opportunities. And those with disabilities are least likely to be able to do the work on offer. Women, in particular, are often penalised because of severe time pressure due to their other work demands in and around the home.

This bias against women can be countered by design changes, as in the *Zibambele* scheme in South Africa, where 93 per cent of participants were women (McCord, 2004; Samson, van Niekerk & MacQuene, 2006). India's Mahatma Ghandi National Rural Employment Guarantee Scheme (NREGS) has established anti-discrimination provisions, access to on-site childcare and worksites close to the homes of potential participants. However, similar provisions were included in the long-running Maharashtra Employment Guarantee Scheme, on which the NREGS was modelled, and which still has only a minority of women among its participants, even though many more women have traditionally been registered in the scheme (Gaiha & Imai, 2005).

Even if public works do succeed in exclusively targeting the poor, they may create poverty traps, with all the moral and immoral hazards that these entail. Immoral hazards arise from an inducement to lie in order to qualify for participation in a scheme. In very poor communities, the poor and vulnerable will have an interest in staying just below the poverty line or at least appearing to do so, simply in order to qualify for the available income-support scheme on offer. This is surely a perverse incentive.

Another controversy centres on the wages paid to participants in public works. Many supporters believe the schemes should pay decent wages, or the market wage rate. Often, the wage is determined by that prevailing for agricultural manual labour, which is supported by some economists (Ravallion, 1999). Others have said the wage should be below the market wage (Hirway & Terhal, 1994; Subbarao, 2003), and some argue that schemes should pay at or even below the minimum wage, as a means of self-targeting the poor.

Certainly, the Maharashtra Employment Guarantee Scheme (EGS) long limited participation with a low minimum wage, which was how it maintained its claim to 'guarantee' work for all those applying. Once the courts ruled that it had to pay the official minimum wage, and particularly after the minimum wage went up, the scheme had to ration labour, ceasing to be a 'guarantee' (Subbarao, 2003).

As with other cash-for-work schemes, if the wage is set below subsistence it offends principles underlying minimum wage laws, and may intensify poverty (McCord, 2005). And if the objective of paying sub-subsistence wages is to induce self-targeting, the result may be the opposite of what is intended, because it may mean that only those with access to some other source of income can afford to take the low-paying public works jobs. Most perversely of all, paying sub-subsistence wages may actually worsen the poverty of the participants if they are induced to give up other forms of work, and if this disrupts structured livelihood systems in local communities.

For example, in the public projects in Malawi, the wage was set at the equivalent of US$0.30 per day. An evaluation study commissioned by the Government found that the very low wages were ineffective in recruiting the very poor, while participants risked greater poverty as a result of the hard manual labour that required more food, leaving them more exposed to malnutrition and healthcare needs (Chirwa et al., 2004). Poor labour-constrained households may be unable to take very low-wage jobs because they would have to give up other essential domestic and subsistence activities.

Paying low wages on public works also tends to lower the average wage in other jobs in low-income areas. Perversely, this could result in more widespread impoverishment by depressing family incomes. Moreover, many public works schemes have been dilatory in paying workers. In the Malawi scheme, delays in payment went on for months, resulting in indebtedness and considerable local distress (Chirwa McCord, Mvula & Pinder, 2004).

Public works are very prone to political capture. Thus, it has been persuasively argued that the Maharashtra EGS benefited the *kulak* lobby and the Maratha elite (Herring & Edwards, 1983; Patel, 2006). Alongside such tendencies, there is likely to be bureaucratic capture, with local bureaucrats taking a financial cut in allocating work opportunities.

However, the most damning criticism of public works is that they tend not to benefit the poorest and most economically insecure. Only about 30–40 per cent of the total public expenditure on the Maharashtra EGS reached the poor (Ravallion, 1991). Some other schemes may have fared somewhat better, but there can be little doubt that the leakages are substantial, due to ineffective targeting, expensive administration, corruption and inefficient implementation.

In 2005, the Indian Government launched the most ambitious public works scheme of all, the Mahatma Ghandi National Rural Employment Guarantee Scheme (NREGS), to ‘guarantee’ employment to the rural poor, with each poor household guaranteed 100 days of employment per year. In 2010, the Government claimed the scheme had provided employment to 49 million rural households in the most recent fiscal year, with 70 per cent of works related to water and other environmental projects (Jha, 2010). While NREGS has been held up by the Government as a great success, it does not appear to have overcome the criticisms outlined above, including costly administration, corruption and nepotism, exclusion of certain groups and creation of poor quality non-sustainable jobs.

In sum, while public works will remain popular as part of job creation efforts, they are dubious on several counts. The jobs are often not allocated to the most insecure and poorest. The schemes are also paternalistic, in that officials decide what is to be done and, usually, by whom and on what basis. It is also doubtful whether public works satisfy the rights-not-charity principle, since they are, at best, a way of giving discretionary entitlement to selected individuals or households or communities.

Employment subsidies

The use of employment subsidies has been advocated in a number of developing countries. The ostensible rationale is that, if employers are offered a subsidy for the extra jobs they create, total employment will increase. Moreover, in addition to boosting demand for labour, they help the low paid obtain jobs. It is supposed that these workers do not obtain jobs without subsidies because their potential productivity is below the market wage. Less widely publicised, subsidies are intended to boost certain sectors and, often, to help export industries or strengthen sectors threatened by imports.

However, employment subsidies typically twist the demand for labour towards less-skilled, lower-paid labour. In doing so, they may well encourage labour-intensive production that results in lower productivity in general and even technological stagnation. This is scarcely conducive to long-term growth and development. Moreover, labour subsidies not only encourage the inefficient allocation of labour and distort relative prices, but are also likely to be a subsidy to capital rather than to workers. They allow firms to pay lower wages, knowing that the incomes of workers are being topped up by the subsidy, or allowing them to retain the subsidy for themselves.

