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Labour Market Policies, Poverty and Insecurity

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Summary[1]

Globalising labour markets reflect an international move to more flexible labour systems which has resulted in the growth of various forms of social-economic insecurity and inequality. In particular, distribution of income at global, national and personal level has become more unequal, benefiting capital much more than labour.

The main trends and challenges that social and labour market policies should address include population ageing, migration and urbanisation, de-industrialisation and the increasing importance of the service sector, the spread of informal employment especially among women and unemployment. All these trends have an impact on poverty and inequality to different extents.

The paper sets out to evaluate the performance in terms of poverty alleviation of conventional labour market and social policies and arrangements in the era of globalised labour markets. To this end, it develops a framework based on five policy evaluation principles, centred on the normative notion of social justice, whereby the expansion of full freedom requires basic economic security for all.

Regulatory interventions with respect to child labour and discrimination are important tools against poverty and inequality although more resources should be devoted to ensure their implementation. Indeed, providing families with economic security and removing obstacles to school enrolment are much more effective ways of reducing child labour and poverty. Statutory minimum wages do not perform well where informality and flexible labour relations are widespread; however, they still provide a standard of decency for employers and workers to aim at.

Old-style unemployment insurance benefit schemes are disappearing even in industrialised countries and the prospects for their extension in developing countries are slim while, evidence on the impact of labour market training on poverty is scarce. More broadly, it is argued that both social insurance and means-tested social assistance forms of income support have failed to provide adequate and dignified protection to the majority of labour force.

More promising results have been yielded by social pensions, by definition universal and rights-based. They are easy to administer, transparent and affordable because of the low amounts provided; they have beneficial effects on livelihoods and social development. Their redistributive impact, however, is tied to the progressiveness of the tax system that funds them.

While food-for-work schemes may be appropriate in extreme circumstances, their drawbacks in terms of the paternalistic attitudes involved and of the negative effects on participants' health of certain types of onerous labour, make them inappropriate for promoting sustainable livelihoods. This is true also for public work schemes, especially where the objective of maximising employment leads to highly labour-intensive methods

[1] Thanks are due to several readers for their comments on the first draft.

based on unskilled, poorly supervised and ill-trained labour. In addition, public works have been criticised for ineffective targeting, substantial leakages, corruption and inefficient implementation. Furthermore, they tend to discriminate against women and people with disabilities, often without even paying decent wages.

Employment subsidies, though widespread globally, rarely reach the poor and distort global trade as they allow firms to pay lower wages; sometimes, they work more as a subsidy to capital than to workers. Since they are meant to support paid labour, other forms of work such as non-wage economic activities and care are excluded from this type of social protection.

Micro-finance and micro-credit have been enjoying huge popularity as development tools. Their focus on participation, empowerment – especially of women – and creating opportunities for small investments in self-employment and job creation have been underlined as very positive features. Still, concerns are raised as to the sustainability of the schemes and their limited scope in the face of systemic risk and shocks. In addition, they are criticised for creating a new form of dependency for poor people, as the credit obtained has to be paid back. Costs in terms of time and pressures should also be factored in when evaluating the sustainability of group loans.

Cash transfers offer a number of advantages in terms of speed, transparency and dignity as they recognise to beneficiaries the freedom to make choices on how to spend the money received. Evaluations of different cash transfer schemes in developing countries show that these forms of income support helped generate work and income security while at the same time enabling beneficiaries to make strategic choices for themselves and maintain their livelihoods even in difficult circumstances. Positive impacts on the accumulation of assets by household and on reducing the pressures to migrate in search of income have also been observed.

In conclusion, most labour market interventions reviewed have suffered from common failures such as lack of transparency and accountability, high costs, chronic inefficiency in terms of misused resources and ineffective targeting, thus failing most of the time to reach the poorest and to reduce inequalities in labour markets. They rarely meet any of the policy evaluation principles proposed in the paper. Yet, countries are still encouraged to use these conventional policies, which were developed in the context of industrialised countries.

The message is, thus, that not too much can be expected from labour market policies. These policies may help in making labour markets function better but their contribution towards overcoming poverty and economic insecurity can only be limited. Labour markets are part of the broader economic system: policymakers should look to social policies in order to deal with poverty and the misdistribution of income rather than expect labour markets to deal with these fundamental features of a market economy.

1. 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, testifying 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 under the loose term of globalisation. This is based on increasingly liberalised markets in all respects, most notably involving open markets in capital and technology that are currently more open than markets for labour.

An irony of recent theoretical and empirical research on social policy has been that the increasing resort to typologies and 'welfare regimes', principally by sociologists, has coincided with the global transformation that is accelerating the pace of international *convergence* of policies and institutions. It turns out that there is little *path dependency*, since governments of country after country are finding that they must adapt to global pressures. In countries such as Sweden and Finland, long regarded as epitomising particular social democratic systems lauded by social policy enthusiasts, institutions and labour market and social protection policies are rapidly changing and are being moved in the direction of means-testing and behaviour-testing selectivity. The famed "Swedish model" is a thing of the past. Meanwhile, the governments of China and India are rushing to make their labour markets more flexible, and policymakers there are using the same rationale as voiced in countries of western or eastern Europe, for example.

The bare stylised facts, described in section 3, are perhaps sufficient for this particular paper. Of most relevance, globalisation reflects an international move to more flexible labour systems, in which all forms of flexibility are gaining ground – external, internal or functional, wage system, etc. (Standing 1999a). But perversely the underlying economic model is based on the belief that all markets should be flexible. In effect, this is the first time in history when all groups in all societies are expected to face insecurity, and accept risk-taking as a way of life.

The outcome has been a growth in various forms of socio-economic insecurity and a dramatic growth of several forms of economic inequality, which show no signs of being reversed in the near future. In particular, the functional distribution of income within countries and across the global economy has shifted strongly, giving workers (labour) a reduced share and capital (profits) a much greater share. Personal income distribution has also become more unequal, and wage differentials between those with tertiary schooling and others have also tended to widen.

Although the matter is still controversial, 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. This is an important aspect of debates around labour market policies, since it suggests that policies to alter the characteristics of workers would not be the appropriate answer to the inequality and poverty associated with globalisation.