Employment subsidies tend to discriminate against older, well-established firms in favour of new, growing firms. This is intrinsically inequitable, since it penalises firms that have been providing employment for some time relative to newcomers. This could merely result in a substitution of subsidised jobs in new firms for non-subsidised jobs in older firms. The net effect on jobs could thus be minimal.

In the global context, labour subsidies could become an issue before the World Trade Organisation as an unfair trade practice. Among the biggest subsidy schemes are earned-income tax credits, developed on a vast scale in the USA and copied in various forms in Western Europe. They may not be deliberately selective of export or import sectors, but there can be little doubt that, at the margin, they influence national competitiveness.

Labour subsidies do not satisfy social justice principles either. In practice, they tend to go to the near-poor, rather than the most insecure, *if* they do not merely go to capital rather than to labour. They also go to support paid employment, rather than to all forms of work, including non-wage economic activities and care work.

A final comment on subsidies must be emphasised. The world is awash with them. Yet most economists recognise that they encourage inefficiency and tend to go to capital rather than to workers and the poor. When commentators say that the state cannot afford more transfers to the poor, or more social spending in general, they should be reminded that, even in developing countries, on average subsidies to the rich reach as much as 5-6% of total GDP. Labour subsidies are not good for global trade or development, and rarely reach the poor.

Microcredit and microfinance

Microfinance and microcredit have become hugely popular as development tools. In 2006, the Nobel Peace Prize was given to the founder of the Grameen Bank, the leading provider of microcredit, which has a long history in Bangladesh.

The primary feature of microcredit schemes is the provision of small loans to the poor and vulnerable, as start-up capital for small business activity to set up micro-enterprises or to become self-employed. Group lending is encouraged, and the outstanding aspect has been the heavy orientation of lending to women.

Advocates of microcredit claim that it encourages participatory involvement, and is self-targeting and empowering. Some schemes appear to have a good record of reimbursement; others much less so. Crucially, for those concerned with the promotion of livelihoods, microcredit has been seen as a means of tying people over during periods of economic difficulty, thereby providing informal insurance, preventing a collapse of small-scale businesses and a drift into unemployment.

The main concerns associated with microcredit schemes are their sustainability, their limited scope and their proneness to governance failure. Some believe that they are too small to deal with systemic shocks and systemic risk. They are also criticised for creating a new form of dependency, drawing the near-poor to rely on the microcredit institution for a series of small loans (Kabeer, 2001). It should not be overlooked that credit is rarely a way out of poverty, simply because borrowing implies a debt that has to be repaid.

There is also a question mark about the ability of microcredit schemes to reach the very poor, since those working in what has been called the 'mini economy' require such small amounts of money that even the microcredit institutions cannot handle the sums, due to standardized administrative and monitoring costs (Matin, Hulme & Rutherford, 1999). And there are questions about the cost and sustainability of group loans, which require group meetings, group pressures and associated costs (Besley & Coate, 1995).

Most worrying of all is the suggestion that, rather than empowering women, microcredit may actually reinforce patriarchal subordination of women (Goetz & Sen Gupta, 1996; Rahman, 1999). The suggestion is that women are induced to over-extend their work commitments, putting them under more pressure.

Finally, many observers have questioned the sustainability of microcredit institutions without the large donor assistance they have long been receiving. And it appears that there has been a drift away from the original idea of 'group lending with joint liability' towards conventional individual lending and, in the process, a move away from a focus on the poorest and most economically insecure.

Regulatory interventions

Numerous economists and commentators have advocated labour market de-regulation, claiming that there has been an international move to de-regulated markets. This is far from being the case. The period of globalisation has been one in which more new regulations have been introduced than at any time in human history.

In fact, it has been an era of labour re-regulation, in which many of the institutions and protective regulations built up in the first three quarters of the twentieth century have been whittled away and replaced by new types of regulation. These have tended to be pro-individualistic, more favourable for corporations than for employees, or more directive, selective and conditional in character.

The country where the thrust of new labour regulations has been most clear is China, as it has gone about the business of fashioning a national labour market. The emerging regulatory framework will have repercussions for the global economy, simply because China has become one of the two industrial workshops of the world, along with India, which has also been re-regulating its labour relations, encouraging labour market flexibility and revising its labour law.

Cash transfers as labour market policy for beating poverty and insecurity

The dominance of social democratic thinking in social policy and neo-liberal thinking in economic policy has combined to block thinking about the simplest way of all of responding to income poverty – giving people income in the form of money, as basic income transfers.

For decades in the late twentieth century this was dismissed almost out of hand. Unconditional transfers in particular were regarded as a waste of money, unaffordable, conducive to sloth and socially irresponsible behaviour, and a denial of the famed reciprocity principle (something should only be given to someone if they give something in return).

Since the beginning of the twenty-first century, a remarkable turnaround in thinking has occurred. Humanitarian relief organisations have come to appreciate that the advantages of cash transfers include speed, transparency and the ability to allow those in need to make choices about how they spend the aid, thereby enabling them to retain a greater sense of dignity in times of crisis (Creti & Jaspars, 2006). Experience with such schemes has further highlighted their potential as anti-poverty devices (Author 2007, 2008).

In various countries in Africa and Asia, cash grants to households affected by emergencies such as crop failure or drought have enabled them to rebuild assets and regenerate livelihoods. A study of a pilot cash transfer scheme in Zambia, which gave a modest sum to very poor households, with no conditions on how it was spent, found that the money went predominantly on basic consumption goods, and education and healthcare for family members (Schubert, 2005).

It has been estimated that, if the Zambian scheme were scaled up to reach the poorest 10 per cent of households, the cost would be a mere 5 per cent of total overseas aid to the country, or about 0.5 per cent of Zambia's gross national income. In other words, a national scheme is financially feasible. It would be cheaper than food aid, and would have the advantage of going directly to the poor and vulnerable, without the high administrative costs and various forms of corruption associated with commodity-based schemes. And whereas food aid damages local food markets by deterring local producers, cash transfers do the opposite by helping to stimulate local markets. In Zambia, no less than 70 per cent of all social transfers are spent on locally-produced goods and services, thus generating local employment or livelihoods (DFID, 2005; Samson et al., 2006).