2. The Global Labour Market Model

Since the 1970s, the hegemonic economic model has been called 'neo-liberal', and has been guided by the Chicago school of law-and-economics and by the rather elastic notion of the Washington Consensus. As far as labour markets and policy are concerned, the dominant model of the period following the Second World War could be described as essentially neo-corporatist, with the expectation that protective labour law and labour regulations would spread to developing countries, that collective bargaining would cover more and more of the rising formal employment and that more and more workers would become employees in standard full-time employment and belong to trades unions. A regime of labour inspection, labour law and protective labour regulations was expected to sweep the world.

Since the 1970s, that world has been fading everywhere. Where it had hardly taken root, as in much of Africa, the changes in this period have actually been less than where it had developed rather extensively. The old model had offered a future of *industrial citizenship*; that is no longer seen as the future (Standing 2007a). If there is a dominant model at the moment, it is one geared to maximise labour informalisation and labour market flexibility, with state efforts to decentralise and individualise bargaining over all labour matters.

Although China has introduced new labour laws that give labour law a greater role, in other parts of the world labour law has been weakened, in terms of scope and implementation. It has proved inappropriate for the many forms of work and labour that lie outside the standard employment relationship, since in many flexible labour relationships the identification of the 'employer' and 'employee' is hard or impossible.

Meanwhile, protective interventions via labour inspection have been under-resourced, implicitly allowing employers more scope to flexibilise their labour relations. Many governments have taken the route, openly advocated by multinationals and national business organisations, as well as by international financial agencies such as the World Bank and IMF, to curb or even ban trade unions, thereby limiting freedom of association, freedom to bargain collectively and the right to strike. This is not a model of labour market *de-regulation*, but of systematic re-regulation. The essence of the re-regulation is the promotion of *competitiveness* and the systematic attempt to erode or block institutions and mechanisms that are collective and collaborative in character. This active promotion of competitiveness is the essence of what is commonly called *neo-liberalism*.

3. Labour Market Trends

Before considering the advantages and disadvantages of specific labour market policies, one should summarise the main trends and challenges that labour market and social policies should address. The issues selected reflect the focus of this paper, which is the relief of poverty and insecurity in developing countries.

Above all, the global labour force has quadrupled since 1980, and the increase in labour supply available for open labour markets has risen at a faster rate, 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. In the next three decades, the rate of increase may slow, but all commentators agree that, unless there is a human catastrophe of unprecedented proportions, the world's working-age population will continue to grow.

(a) Ageing

A first feature to note is that the demographic structure of the world's population has been changing in ways that must force policymakers to consider alternative interventions. In particular, *ageing* is a global trend. Already a majority of the world's elderly live in developing countries. It has been said that China will become 'old' before it becomes 'rich'. It is by no means alone in that. Responding to the impoverishment of the elderly is certainly not a developed country problem alone.

Certainly, there are many millions of disaffected youth in developing countries, particularly congregating in urban slums and thus capable of expressing collective anger. They tend to receive the bulk of attention from labour market policymakers - understandably, since they often pose a threat of taking to the streets. However, policies to enable older people to have a dignifying livelihood will surely come to have a much higher priority in coming years. It is to be hoped that the positive lessons to be learned from the prolonged experience with so-called *social pensions* in several developing countries, such as Namibia, Nepal and South Africa, will encourage governments to use them to a much greater extent.

(b) Migration and Urbanisation

Another key feature of the challenge ahead is that the 21st century will be the *urban century*, when for the first time in human history a majority of people of the world will be living in or around urban areas. As part of that process, various forms of migration are spreading, and much of the movement is linked to labour and the increasingly transient and precarious nature of labour relations. It is still insufficiently appreciated how much the various types of mobility affect patterns of poverty and inequality, and how migration patterns provide the context in which social and labour market policies have to be evaluated.

The current international mobility of the privileged and highly educated minority is extraordinary, with growing numbers of people circulating around the globe, many attached to multinationals or national or supra-national agencies. These are not the subject of this paper, but they have been shaping the perceptions and design of social and labour market policy.

More directly relevant is the growth of international household chains, whereby millions of people migrate from some low-income area in developing countries to perform menial labour in rich and middle-income countries, often leaving behind them structurally vulnerable households and families who become dependent on remittances. The role of remittances is important, since their sheer size – almost certainly chronically underestimated in official statistics – can bolster living standards for those fortunate enough to receive them, while possibly accentuating class differentiation in the low-income sending areas and in the typically more urban environments to which many migrants go.

While migration is likely to reduce poverty for many, and while we should be in favour of liberalising the movement of people globally, the challenge is to devise policies that address the adverse effects of human movement. In that respect, inevitably, the global growth of migration in its various forms has been associated with a huge growth in the number of people who are short-term residents wherever they are, often either *illegals* or *undocumented*.

It is insufficiently appreciated that much of the migration taking place in the world is between developing countries, and it has been a cause of social tensions in some of the in-migration countries, the latest case being South Africa. An estimated two of every five migrants are in developing countries (Ratha and Shaw 2005). More than two-thirds of all migrants from sub-Saharan African countries are in other parts of the continent.

The treatment of migrant workers is a growing source of impoverishment around the world. Almost certainly, the most glaring instance of this is in China. Many enterprises there simply do not enroll migrant workers in social insurance – thereby avoiding a sizable contribution wedge in the wage bill (over 30%) – and there is considerable anecdotal evidence that this is tacitly allowed by many local governments across China (Liu 2003).

Migration policy in both sending and receiving countries will influence poverty to an increasing extent. The globalising labour market requires more sophisticated interventions to regulate labour migration, not to restrict it. The knee-jerk reaction of some Third Worldists is that there should be unlimited migration from developing to developed countries. This would accord with a truly liberalised market system. Some economists have also estimated that if migration was liberalised the world economy would grow by some huge amount.

Let in some common sense. This would be politically explosive and would almost certainly lead to the opposite of what liberals would wish. Demagogues such as Le Pen and Berlusconi would be made heroes in countries in which migrants were seen to pose a threat to the established living standards of the working class and the precariat. Coercive social policy would soon follow. Migrants would be subject to discriminatory treatment, abuse and expulsion, and the flow of remittances that is so crucial in the fight against poverty and economic insecurity in developing countries would shrink.

Far better would be a gradual, regulated process by which investment would shift to countries in which real wages are lower because living standards and the cost of living are still lower, while migration to the rich industrialised countries increases at a pace that can be absorbed without being seen as lowering living standards of workers there.

Policies to facilitate labour circulation could also be beneficial. In that regard, the proposal by the European Union's Commissioner for Justice and Home Affairs, Franco Frattini, of a "Blue Card" (along the lines of the USA's Green Card) should be considered seriously. The idea is that it would ease the temporary in-migration of workers for specific jobs, with contracts drawn up before the migration. It could limit the super-exploitation and abuse of the more vulnerable and poorer migrants. It would spread a form of *gastarbeiter*, and might even lead to countries operating import quotas for foreign workers.

There would be drawbacks. But it must be recognised that any political solution would be a compromise. The fact remains that, just as unlimited capital mobility is conducive to economic instability, so unlimited labour mobility would be conducive to social instability and could easily foment xenophobia and unsavoury political extremism.

The European Union is planning to set up job centres in north Africa to offer a legal avenue for labour circulation into legal jobs in EU countries. It has started one in Mali. This is a pioneering labour market policy, which is best seen as an experiment that deserves careful monitoring before it is replicated in many other countries. Many questions arise. Should such agencies be required to operate on an efficiency or social equity basis? Should the costs be borne by the governments, the migrant workers or the employers of the migrants? Where should their incomes be taxed? Under which country's labour laws should they be protected? Should the agencies provide advisory services and social protection to the migrants? Where would legal liability lie, in case of injury or illness, or even false information as to qualifications or working conditions? Should the job centre operate an affirmative action function, opting to give priority to women or the poorest or members of disadvantaged groups?

There are no easy answers to such questions. But they must be asked and some answer should be given and be made transparent. There is a wider point here. Globalisation and the globalising labour process are changing the concept of citizenship and the patterns of income earning and income distribution. Innovative labour and social policy is and should be part of that process. In a sense, one may say that there is no longer social policy in one country; it is being globalised.

(c) Tertiarisation and De-industrialisation

From a structural point of view, the global system is increasingly characterised by *tertiarisation*, whereby most people in jobs are doing service activities, rather than agricultural, mining or manufacturing labour. Even in the two industrial workshops of the 21st century world economy, China and India, historically very rapid rates of industrial growth have not been associated with growth of manufacturing employment.

In many countries, there has been premature de-industrialisation, largely associated with people trying to survive by doing petty service activities that involve few or any barriers to entry, and thus allow extensive *under-employment*. But even aside from that well-documented phenomenon, more and more formal jobs are in service activities. This will continue to be the pattern and trend, and should be the reference point in designing modern labour market and social policies.

(d) Informalisation

This leads us to reiterate what has been the defining feature of the globalisation era, the spread of *informalisation*. In the first three-quarters of the 20th century, the expectation was essentially Ricardian and articulated in a famous article by Arthur Lewis published in 1954, whereby initial economic development took place with an unlimited supply of labour, epitomised by the steady transfer of workers from informal to formal employment at a constant real wage in the formal sectors (Lewis 1954).

By the 1970s, it was apparent that, even if that process had existed, it had broken down. Far from being a residual that would shrink as the economy industrialised, the so-called 'informal sector' was growing. Subsequent analysis and empirical study made clear that treating all those outside the modern formal economy as a homogenous sector was inaccurate and an impediment to sound policymaking. Informalisation was pervasive; in fact, large modern enterprises have been leading the way in informalising 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 systematically contracted out large parts of their formal employment, turning what had been the sector setting formal standards into far more informalised entities.

In sum, it is the formal standard employment relation that has been shrinking in many countries. That is the context in which 21st century labour market policies must be designed. The national labour model promoted by the ILO, based around the standard employment relation, is withering, and is extremely unlikely to be resurrected (Standing 2008b).

Labour informalisation is associated with precariousness, lack of labour contracts and widespread illegality, with most of the labour taking place in small establishments or in the streets. On average, incomes and wages are much lower for informal labour (see, e.g., Sengupta et al. 2008; Fundação SEADE, 2005). But it would be a mistake to interpret informalisation as merely chronic impoverished under-employment, since many formal enterprises are rapidly informalising large parts of their employment, while many people actually chose to work informally.

(e) Unemployment

Unemployment tends to be the phenomenon that receives most attention from labour economists. This remains a contentious subject. In developing countries, open unemployment remains a poor indicator of the incidence of poverty, and the open unemployment rate is often a thoroughly misleading indicator of the state of the labour market (ILO 2004; Standing et al. 1996). In some cases, a rise in open unemployment may be a sign of an improvement in the underlying labour situation. Open unemployment would tend to rise if there were benefits on offer and if there were opportunities to register at labour exchanges, whereas in many low-income economies and communities people who would otherwise emerge as unemployed eke out an existence through extremely low-productivity activities, including begging.

The fact that the open unemployment rate is not a reliable indicator of poverty should not be taken to mean that unemployment is not serious, or that many of those who are in a status of unemployment are not suffering considerable economic hardship and a stigmatising existence. However, it is noteworthy that in many developing countries the incidence of open unemployment is higher for relatively well-educated youth from middle-class households and communities. Part of the reason is that they can rely on family members to provide them with some support and part of the reason is that they tend to live in urban areas. The poorest cannot afford to be openly and fully unemployed.

(f) Global feminisation

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.

Some distinguished economists have interpreted rising female labour force participation as a sign of women's liberation and sense of agency. This is simplistic. Many young women have been driven to migrate into export processing zones, to take onerous jobs and to send back remittances to rural families. Often they have suffered long-term ill-health and have been exposed to social illnesses of various kinds, as when they are driven into prostitution, drug addiction and alcoholism. There is also plenty of evidence that many women who enter the labour market in low-income economies do not receive all the income they earn. Particularly when working as outworkers, they are subject to various mechanisms of control, by family members or middlemen, whereby much of the income is taken away (ILO 2004). Ensuring that they can retain the income they earn would be one of the most effective labour market policies of all.

4. Conventional Labour Market Policies

What we might call conventional labour market policies are those that were developed during the course of the 20th century as part of welfare state capitalism. These included *minimum wage* policy, unemployment insurance benefits and labour market training schemes. They also cover schemes to promote various forms of mobility – geographical, occupational and social.

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. For example, statistics may be produced on the number 'covered' or the number of participants in a particular policy or scheme. These do not constitute sufficient indicators for an evaluation of their effectiveness, although they are almost certainly necessary information. Thus, official statistics may show that 1,000 workers were covered by a wage subsidy. Some commentators may use that sort of figure to claim that the subsidy generated 1,000 jobs. A moment's reflection should be enough to realise that such statements are naïve or disingenuous. 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 objectives, some of which may be in conflict with others and some of which may be unstated by the policymakers. 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 actual 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. Of course, the beneficiaries in such circumstances would be unlikely to be the desperately impoverished. 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 persued by the Chinese Government in the 1990s. Many workers who had been in chronic unpaid under-employment eventually emerged as unemployed or were absorbed in private employment. The 'success' of the policy could not be measured by the change of unemployment.