In Latin America, cash transfers to women with children have become a central part of social and development policy. Both the *Bolsa famila* in Brazil and the *Oportunidades* scheme in Mexico, and similar schemes in other parts of the region, have covered very large proportions of their populations, resulting in the generation of macro-economic demand for basic goods and services produced within the domestic economy. Importantly, far from encouraging idleness and discouraging paid employment, these schemes have had the opposite effect, enabling women to take jobs outside the home.

The scope for cash transfers in Africa, Asia and Latin America has thus been recognized, becoming a significant part of non-contributory social protection and a means of enhancing work opportunities.

Concluding remarks

Most labour market interventions in developing countries have suffered from common failings – a lack of transparency, high fiscal cost, a woeful lack of accountability, chronic inefficiency in the sense of misuse of resources and in reaching those for which the schemes are intended, an extraordinary record of failure to reach the poorest and most insecure, and a failure to reduce inequalities in the labour market. Often the expenditure fosters corruption and results in much of the benefit going to groups that are less in need. And yet hope seems to spring eternal. In particular, developing countries are still being encouraged to look to yesterday's mechanisms of industrialised countries. Many continue to refer to 'the Swedish model' as a system that is both desirable and feasible as if it were still in existence.

The real message should be that labour market policies are better at helping labour markets function more efficiently in various ways than in overcoming poverty and economic insecurity. Labour markets are part of the broader economic system. Policymakers would be better advised to look to social policies to deal with poverty and the mal-distribution of income rather than expect that, in the near or distant future, labour markets will deal with these fundamental features of a market economy.

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Labour market policies, poverty and insecurity

Abstract

The article sets out to evaluate the performance of conventional labour market and social policies in the era of globalised labour markets in terms of poverty alleviation, equality and security. To this end, it develops a framework based on three key policy evaluation principles, centred on the normative notion of social justice, whereby the expansion of full freedom requires basic economic security for all. ~~The article is organised as follows:~~ After summarising main labour market trends, the article proceeds by analysing conventional labour market policies, targeted labour schemes, regulatory interventions and cash transfers as labour market policy.

Key words: labour markets, cash transfers, poverty, insecurity

Introduction

We are in the midst of a global transformation in which one of the most distinctive features is the painful evolution of a globalising labour market. This transformation testifies not only to the spread of capitalism to all parts of the world economy but also to the establishment of a particular variant of capitalism based on the belief that all markets should be flexible. There has accordingly been an international move to more flexible labour systems (Standing, 1999a) but, more broadly, for the first time in history, all groups in all societies are expected to face insecurity and accept risk [deleted hyphen] taking as a way of life.

The outcome has been heightened social and economic insecurity, and rising economic inequality. In particular, there has been a big shift in the functional distribution of income within countries and across the global economy, giving workers (labour) a reduced share and capital (profits) a much greater share. Personal income distribution has become more unequal, and wage differentials between those with tertiary schooling and others have also tended to widen.

It is increasingly accepted that these trends reflect the impact of globalisation and economic liberalisation rather than ~~the impact of~~ technological and structural changes that have raised the return to education. Policies focused on altering the characteristics of workers (to make them more 'employable') would thus not be the appropriate answer to the inequality and poverty associated with globalisation.

The article sets out to evaluate the performance of conventional labour market and social policies in the era of globalised labour markets in terms of poverty alleviation, equality and security. To this end, it develops a framework based on three main policy evaluation principles, centred on the normative notion of social justice, whereby the expansion of full freedom requires basic economic security for all. ~~The article is organised as follows:~~ After summarising main labour market trends, the article proceeds by analysing conventional labour market policies, targeted labour schemes, regulatory interventions and cash transfers as labour market policy.

Labour market trends

Before considering the advantages and disadvantages of specific labour market policies, it is worth summarising the main trends and challenges for the relief of poverty and insecurity in developing countries.

First and foremost, the global labour force has quadrupled since 1980. The increase in labour supply available for open labour markets has risen faster still, particularly since China and India have liberalised their economies, allowing multinationals to shift all or part of their production to extremely low-wage areas in which there is effectively an unlimited labour supply at existing wage rates. While the rate of increase may slow, the world's working-age population will continue to grow.

Second, ageing – and old-age poverty – is a global trend. Already most of the world's elderly live in developing countries. While labour market policies have understandably tended to pay more attention to the many millions of disaffected youth, policies to enable older people to have a dignifying livelihood will require a much higher priority in coming years.

Third, a majority of the world's population now lives in or around urban areas and, as part of that urbanisation process, various forms of migration are spreading. Much of the movement is linked to labour and the increasingly transient and precarious nature of labour relations. There has been a growth of international household chains, whereby millions of people migrate from low-income areas to perform menial labour in rich and middle-income countries, often leaving behind them structurally vulnerable households and families dependent on remittances.

Fourth, the global system is increasingly characterised by 'tertiarisation': most people in jobs are doing service activities, rather than agricultural, mining or manufacturing labour. Even in China and India, the two industrial workshops of the world economy, very rapid rates of industrial growth have not been associated with growth of manufacturing employment.

Fifth, the defining feature of the globalisation era has been the spread of informalisation. Far from being a residual destined to shrink as economies industrialised, informalisation has become pervasive. Large modern enterprises have been leading the way, by contracting out much of their labour function, using sub-contractors, casual labour and agency labour. In addition, partly driven by structural adjustment programmes, state enterprises in many countries have systematically contracted out large parts of their formal employment.

Labour informalisation is associated with precariousness, lack of labour contracts and widespread illegality. On average, incomes and wages are much lower for informal labour (see e.g. Fundação SEADE, 2005; Sengupta, Kannan & Raveendran, 2008). However, it would be a mistake to interpret informalisation simply as chronic impoverished under-employment, a distinct and homogenous ‘informal sector’. Informalisation increasingly applies to jobs associated with formal enterprises, and many people work informally by choice.