The important point is that evaluation should be based on clear and specified criteria. As developed elsewhere (ILO 2004; see also, Standing 2002), if respect for economic and social rights is uppermost, one could argue that all policies should be assessed by whether or not they satisfy the five Policy Principles that are summarised in the Box below.

Five Policy Evaluation Principles

In evaluating any policy, five principles could be used to determine whether it advances social justice. Briefly, these are as follows:

1. <u>The Security Difference Principle</u>

A policy or institutional change is socially just only if it improves the security and work prospects of the least secure groups in society.

The Security Difference Principle stems from Rawls (1973), who from a liberal philosophical perspective essentially argued that social and economic inequalities are socially just only if they allow for the betterment of the worst-off groups in society.

2. *The Paternalism Test Principle*

> *A policy or institutional change is socially just only if it does not impose controls on some groups that are not imposed on the most free groups in society.*

Underlying this principle is the Millian liberal view that there is a prima facie case against paternalism (except in the case of young children and those who are medically frail), particularly against those forms that constrain the freedoms of the disadvantaged.

3. *The Rights-not-Charity Principle*

> *A policy or institutional change is socially just if it enhances the rights of the recipient of benefits or services and limits the discretionary power of the providers.*

This principle is also crucial for evaluation purposes. A right is possessed as a mark of a person's humanity or citizenship, and cannot be made dependent on some behavioural conditionality. Social and economic entitlements should be rights, not matters for the discretionary decisions of bureaucrats or philanthropists or aid donors, however well meaning they may be.

The "right to work", much discussed and asserted for the past 150 years, is relevant here. One cannot sensibly say that there is a right for every person to be given a job of their unrestrained choice. Not everybody can be President or Chief Executive. What one could defend is the principle that everybody should have a claim right to an equally good opportunity to pursue and develop their work capacities and competencies. Guaranteeing people 'jobs' that they do not want is scarcely an affirmation of any right to work. But creating the space, the security, for them to pursue a dignifying working life surely is.[2]

4. *The Ecological Constraint Principle*

> *A policy or institutional change is socially just only if it does not involve an ecological cost borne by the community or by those directly affected.*

[2] For a definition of the right to work along these lines, see Article 1 of Title 1 of the Charter of Emerging Human Rights, adopted at the Barcelona Social Forum in November 2004 (Institut de Drets Humans de Catalunya 2004).

Any policy, such as transfer schemes or job creation schemes, should be subject to the constraint that they should not deliberately or wilfully (carelessly) jeopardise the environment. In this context, for instance, one could argue that subsidies intended to boost skills, employment or job-creating investment should be modified to promote only ecologically beneficial work and skills.

The ecological constraint principle raises emotional reactions, with claims that any such condition is a protectionist device that penalises developing countries, forcing them to slow economic growth and incurring costs that hinder development. Regrettably, in the coming decades, global warming and other forms of pollution – including many emanating from poor working conditions in the specious interest of job promotion – will hurt many more people in developing countries and do so more devastatingly than in most rich parts of the world. The principle must be respected everywhere.

5. The Dignified Work Principle

> *A policy or institutional change is just only if it does not block people from pursuing work in a dignified way and if it does not disadvantage the most insecure groups in that respect.*

The two-part test in this principle involves two implicit value judgments – that work that is dignifying is worth promoting (whereas any deterioration in working conditions or opportunities would not be), and that the policy should enhance the range and quality of work options of the most insecure groups relative to others, or more than for others. While this may seem complicated, the main point is to determine whether or not a policy favours the development of more freely chosen work opportunities and work capabilities.

In sum, policies and institutional arrangements can be evaluated via five policy principles. Identifying trade-offs and setting priorities would be inevitable. But these could be made transparent and subject to democratic processes. Policies that satisfied all of the principles would be ideal. Although a comparative assessment of policies might be based on more than the five principles, they may be regarded as a coherent set of principles consistent with a belief in complex egalitarianism, in which the expansion of full freedom requires basic economic security for all.

What we can be reasonably sure about is that the main labour market policies developed in the rich industrialised countries in the 20th century were at most suitable for societies characterised by full-time wage employment and temporary interruptions of earning power. Labour markets in the globalisation era are simply not like that.

Let us consider the main pillars of labour market policy – notably minimum wages, unemployment benefits, social insurance and social assistance systems, and labour market training schemes – from the vantage point of poverty alleviation. Before doing so, we may make a few remarks on direct regulatory interventions with respect to child labour and discrimination.

(i) 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 such societies. In recent years, the ILO 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, possibly due to injuries and illness picked up through their early labouring experience. However, the optimum way to curb child labour is to give families adequate economic security and incentives for them to ensure their children enrol and attend primary and secondary school. As will be discussed in section 7, schemes such as the *Bolsa escola* and *Bolsa familia* in Brazil and *Oportunidades* in Mexico, whereby mothers receive a monthly basic income on condition that their children enrol in school and attend for most of the time, are much more effective in tackling child labour and in reducing poverty than simple bans.

(ii) Anti-discrimination measures

All countries experience patterns of discrimination in the allocation of labour and work. The most common is discrimination against women. But that usually goes along with discrimination against migrants and 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.

In considering poverty from a global perspective, such measures and issues tend to receive short shrift. This is regrettable. One consequence of the ideological onslaught on public expenditure around the world has been the rundown of *labour inspectorates*. An example in this respect, and scarcely an extreme one, is South Africa, where the number of labour inspectors has fallen drastically, along with their effectiveness and their salaries. There and elsewhere, poorly paid labour inspectors are subject to bribes and threats, and cannot monitor discriminatory practices and such matters as non-payment of wages, neglect of health and safety procedures and so on.

More protection should be provided to both workers and labour inspectors, since 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.

(iii) Minimum wages

Statutory minimum wages have been a classic weapon for reducing labour market poverty. 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 they are set at subsistence level, low-skilled workers are either excluded from employment or they are employed only in unregistered activities, leaving them vulnerable to exploitation and a lack of protective safeguards.