Sixth, another feature of the globalised labour system is global feminisation (Standing, 1989, 1999b). This reflects a double trend – a spread of precarious forms of labour and a relative growth of employment of women, the latter partly reflecting the restructuring of employment and labour towards the sort of jobs traditionally taken by women.

Conventional labour market policies

What we might call conventional labour market policies were developed during the course of the twentieth century as part of welfare state capitalism, based on an ‘industrial citizenship’ model linking social entitlements to holding a formal job. They include minimum wage policy, unemployment insurance benefits and labour market training schemes, as well as schemes to promote various forms of mobility – geographical, occupational and social. Implicit is the assumption that jobs are there to be had, if not now then in the near future.

With all forms of labour market policy – and social policy in general – there has been insufficient evaluation of their effects and effectiveness. This is particularly true for policies that have been tried in developing countries. In some cases, there is what should be described as monitoring, but not evaluation. Thus, official statistics may show that 1,000 workers were covered by a wage subsidy, leading some commentators to claim that the subsidy generated

1,000 jobs, whereas the workers or firms benefiting from the subsidy may simply have displaced others not receiving the subsidy.

A further difficulty with evaluating labour market policies is that they usually have several and sometimes conflicting objectives. For instance, they may be rationalised as instruments for reducing poverty or unemployment and as instruments for improving economic growth and productivity. But which of those objectives has priority? If short-term growth and productivity improvement were uppermost, the policy might concentrate on raising the employment of the highly educated and others with formal skills, since their short-term productivity would be greater than would be likely among the poor and less educated. Indeed, in some cases, laying off workers would be a way of raising average productivity and boosting profitability and growth; this was a deliberate policy pursued by the Chinese government in the 1990s.

We shall consider the main pillars of labour market policy from the vantage point of poverty alleviation, coupled with certain policy evaluation principles. The principles are elaborated elsewhere (ILO, 2004; Standing, 2002) but, for our purposes, the three most important are:

- A policy is socially just only if it improves the security and work prospects of the least secure groups in society (*the security difference principle*);
- A policy is socially just only if it does not impose controls on some groups that are not imposed on the most free groups in society (*the paternalism test principle*);
- A policy is socially just if it enhances the rights of the recipient of benefits or services and limits the discretionary power of the providers (*the rights-not-charity principle*).

[Removed bullet. Need to leave space before this paragraph.] First, we may make a few remarks on direct regulatory interventions with respect to child labour and discrimination.

Child labour policy

Child labour and poverty are obviously closely related. Very poor communities with limited resources usually rely to some extent on the work input of children. It is often not easy to ban child labour of all kinds in these societies. In recent years, the International Labour Organisation has modified its stance and its International Programme for the Elimination of Child Labour (IPEC) has pursued a policy of banning the most hazardous forms of child labour.

Such labour threatens children with permanent impoverishment, as well as injury and illness. However, the optimum way to curb child labour is to give families adequate economic security and incentives for them to ensure that their children enrol and attend primary and secondary school. Schemes such as the *Bolsa familia* in Brazil and *Oportunidades* in Mexico, whereby mothers receive a monthly basic income on the condition that their children attend school, have shown themselves to be ~~much~~ more effective in tackling child labour and in reducing poverty than simple bans, even though reducing child labour has not usually been an explicit objective (Understanding Children's Work, 2010, pp.93-95; United Nations, 2007, pp.58-64).

Anti-discrimination measures

All countries experience patterns of discrimination in the allocation of labour and work, for example, against women, migrants or ethnic minorities. Measures to combat discrimination are essential tools against poverty and inequality. But too often laws are passed and then grossly inadequate resources are devoted to ensure that they are effectively implemented.

One consequence of the ideological onslaught on public expenditure around the world has been the rundown of labour inspectorates. Poorly paid labour inspectors are subject to bribes and threats, and cannot monitor discriminatory practices and such matters as non-payment of wages, and neglect of health and safety procedures. Anecdotal evidence suggests that numerous workers in Asia, Africa and Latin America are impoverished by non-adherence to basic labour laws. A simple but rather overlooked policy that appears to have been successful in Brazil (Seidman, 2010) would be to pay labour inspectors higher wages and benefits, improving their quality and enabling them to resist 'backhanders' and other forms of pressure that make them so ineffectual. They play a small, unglamorous role in limiting labour market poverty.

Minimum wages

Statutory minimum wages really only work moderately to reduce poverty in industrial labour markets where formal employment is high and collective bargaining is widespread. Although they still exist in many countries, they have dwindled in their effectiveness. They are hard to apply in flexible informal labour markets, and require institutions to monitor them.

Critics have long claimed that minimum wages hurt rather than help low-skilled, low-productivity workers, who make up a large proportion of the poor in most countries. If minimum wages are set at subsistence level, low-skilled workers are either excluded from employment or are employed only in unregistered activities, leaving them vulnerable to exploitation and a lack of protective safeguards. Yet the critics surely exaggerate the negative effect of minimum wages, if only because they cannot be and are not effectively implemented. They may, at best, provide a standard of decency, to guide employers and workers on what would be fair and reasonable. That in itself is reason enough to maintain them.

Unemployment benefits

Unemployment insurance benefits, where employees paid contributions or had them paid for by their employers, were conceived in the late nineteenth century, and spread to all industrialised countries in the early decades of the twentieth century. Attempts were then made to introduce them to developing countries, with very limited success. In the rich welfare states, benefit schemes started to diverge in the 1970s, with some countries moving to unemployment assistance (means-tested benefits given to those who could demonstrate that they were both poor and involuntarily unemployed) and others adopting workfare-type schemes (benefits provided only on the condition that the recipient complied with some behaviour linked to the labour market, such as taking a low-status, low-paid job or entering a labour market training scheme).

~~The fact is that~~ Old-style unemployment insurance benefit schemes are thus rapidly disappearing in industrialised countries and very few developing countries have functional unemployment benefit systems at all, one exception being the Republic of Korea. In most of those that have some scheme, only tiny minorities of the unemployed have entitlement to benefits. There is no reason to believe that, in the foreseeable future, state-based unemployment protection could become an effective weapon against poverty and labour market marginalisation in developing countries.

Social insurance versus social assistance

The underlying principle of social insurance has been that contributions, whether paid by employers or employees, would match benefits paid out, making the system fiscally neutral. In the process, a loose system of social solidarity would be established, with those fortunate enough not to need benefits subsidising those who did need them. Benefit entitlements would be determined by contingency risks, linked to unemployment, illness, maternity and so on.

Even in the rich industrialised countries, it has not worked out quite like that, and in developing countries social insurance has failed dismally as an anti-poverty policy. In flexible labour markets with high levels of informality, only very small proportions of the labour force are covered by social insurance schemes. Indeed, they are regressive since, to the extent that they work at all, they provide benefits and protection for higher-income employees. Social insurance contributions are easy to avoid in informal labour markets, while for many workers in casual or informal economic activities building up entitlements can be practically impossible.

The trend in industrialised countries has been to shift towards much greater use of social assistance in determining entitlement to benefits, through means testing and so-called 'targeting'. Advocates of moving further in this direction claim that determining who is poor by checking on their income will direct benefits to the poorest, and that such targeting will ensure good use of scarce resources and help legitimise tax-based social transfers with middle-class voters.

All parts of that argument are dubious. Evidence shows that means testing is costly to undertake and notoriously inequitable and inefficient (see ILO, 2004 and sources cited there). In developing countries, it is very hard to define or measure the poverty line reliably and meaningfully, and whatever measure is used the take-up rate is very low. Those who do manage to receive such benefits are often the near-poor rather than the poorest. And means testing produces severe poverty traps, since anybody who begins to earn income risks losing the benefit. There are other objections, including the stigmatizing effects of such schemes. And ultimately they turn out to be discretionary, since local bureaucrats and politicians can manipulate them to give to those they wish to support and exclude others.

Labour market training

Training is often regarded as the definitive 'active' labour market policy. The common belief is that an important source of poverty and unemployment is a lack of skills and inadequate training schemes. Yet the evidence for this is scarce.

For one thing, statistics on the possession of skills are rare. Most of the available information refers to the distribution of jobs and the numbers having primary, secondary and tertiary schooling, both very crude indicators of skill. There is also little convincing evidence that skill shortages are major impediments to economic growth, or a critical barrier to poverty alleviation.

Labour market training refers to government schemes. In some cases, the government funds a training centre and funds the attendance of trainees, giving them a stipend or simply subsidising the training costs. Such schemes tend to suffer from an understandable pattern of 'creaming', whereby most of the trainees - particularly most of the trainees who successfully complete the training course and who subsequently obtain employment - are not from the poorest groups in society.

In the other, more popular, type of training scheme the government or donor provides a subsidy to firms to provide more training. This policy suffers from three major drawbacks. First, the training is unlikely to be provided to the most disadvantaged and poor groups, since they are likely to be perceived as the hardest to train and the least likely to yield a high rate of return to the employer. Second, the schemes are likely to have a large deadweight effect, that is, the subsidy will be provided to firms that would have done the training anyhow. And third, they are likely to have a large substitution effect (or displacement effect), that is, they are likely to result in firms substituting workers receiving the training subsidy for other workers or trainees ~~who are not doing so~~.

More broadly, there has been an international trend towards shaping educational policy in general in the direction of 'human capital' formation. Universities and colleges are being encouraged to focus increasingly on preparing young people for jobs. There is also a strong trend towards the privatisation and commercialisation of schooling at all levels, not just at the tertiary end of the spectrum. These developments are controversial, since they are transforming the nature of education, eroding it as preparation for life and culture in the narrower interest of 'employability', and making schooling a matter of investment and so more selective of those who can pay and of those interested in subjects that promise a market return.

State pensions as labour market policy

Old-age and other pensions might not be seen as labour market policy. However, their existence and design are crucial determinants of patterns of work and labour as well as the extent of old-age poverty and the income status of others receiving a form of pension, such as those qualifying for disability benefits.

The story of pensions in the globalisation era is fairly clear. There has been shrinking coverage by defined-benefit contributory schemes around the world. Instead, governments and corporations have been shifting to defined-contribution schemes, while many more workers are finding that they have no state or corporate pension linked to their employment. In developing countries, only tiny minorities receive adequate corporate (so-called occupational) pensions or public sector pensions.

Instead, the two types of schemes that have spread are individual savings accounts, as developed in Chile in the 1980s and ~~has been~~ copied to a certain extent in many countries since then, and so-called social pensions. Whereas the Chilean experience has demonstrated clearly that the individualised defined-contribution route leads to greater old-age inequality and poverty among a large proportion of pension-age people, social pensions offer a realistic means of lowering poverty, not only among the elderly but also among their younger relatives. There is convincing evidence (reviewed in Standing, 2007, 2008) that they have had a positive effect in reducing poverty and community deprivation in countries such as South Africa, Namibia, Nepal and Mauritius. ~~(for a review of evidence, see Author, 2007, 2008).~~

By definition, social pensions are universal and rights-based. Where they exist they result in a very high take-up rate, in excess of 90 per cent of the age group, which compares extremely well with all other types of pension scheme. They offer a social protection floor and they are also an effective redistributive fiscal instrument. In South Africa, for instance, it has been argued that the basic old-age pension has been the only effective means of reducing income inequality in the country (Case & Deaton, 1998). Social pensions have also proved to be affordable, admittedly partly because of the low amount of income provided but partly also because of the low administrative cost. Moreover, they have the rather valuable property of transparency, in that everybody knows what should be paid and who is entitled, making political or bureaucratic corruption harder.

~~Evidence shows that S~~ocial pensions can and do help fund the schooling and nutrition of grandchildren (see HelpAge International, 2006, and sources cited there). They ~~also~~ help elderly people participate in the economy, and enable families in rural areas to take risks by buying seeds and fertilisers, knowing ~~that~~ they have a regular source of income on which to rely. As such, social pensions have beneficial effects on livelihood regeneration. They also score highly on the three key policy evaluation principles, reaching those in most need, being non-paternalistic (no behavioural conditions) and being based on rights rather than discretionary acts of state or private charity.