Statutory minimum wages really only work moderately to reduce poverty in industrial labour markets where formal employment is high and where collective bargaining is widespread. They do not perform well in labour markets characterised by widespread informality and flexible labour relations. The critics surely exaggerate their negative effect, 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 in the actual conditions of the time. That in itself is reason enough to maintain them.

(iv) Unemployment benefits

Unemployment insurance benefits, where employees paid contributions or had them paid for by their employers, were conceived in the late 19th century, and spread to all industrialised countries in the early decades of the 20th 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 converting them into unemployment assistance benefits (means-tested benefits given to those who could demonstrate that they were both poor and involuntarily unemployed) and workfare-type schemes (benefits provided only on 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 situation has reached the stage where old-style unemployment insurance benefit schemes are rapidly disappearing, even in industrialised countries. There is no reason to believe that in the foreseeable future they could become an effective weapon against poverty and labour market marginalisation in developing countries. Globally, one may confidently predict that traditional unemployment insurance benefits have had their day.

What is happening in the biggest country in the world will influence what happens to unemployment benefit systems elsewhere. China introduced its "three lines of guarantee" against the most adverse effects of its policy of retrenchment in the late 1990s. The three were an unemployment insurance system, a Re-Employment Project (based on re-employment centres, where masses of retrenched workers were placed for several years) and a basic living allowance. Although unemployment insurance was formally introduced in 1986, it became significant with the 1999 Regulation on Unemployment Insurance, which required contributions from employers (2% of the wage bill) and workers (1% of earnings).

Unfortunately, few workers have been covered and few of those who have lost jobs have received unemployment benefits – perhaps 30% of men, and 25% of women – with most receiving nothing at all (Solinger 2001; Giles et al. 2003). A major reason is that the scheme has not been implemented or enforced, particularly in private enterprises. To make matters worse, the basic living allowance is also rarely paid to the unemployed, partly because of a lack of local funding and a lack of recognition that those becoming unemployed qualify for the benefit (Lee 2005). And the vast mass of rural migrant workers who have flooded into the heavily-polluted mega-cities have simply been left out of schemes of social protection, whether they are in jobs or unemployed.

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 them, as in Argentina – where about 6% receive them (ILO 2001) – and South Africa (see Box). It is not much of an exaggeration to conclude that the prospects of comprehensive state-based unemployment protection in the global economy are very slim indeed.

African reality

"We regret that the unemployed people generally do not qualify for any state support, leaving them dependent on the support of family and friends to avoid starvation."

-- Zwelinzima Vavi, General Secretary, COSATU, South Africa.[3]

(v) Social insurance versus social assistance

This leads to consideration of the claims and counter-claims made for *social insurance* and *social assistance* forms of income support. The degree to which national social security systems rely on one or other of these methods has been used – over-used – to classify so-called welfare state regimes. Contrary to claims made by many analysts of 'welfare states', the reality is that social insurance has gone into decline all over the world. It was never 'decommodifying' in a real sense, since the funding basis and the benefit entitlements were made dependent on labour or the willingness to perform it (Standing 2007a).

The underlying principle of social insurance has been that contributions, whether paid by employers or employees, would match benefits actually paid out, making the system fiscally neutral. In the process, a loose system of social solidarity would be

[3] Cited in Alternatives (Cape Town), February 2006, p.2.

established, with those fortunate enough not to need benefits subsidizing those who did need them. Benefit entitlements were determined by *contingency risks*, linked to unemployment, illness, maternity and so on.

Even in the rich industrialized countries, it has not worked out quite like that, and in developing countries it has failed dismally as a weapon against poverty. 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. In effect, they fail the Security Difference Principle miserably. One of the problems is that social insurance contributions are easy to avoid in informal labour markets, while for many of the workers in casual or informal economic activities building up entitlements can be practically impossible.

The trend in industrialized countries has been to shift towards much greater use of social assistance in determining entitlement to benefits, which means means testing and so-called 'targeting'. The claim made by advocates of moving further in this direction is 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 legitimize 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. Means testing should be used much less than it has been in the past two decades. If universal social protection is desired along the lines implied by the Policy Evaluation Principles laid out earlier, neither social insurance nor means-tested social assistance should be the main instrument. A rights-based system is required, along the lines discussed later.

(vi) Labour market training

A great deal of hope and hype is devoted to *training*, which is often regarded as the definitive "active" labour market policy. The common belief is that a major 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 of these types of statistic give very crude indicators of skill *per se*. There is also little convincing evidence that skill shortages are major impediments to economic growth, or indeed a major cause of poverty.

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.

The other type of training scheme popular around the world is where 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 these 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, they are likely to have a large *deadweight effect*, i.e., 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*), i.e., they are likely to result in firms substituting workers receiving the training subsidy for workers or trainees who are not doing so.

This paper is not about education more generally. However, there has undoubtedly been an international trend towards shaping educational policy in general more towards "human capital" formation. Universities and colleges are being encouraged to focus on preparing young people for jobs to a greater extent. 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. A fear is that if current trends are allowed to continue, cultural education will suffer and higher education will become little more than job preparation.

(vii) 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 a shrinkage in coverage by defined-benefit contributory schemes around the world, and a growing proportion of the world's population are not being covered by such pensions. 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.

In developing countries in particular, the two types of scheme that have spread are *individual savings accounts*, as developed in Chile in the 1980s and copied to a certain extent in many countries since then, and so-called *social pensions*. Whereas the experience in Chile has demonstrated very clearly that the individualised defined-contribution route leads to greater old-age inequality and poverty among a large proportion of pension-age people, the latter 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 Standing 2008a).

Definitionally, social pensions are universal and rights-based. Where they exist they result in a very high take-up rate, in excess of 90% of the age group. This compares extremely well with all other types of pension scheme. That is a powerful reason for their sudden popularity with international agencies. They offer a social protection floor. 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 and 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. They also have the rather valuable property of transparency, in that everybody knows what should be paid and who is entitled to them, making political or bureaucratic corruption harder.

Social pensions have not escaped criticism. In some countries, such as Namibia, the IMF and others have contended that in the longer term they will be too costly as ageing increases the number of old-age pensioners. For that reason, ostensibly, they have argued that social pensions should be replaced by a targeted scheme based on means testing, which would result in a much lower take-up rate and much higher administrative costs. A related criticism is that a universal scheme gives money to people who are not in financial need. However, this could be rectified by clawing back the benefit through taxation, notably on conspicuous consumption goods and ecologically damaging expenditure. It should never be forgotten that the alternatives to social pensions, means testing and social insurance, are much more costly to administer and often fail to reach those in greatest financial need.