Targeted labour schemes

The world has accumulated vast experience and knowledge about selective or targeted labour market schemes. We may focus on four types of schemes that have figured in many developing countries – food-for-work schemes, public works, employment and wage subsidies, and microcredit and finance.

Food-for-work schemes

Under this rubric we may include all schemes that offer participants some specific commodity in return for labour. It has usually been food, but in some cases it has been clothes or other items. The distribution of food ~~parcels~~ in return for labouring on an infrastructural project has been an instrument of state policy for many generations all over the world. Some countries have relied very heavily on food-for-work schemes. In Ethiopia, for instance, albeit an extreme case, the government has devoted 80 per cent of its food assistance to food-for-work projects.

The primary claim is that such schemes effectively target the poor: they are self-selecting, since they require applicants to go and queue for opportunities. And like all direct employment measures of the workfare kind, they are relatively easy to legitimise among the middle class, who can see people working for their food. It is also argued that such schemes can be relatively easily focused on pre-determined vulnerable groups, notably women. Indeed, the World Food Programme, which has been a major player behind food-for-work schemes, has required governments to make women the principal beneficiaries.

The main shortcoming of food-for-work schemes is the onerous labour often involved so that those working in the heat and dust use up more calories than they gain from the food given to them at the end. The schemes may actually be detrimental to participants' health, particularly women, as has been observed in Ethiopia, India and Nepal (Osmani, 1997; Quisumbing, 2003).

Besides being inefficient and rarely producing much of lasting value, another failing of food-for-work schemes is the powerful tendency for officials to misappropriate the food, either for their own consumption or, more often, to sell it for profit. A study of the National Food for Work Programme in Andhra Pradesh, India, found that in the villages examined, the proportion of rice misappropriated by politicians and bureaucrats varied between 49 and 98 per cent (Dreze, 2006).

It is doubtful whether food-for-work schemes are an appropriate policy for promoting livelihoods except in extreme circumstances. They are unlikely to reach the most desperately in need and they are obviously paternalistic, presuming that what is missing is food. They are also more consistent with charity than with the extension of human rights.

Public works

Public works have a hallowed place in both development policy and anti-unemployment strategies. As social policy, public works are often presented as self-selecting or self-targeting, on the grounds that only those who are desperately in need of income will offer their labour. And it is often claimed that public works not only bring the poor up to or above some poverty line but also help to lower wages in the labour market.

Public works can and often do create some infrastructure. The question is whether the results are sustainable, durable or more efficient than other ways of producing such infrastructure. There are too many stories of shoddy output from public works, with roads hastily and cheaply built being washed away by the first heavy rains. This is particularly likely where the objective of maximising employment leads to highly labour-intensive methods based on unskilled, poorly supervised and ill-trained labour.

A related criticism of public works is that they tend to be predominantly short-term ‘make-work’ schemes. Productivity is low, and the labour is temporary, so they do not provide either value for money or sustainable employment. Inefficiency is compounded by high administrative and monitoring costs, which severely cut the proportion of funds spent on public works that goes to the intended beneficiaries. ~~It is generally estimated that, o~~Of all forms of social protection, public works have the highest administrative and other non-wage costs as a share of total expenditure (see e.g. Betcherman, Dar, Luinstra & Ogawa, 2000, pp.16, 22; Samson, van Niekerk & MacQuene, 2006, p.112).

It is also clear that often there are large-scale substitution and deadweight effects. In other words, those employed on public works may merely displace others doing the same work for private firms, or they may be doing something that would have been done anyhow.

Another criticism is that the degree of effective targeting is, in practice, very limited. The usual objective is to provide labour for the poorest and for the unemployed in greatest financial need. However, numerous evaluation studies have found that this is not what usually happens (see e.g. Chirwa, 2007; ILO, 2004, pp.371-2; Jha, Bhattacharyya & Gaiha, 2009).

. One obvious problem is that public works discriminate against labour-constrained households. Another is that those living far from the worksites have the greatest difficulty in taking the available work opportunities. And those with disabilities are least likely to be able to do the work on offer. Women, in particular, are often penalised because of severe time pressure due to their other work demands in and around the home.

This bias against women can be countered by design changes, as in the *Zibambele* scheme in South Africa, where 93 per cent of participants were women (McCord, 2004; Samson et al., 2006). India's Mahatma Ghandi National Rural Employment Guarantee Scheme (NREGS) has established anti-discrimination provisions, access to on-site childcare and worksites close to the homes of potential participants. However, similar provisions were included in the long-running Maharashtra Employment Guarantee Scheme, on which the NREGS was modelled, and which still has only a minority of women among its participants, even though many more women have traditionally been registered in the scheme (Gaiha & Imai, 2005).

Even if public works do succeed in exclusively targeting the poor, they may create poverty traps, with all the moral and immoral hazards that these entail. Immoral hazards arise from an inducement to lie in order to qualify for participation in a scheme. In very poor communities, the poor and vulnerable will have an interest in staying just below the poverty line or at least appearing to do so, simply in order to qualify for the available income-support scheme on offer. This is surely a perverse incentive.

Another controversy centres on the wages paid to participants in public works. Many supporters believe the schemes should pay decent wages, or the market wage rate. Often, the wage is determined by that prevailing for agricultural manual labour, which is supported by some economists (Ravallion, 1999). Others have said the wage should be below the market wage (Hirway & Terhal, 1994; Subbarao, 2003), and some argue that schemes should pay at or even below the minimum wage, as a means of self-targeting the poor.

Certainly, the Maharashtra Employment Guarantee Scheme (EGS) long limited participation with a low minimum wage, which was how it maintained its claim to 'guarantee' work for all those applying. Once the courts ruled that it had to pay the official minimum wage, and particularly after the minimum wage went up, the scheme had to ration labour, ceasing to be a 'guarantee' (Subbarao, 2003).