A more interesting criticism of social pensions is their implication that the elderly deserve and need more income support than other social groups. Why should only the elderly receive this universal benefit? One can put forward a presumption that they are in the age group where work is hard and where medical needs are greatest. But such counter-arguments ignore significant exclusion and inclusion errors. The criticism, rather, leads to an argument in favour of a general basic income scheme.

In any case, 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 may not appear to be a labour market policy, but they have beneficial effects on livelihood regeneration.

Social pensions make good social policy, passing the Security Difference Principle and the Paternalism Test Principle, being non-paternalistic (by applying no behavioural conditions) and being rights-based rather than discretionary acts of state or private charity.

6. Targeted Labour Schemes

The world has accumulated vast experience and knowledge about special, selective or targeted labour market schemes. To a large extent, these can be said to be attempts to lessen poverty and various forms of socio-economic inequity without aiming to restructure the economy or its underlying social structures. We may focus on four major types of scheme that have figured in many developing countries – food-for-work schemes, public works, employment and wage subsidies and micro-credit and finance.

(i) 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 some infrastructural project has been an instrument of state policy for many generations and has been done 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% of its food assistance to food-for-work projects. Recently, such schemes have been recommended as a response to the drastic increase in food prices. In Bangladesh the scheme has been expanded recently for that reason.

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 relatively easily be 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, for instance (Quisumbing 2003; Osmani 1997).

Typically women have obtained a larger share of the jobs than they have in similar cash-for-work schemes, as was observed in Lesotho and Zambia, for instance (Subbarao 2003). One interpretation is that food compensation is more gender equitable. But it may also reflect the stigmatization effect of food as a form of compensation, putting off men from participating. Nevertheless, the direct provision of food may be more gender equitable than cash-for-labour schemes because the benefits for families are more shared.

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 studied the proportion of rice misappropriated by politicians and bureaucrats varied between 49% and 98% (Dreze 2006).

In sum, 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, thus failing the Security Difference Principle, and they are obviously paternalistic, presuming that what is missing is food. They are also more consistent with charity rather than with the extension of human rights.

(ii) Public works

The use of public works has a hallowed place in both development policy and anti-unemployment strategies. They are popular with politicians, who can claim the active creation of jobs and pose alongside busy workers, while pointing to the valuable infrastructure being created. 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 have become central to some governments' anti-poverty programmes. In Chile, in 1983 they provided 13% of total employment; in Botswana, in 1985-86 they accounted for 21% of the labour force, and in India in 1995 the public works scheme known as the Jawahar Rojgar Yojuna programme was supposed to have provided a billion person-days of labour (Subbarao et al. 1997). Often the schemes have been introduced as a temporary measure, following an emergency or economic shock. Thus, the public works scheme in Brazil known as the Northeast Work Front Programme was implemented for two years (1998-2000) (Rocha 2000). The trouble with these typical schemes is that they do not lead to sustainable livelihoods.

The most famous public works scheme is the Maharashtra Employment Guarantee Scheme (EGS), set up in the early 1970s and still going, although it peaked in the 1980s.

A key feature is the formal guarantee to give work to any group of at least 50 destitute people who organize to demand it. Although widely depicted as a great success, critics have pointed out many failings, including the fact that it has resulted in a large number of incomplete infrastructural projects.

However, drawing in part on the EGS, in 2005 the Indian Government launched the most ambitious public works scheme of all, known as the *National Rural Employment Guarantee Scheme*, to 'guarantee' employment to the rural poor. The Government made a commitment to provide 100 days of employment per year to each poor household in 200 districts, with the intention to roll out the scheme to the whole country. We will come back to this very ambitious scheme later, after first considering the claims and counter-claims about public works in general.

Public works can act as a sort of *social insurance*, or more correctly *social assistance.* If the economically insecure know that such jobs are available, or will become available in the seasonally slack period, or would be expanded if there were an economic recession, they could be expected to have a greater degree of economic security than if that were not the case. It has been suggested that farmers living in the region covered by the Employment Guarantee Scheme in Maharashtra, India, were more likely to invest in higher-yielding, riskier varieties of seed than farmers living in neighbouring states (DFID 2006).

Public works can and often do create some infrastructure. For instance, they can result in roads or better water supplies, as was observed to be the outcome of a public works scheme in Arba Minch, Ethiopia (Benn 2006). The trouble is that those promoting such schemes or investing in them have a vested interest in making such claims.

The questions are whether or not 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 maximizing employment leads to highly labour-intensive methods based on unskilled, poorly supervised and ill-trained labour.

Public works in South Africa

Faced with chronically high unemployment and income inequality, in 1994 the new South African Government made a commitment to use public works extensively. It launched a series of schemes – the National Public Works Programme, the Community-Based Public Works Programme and the Special Public Works Programme. But although at one stage they generated about four million workdays in a year, this corresponded to a fraction of what was needed to make a serious dent into unemployment (McCord 2004a).

Still the trade unions and the Government were united in pressing for more public works, even though they were proving costly and rather ineffectual, as all previous efforts *had done (Standing et al. 1996). So, in late 2004 an "Expanded" Public Works Programme was set up. But the jobs created were short term, were concentrated in labour-intensive, low-productivity activities and involved little or no skill development or lasting effect. By 2006, expectations were pessimistic (McCord 2005b).*

One factor had been that in 2002 the Government negotiated with COSATU, the trade unions' confederation, a Code of Practice for Special Public Works Programmes. This stipulated that wages should be just below the minimum in the relevant sector and area. Ironically, this was higher than the actual earnings in many areas of the country, so that a large proportion of the temporary jobs were taken by those who were not among the poorest and who were often doing other forms of non-wage activity as well.

A related criticism of public works is that they tend to be predominantly short-term "make-work" schemes. The productivity is low, and the labour is temporary, so that they do not provide either value for money or sustainable employment. The inefficiency is compounded by high administrative and monitoring costs, so the proportion of the funds devoted to public works that actually goes to the intended beneficiaries is cut severely. 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 effects* and *deadweight effects*. In other words, public works may merely displace other workers doing the work for private firms or they may do 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 work sites 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 penalized because of severe time pressure due to their other work demands in and around the home.

Even if public works do succeed in exclusively targeting the poor, they may create poverty traps, with all the *moral hazards* 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.