As with other cash-for-work schemes, if the wage is set below subsistence it offends principles underlying minimum wage laws, and may intensify poverty (McCord, 2005). And if the objective of paying sub-subsistence wages is to induce self-targeting, the result may be the opposite of what is intended, because it may mean that only those with access to some other source of income can afford to take the low-paying public works jobs. Most perversely of all, paying sub-subsistence wages may actually worsen the poverty of the participants if they are induced to give up other forms of work, and if this disrupts structured livelihood systems in local communities.

For example, in the public projects in Malawi, the wage was set at the equivalent of US$0.30 per day. An evaluation study commissioned by the government found that the very low wages were ineffective in recruiting the very poor, while participants risked greater poverty as a result of the hard manual labour that required more food, leaving them more exposed to malnutrition and healthcare needs (Chirwa et al., 2004). Poor labour-constrained households may be unable to take very low-wage jobs because they would have to give up other essential domestic and subsistence activities.

Paying low wages on public works also tends to lower the average wage in other jobs in low-income areas. Perversely, this could result in more widespread impoverishment by depressing family incomes. Moreover, many public works schemes have been dilatory in paying workers. In the Malawi scheme, delays in payment went on for months, resulting in indebtedness and considerable local distress (Chirwa, McCord, Mvula & Pinder, 2004).

Public works are very prone to political capture. Thus, it has been persuasively argued that the Maharashtra EGS benefited the *kulak* lobby and the Maratha elite (Herring & Edwards, 1983; Patel & Mayda, 2006). Alongside such tendencies, there is likely to be bureaucratic capture, with local bureaucrats taking a financial cut in allocating work opportunities.

However, the most damning criticism of public works is that they tend not to benefit the poorest and most economically insecure. Only about 30–40 per cent of the total public expenditure on the Maharashtra EGS reached the poor (Ravallion, 1991). Some other schemes may have fared somewhat better, but there can be little doubt that the leakages are substantial, due to ineffective targeting, expensive administration, corruption and inefficient implementation.

In 2005, the Indian government launched the most ambitious public works scheme of all, the Mahatma Ghandi National Rural Employment Guarantee Scheme (NREGS), to 'guarantee' employment to the rural poor, with each poor household guaranteed 100 days of employment per year. In 2010, the government claimed the scheme had provided employment to 49 million rural households in the most recent fiscal year, with 70 per cent of works related to water and other environmental projects (Jha, 2010). While NREGS has been held up ~~by the Government~~ as a great success, it does not appear to have overcome the criticisms outlined above, including costly administration, corruption and nepotism, exclusion of certain groups and creation of poor quality non-sustainable jobs.

In sum, while public works will remain popular as part of job creation efforts, they are dubious on several counts. The jobs are often not allocated to the most insecure and poorest. The schemes are also paternalistic, in that officials decide what is to be done and, usually, by whom and on what basis. It is also doubtful whether public works satisfy the rights-not-charity principle, since they are, at best, a way of giving discretionary entitlement to selected individuals or households or communities.

Employment subsidies

The use of employment subsidies has been advocated in a number of developing countries. The ostensible rationale is that, if employers are offered a subsidy for the extra jobs they create, total employment will increase. Moreover, in addition to boosting demand for labour, they help the low paid obtain jobs. It is supposed that these workers do not obtain jobs without subsidies because their potential productivity is below the market wage. Less widely publicised, subsidies are intended to boost certain sectors and, often, to help export industries or strengthen sectors threatened by imports.

However, employment subsidies typically twist the demand for labour towards less-skilled, lower-paid labour. In doing so, they may well encourage labour-intensive production that results in lower productivity in general and even technological stagnation. This is scarcely conducive to long-term growth and development. Moreover, labour subsidies not only encourage the inefficient allocation of labour and distort relative prices, but are also likely to be a subsidy to capital rather than to workers. They allow firms to pay lower wages, knowing that the incomes of workers are being topped up by the subsidy, or allowing them to retain the subsidy for themselves.

Employment subsidies tend to discriminate against older, well-established firms in favour of new, growing firms. This is intrinsically inequitable, since it penalises firms that have been providing employment for some time relative to newcomers. This could merely result in a substitution of subsidised jobs in new firms for non-subsidised jobs in older firms. The net effect on jobs could thus be minimal.

In the global context, labour subsidies could become an issue before the World Trade Organisation as an unfair trade practice. Among the biggest subsidy schemes are earned-income tax credits, developed on a vast scale in the USA and copied in various forms in Western Europe. They may not be deliberately selective of export or import sectors, but there can be little doubt that, at the margin, they influence national competitiveness.

Labour subsidies do not satisfy social justice principles either. In practice, they tend to go to the near-poor, rather than the most insecure, *if* they do not merely go to capital rather than to labour. They also go to support paid employment, rather than to all forms of work, including non-wage economic activities and care work.

A final comment on subsidies must be emphasised. The world is awash with them. ~~Yet most economists recognise that they encourage inefficiency and tend to go to capital rather than to workers and the poor.~~ When commentators say that the state cannot afford more transfers to the poor, or more social spending in general, they should be reminded that, even in developing countries, on average subsidies to the rich reach as much as 5-6% of total GDP. Labour subsidies are not good for global trade or development, and rarely reach the poor.

Microcredit and microfinance

Microfinance and microcredit have become hugely popular as development tools. In 2006, the Nobel Peace Prize was given to the founder of the Grameen Bank, the leading provider of microcredit, which has a long history in Bangladesh.

The primary feature of microcredit schemes is the provision of small loans to the poor and vulnerable, as start-up capital for small business activity to set up micro-enterprises or to become self-employed. Group lending is encouraged, and the outstanding aspect has been the heavy orientation of lending to women.

Advocates of microcredit claim that it encourages participatory involvement, and is self-targeting and empowering. Some schemes appear to have a good record of reimbursement; others much less so. Crucially, for those concerned with the promotion of livelihoods, microcredit has been seen as a means of tying people over during periods of economic difficulty, thereby providing informal insurance, preventing a collapse of small-scale businesses and a drift into unemployment.

The main concerns associated with microcredit schemes are their sustainability, their limited scope and their proneness to governance failure. Some believe that they are too small to deal with systemic shocks and systemic risk. They are also criticised for creating a new form of dependency, drawing the near-poor to rely on the microcredit institution for a series of small loans (Kabeer, 2001). It should not be overlooked that credit is rarely a way out of poverty, simply because borrowing implies a debt that has to be repaid.

There is also a question mark about the ability of microcredit schemes to reach the very poor, since those working in what has been called the ‘mini economy’ require such small amounts of money that even the microcredit institutions cannot handle the sums, due to standardized administrative and monitoring costs (Matin, Hulme & Rutherford, 1999). And there are questions about the cost and sustainability of group loans, which require group meetings, group pressures and associated costs (Besley & Coate, 1995).

Most worrying of all is the suggestion that, rather than empowering women, microcredit may actually reinforce patriarchal subordination of women (Goetz & Sen Gupta, 1996; Rahman, 1999). The suggestion is that women are induced to over-extend their work commitments, putting them under more pressure.

Finally, many observers have questioned the sustainability of microcredit institutions without the large donor assistance they have long been receiving. And it appears that there has been a drift away from the original idea of 'group lending with joint liability' towards conventional individual lending and, in the process, a move away from a focus on the poorest and most economically insecure.

Regulatory interventions

Numerous economists and commentators have advocated labour market de-regulation, claiming that there has been an international move to de-regulated markets. This is far from being the case. The period of globalisation has been one in which more new regulations have been introduced than at any time in human history.

In fact, it has been an era of labour re-regulation, in which many of the institutions and protective regulations built up in the first three quarters of the twentieth century have been whittled away and replaced by new types of regulation. These have tended to be pro-individualistic, more favourable for corporations than for employees, or more directive, selective and conditional in character.

The country where the thrust of new labour regulations has been most clear is China, as it has gone about the business of fashioning a national labour market. The emerging regulatory framework will have repercussions for the global economy, simply because China has become one of the two industrial workshops of the world, along with India, which has also been re-regulating its labour relations, encouraging labour market flexibility and revising its labour law.

Cash transfers as labour market policy ~~for beating poverty and insecurity~~

The dominance of social democratic thinking in social policy and neo-liberal thinking in economic policy has combined to block thinking about the simplest way of all of responding to income poverty – giving people income in the form of money, as cash transfers.

For decades in the late twentieth century this was dismissed almost out of hand. Unconditional transfers in particular were regarded as a waste of money, unaffordable, conducive to sloth and socially irresponsible behaviour, and a denial of the famed reciprocity principle (something should only be given to someone if they give something in return).

Since the beginning of the twenty-first century, a remarkable turnaround in thinking has occurred. Humanitarian relief organisations have come to appreciate that the advantages of cash transfers include speed, transparency and the ability to allow those in need to make choices about how they spend the aid, thereby enabling them to retain a greater sense of dignity in times of crisis (Creti & Jaspars, 2006). Experience with such schemes has further highlighted their potential as anti-poverty devices (Standing, 2007, 2008).

In various countries in Africa and Asia, cash grants to households affected by emergencies such as crop failure or drought have enabled them to rebuild assets and regenerate livelihoods. A study of a pilot cash transfer scheme in Zambia, which gave a modest sum to very poor households, with no conditions on how it was spent, found that the money went predominantly on basic consumption goods, and education and healthcare for family members (Schubert, 2005).

It has been estimated that, if the Zambian scheme were scaled up to reach the poorest 10 per cent of households, the cost would be a mere 5 per cent of total overseas aid to the country, or about 0.5 per cent of Zambia's gross national income. In other words, a national scheme is financially feasible. It would be cheaper than food aid, and would have the advantage of going directly to the poor and vulnerable, without the high administrative costs and various forms of corruption associated with commodity-based schemes. And whereas food aid damages local food markets by deterring local producers, cash transfers do the opposite by helping to stimulate local markets. In Zambia, no less than 70 per cent of all social transfers are spent on locally-produced goods and services, thus generating local employment or livelihoods (DFID, 2005; Samson et al., 2006).

In Latin America, cash transfers to women with children have become a central part of social and development policy. Both the *Bolsa famila* in Brazil and the *Oportunidades* scheme in Mexico, and similar programmes in other parts of the region, have covered very large proportions of their populations, resulting in the generation of macro-economic demand for basic goods and services produced within the domestic economy. Importantly, far from encouraging idleness and discouraging paid employment, cash transfers have had the opposite effect, enabling women (and men) to take jobs outside the home (see e.g. Ardington, Case & Hosegood, 2008; Samson, 2008; Schwartzman, 2005).

The scope for cash transfers in Africa, Asia and Latin America has thus been recognized as a significant means of non-contributory social protection and enhancement of work opportunities.

Concluding remarks

Most labour market interventions in developing countries have suffered from common failings – a lack of transparency, high fiscal cost, a woeful lack of accountability, chronic inefficiency in the sense of misuse of resources and in reaching those for which the schemes are intended, an extraordinary record of failure to reach the poorest and most insecure, and a failure to reduce inequalities in the labour market. Often the expenditure fosters corruption and results in much of the benefit going to groups that are less in need. And yet hope seems to spring eternal. In particular, developing countries are still being encouraged to look to yesterday's mechanisms of industrialised countries. Many continue to refer to 'the Swedish model' as a system that is both desirable and feasible as if it were still in existence.

The real message should be that labour market policies are better at helping labour markets function more efficiently in various ways than in overcoming poverty and economic insecurity. Labour markets are part of the broader economic system. Policymakers would be better advised to look to social policies to tackle poverty and the mal-distribution of income rather than expect that, in the near or distant future, labour markets will deal with these fundamental features of a market economy.

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