Some critics have claimed that public works are stigmatizing. This is surely the case for some groups. But some advocates of public works have suggested that stigmatization is actually a desirable 'self-selecting' feature because only those most desperately in need will apply. That is scarcely a "decent work" principle, or consistent with any of the Policy Principles outlined earlier.

Another common criticism is that public works favour men, who receive a disproportionate number of the jobs. This could be countered by design changes. Indeed, if women are historically disadvantaged in the labour market by cultural barriers or discriminatory prejudices, public works could be used as a lever to break down the barriers. The record in this regard is mixed.

Public works have often had a bias against women. But the South African *Zibambele* scheme had the opposite bias, since 93% of participants were women (McCord 2004b; Samson et al. 2006). One reason was that employment contracts were given to the household unit, rather than to individuals. Others were that recruiters focused on female-headed households and worksites were located near the homes of potential worker participants.

Similarly, India's new *National Rural Employment Guarantee* scheme has established anti-discrimination provisions, access to on-site childcare and worksites close to the homes of potential participants (Right to Food Campaign 2008). However, similar provisions were included in the long-running Maharashtra Employment Guarantee Scheme, which still has only had a minority of women among its participants, even though many more women have traditionally been registered in the scheme (Gaiha and Imai 2005).

Another controversy centres on the *wages* paid for those doing public works. Many supporters believe they should pay decent wages, or the market wage rate. Others argue that they should pay at or even below the minimum wage, as a means of self-targeting the poor. This latter has been a common tendency. 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 (Subbarao 2003; Hirway and Terhal 1994).

Certainly, the *Maharashtra Employment Guarantee Scheme* 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 2005b). 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, since lower wages for individual workers may mean that families would have sub-subsistence incomes. In a few cases, the authorities have deliberately cut other wages so as to finance public works. In the Republic of Korea in 1998, in response to the 'Asian crisis', the Government cut public sector wages by an average of 16% to fund public works projects. Although it announced that the projects were 'workfare', a common interpretation was that they were mostly social assistance, with little lasting productive benefit (Lee 2000; Kwon 2000).

To compound the problem caused by setting low wages, many public works schemes have been dilatory in paying workers, reflecting the slackness of regulatory control. In some cases, as the Malawi scheme cited earlier, delays in payment have gone on for months, resulting in indebtedness and considerable local distress (Chirwa et al. 2004).

The debate around wages in public works leads to one crucial conclusion. Countries where wages are held up by some regulatory device, such as a minimum wage or national collective bargaining, are not suited to large-scale public works schemes intended to be a form of social protection. This has led some governments to use ruses to bypass their own legislation. For instance, in Argentina the *Trabajar* public works scheme paid a wage well below the statutory minimum wage and claimed that it was not a wage at all, but rather "economic assistance", exempt from the minimum wage legislation. Having achieved this legitimation, it then lowered the wage again (Subbarao 2003). Similarly, wages on Argentina's subsequent scheme, *Jefes*, were set at about half of the mean household income (Galasso and Ravallion 2004). And in Brazil, the *Northeast Work Front Programme* paid benefits well below the minimum wage (Rocha 2000). One must wonder at the equity of such practices, and the examples set for private employers.

Another criticism is that public works are very prone to *political capture*, in that powerful politicians ensure that the schemes are located in their areas, even though they may not be among the poorest. Thus, it has been persuasively argued that the Maharashtra EGS benefited the *kulak* lobby and the Maratha elite (Herring and 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. Ultimately, these tendencies show that there is usually considerable discretionary decision making.

However, the most damning criticism of public works is that they tend not to benefit the poorest and most economically insecure. Even the famed Maharashtra EGS was found to fail in this respect. It was estimated that only about 30-40% of the total public expenditure on the scheme reached the poor, as in the Bangladesh food-for-work scheme (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, administration, corruption and inefficient implementation.

In sum, while public works will remain popular as part of job creation efforts, they are dubious on several counts. They often fail the Security Difference Principle, in that the jobs are not allocated to the most insecure and poorest. They 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 satisfies the Rights-not-Charity Principle, since they are, at best, a way of giving discretionary entitlement to selected individuals or households or communities.

India's National Rural Employment Guarantee Scheme

Amid a great deal of public fanfare, and as part of what it called the common minimum programme, in 2004 the new Indian Government announced that it would launch public works around the country to guarantee work to the rural poor. This was enacted in the National Rural Employment Guarantee Act (NREGA) of September 2005.

Although modelled on the Maharashtra EGS, its proponents assured the public that it would give reality to the right to work and overcome the shortcomings of the Maharashtra EGS. The NREGA subsumed other programmes such as Sampoorna Grameen Rozgar Yojna and the National Food for Work Programme.

The main objectives were to give a right to work, to reduce poverty and to reduce rural-urban migration of labourers. At the outset, in February 2006, the Prime Minister said that it would "help us get rid of the scourge of poverty, disease and indebtedness. It gives employment; it gives income; it gives a livelihood and gives a chance for all to live a life of self-respect and dignity." The Minister for Rural Development went even further, claiming, "It is a permanent, perfect system for perfect food security."

Initially, it was intended to provide a "guarantee" of 100 days of labour in 200 most 'backward' villages, for one adult of any household prepared to do unskilled manual labour, for the minimum wage.

One might pose the question: On what Benthamite principle was this decided? Perhaps it would have created more welfare gains if it had been concentrated on 200 areas where there was greatest economic growth potential. In other words, there may be an inter-temporal trade-off between immediate poverty alleviation *and long-term employment and economic growth. However, the NREGA made the commitment to extend the scheme to the whole country within five years, a remarkably ambitious commitment.*

The NREGA ostensibly gives the poor living in the selected districts the 'right' to register with a local Gram Panchayat; once registered, the household is supposed to receive a job card, and once armed with one of these is supposed to be given labour within 15 days of demanding it. This is to be within five kilometres of the person's residence, or an extra 10% of the wage is to be given to pay for transport. If labour is not provided within 15 days, an unemployment allowance is to be paid.

If given labour to perform, the person is to be paid the statutory minimum wage applicable to agricultural workers in the State. And at the designated worksite there must be a guarantee of safe drinking water, shade for children, and first aid.

A key objective of the planners is to strengthen the bargaining position of rural workers, which is why local plans have to be drawn up with involvement of local communities. The Act envisages considerable monitoring actions, including 'social audits' involving local Vigilance and Monitoring Committees (with at least one third of their members being women), and use of the new Freedom of Information Act of 2005.

The teething pains of the NREGA have been considerable. Critics have questioned the process by which funds were allocated from central government to the states, the uniformity of wages, the dangers of petty bureaucratic corruption, and the fear that it will not generate valuable public assets. Jean Dreze, a prominent social scientist associated with the Government, has been scathing. He pointed out in September 2006 that one year after the Act was passed, the promised Central Employment Guarantee Council was yet to be formed, while the financial allocation for administrative expenses had yet to be raised beyond a token level of 2% of the total NREGA expenditure (Dreze 2006). He concluded,

"Sometimes the situation reminds me of a notice I saw once in a shop window, advertising a second-hand television. It said, "Sound only"."

Dreze and others have pointed out that the level of awareness of the NREGA in many of the selected districts has been very low (Shah 2006). It has even been estimated that expenditure on employment generation through public works in 2006 was below what it was in 2005. It is perhaps too early to determine whether this reflects merely teething troubles or an administrative inability to implement such an ambitious scheme, or something more fundamental, such as that the scheme is an inappropriate instrument for dealing with poverty and economic insecurity.

Monitoring studies have claimed that besides low awareness among the rural poor, there has been delay in issuing job cards and registration discrimination on the basis of gender and caste.

According to some observers, the NREGA has been dogged by the sort of petty corruption that has always been part of direct intervention schemes in India (Menon 2006). In this respect, great hope has been placed in the Indian Right to Information Act (RTI), which became fully operational in October 2005, and which gives every individual the right to request and receive information on how public money is being spent. The person requesting information is obliged to pay a small amount, but if their income is below the poverty line, they are exempt from the fee. Use of the RTI has apparently led to the exposure of corruption and may lead to more of the funds reaching the rural poor.

However, already the cost of the NREGA has been causing political concern. In mid-2006, the cost became even more prominent when international credit rating agencies urged the Indian Government to hold firm on its budget deficit reduction commitments, which were being jeopardized by what was regarded as high social spending and the high ratio of public debt to GDP.

(iii) Employment subsidies

Various finance ministries and prominent American economists have favoured the use of *employment subsidies*, a policy that 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. Edmund Phelps, winner of the Nobel Prize for Economics in 2006, has been an enthusiastic advocate of employment subsidies.

The main argument in their support is that, in addition to boosting more 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 publicized, 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. That is by no means the only form of petty corruption that labour subsidies induce.

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

In the global context, although many governments have introduced various forms of labour subsidy, they could become an issue before the World Trade Organisation as an unfair trade practice. Among the biggest subsidies are earned-income tax credits, as 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 anyhow. They also go to support paid labour, rather than to all forms of work, such as non-wage economic activities and care work.

A final comment on subsidies must be emphasized. The world is awash with them. Yet most economists recognise that they encourage inefficiency and tend to go to capital more 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 global development, and rarely reach the poor.

(iv) Micro-credit and micro-finance

Micro-finance and micro-credit have become hugely popular as development tools; they are strongly supported by the United Nations, and are promoted within the ILO by its Social Finance Programmes. In 2006, the Nobel Peace Prize was given to the founder of the Grameen Bank, the leading provider of micro-credit, which has a long history in Bangladesh.

Such schemes originated in the Raiffeisen Funds in Germany, which were explicitly religious in character, and which have been diffused across the world as micro-credit and rotating community funds. Examples exist across Africa, Asia, US inner cities and, more recently, eastern Europe. The Indian Government's "common minimum programme" also contains a commitment to expand micro-credit.

The primary feature of micro-credit schemes is the provision of small loans to the poor and vulnerable, as start-up capital for small business activity. Micro-credit has been seen as assisting people in setting up micro-enterprises or in becoming self-employed. Group lending is encouraged, and the outstanding aspect has been the heavy orientation of lending to women.

<u>The Grameen Bank, Bangladesh</u>

The Grameen Bank was celebrated for many years, but became a source of national pride for all Bangladeshis in 2006 when its founder, Muhammed Yunus, received the Nobel Peace Prize.

Many governments in other countries have thought its success could be replicated in their countries. Some have been disappointed. For instance, in the Philippines, two micro-credit schemes launched by the Government in 1994 had very limited beneficial effects for women, while a similar scheme in Papua New Guinea in the same year had much lower repayment rates than achieved in Bangladesh. Nevertheless, in 2007 the Chinese Government reportedly invited the Grameen Bank to experiment with its scheme in rural areas of China.

Advocates of micro-credit have claimed that it encourages participatory involvement, 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, micro-credit 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.

Wishing to link micro-finance to their mantra of 'decent work', the ILO (2005) has claimed:

> *"Microfinance makes a powerful contribution to decent work by providing opportunities for small investments in self-employment and job creation. And, through emergency loans, micro-savings and micro-insurance, it provides the means for people to manage risks of living near the subsistence level."* (ILO 2005)

Without giving convincing evidence, the ILO has also asserted that micro-finance helps with its aims of job creation, empowerment of women and reduction of vulnerability. It joins in the acclaim that has been the mainstream view for some years.

However, the main concerns associated with micro-credit 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 criticized for creating a new form of dependency, drawing the near-poor to rely on the micro-credit 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 micro-credit 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 micro-credit institutions cannot handle the sums, due to standardized administrative and monitoring costs (Matin et al. 1999). And there are questions about the cost and sustainability of group loans, which require group meetings, group pressures and associated costs (Besley and Coate 1995).

Most worrying of all is the suggestion that, rather than empowering women, micro-credit may actually reinforce patriarchal subordination of women (Goetz and 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 micro-credit 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.

7. Regulatory Interventions

The notion of *labour regulation* has been subject to a great deal of nonsensical rhetoric and analysis. In particular, 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 20^{th} 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.

A classic case in point was Chile. Under Pinochet in the 1970s and 1980s, the former freedom-of-association and pro-union regulations were replaced by laws banning unions and collective bargaining altogether; then only plant-level bargaining was allowed. Even today, the scope for collective bargaining is more tightly regulated than was the case before 1973.

However, the country where new labour regulations have 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.

8. 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 20th century this was dismissed almost out of hand. To propose it was to risk ridicule. 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). Only in the past five years have cash transfers figured prominently in emergency relief efforts mobilised by the United Nations.

Since the beginning of the 21st century, a remarkable turnaround in thinking has occurred. Humanitarian relief organizations 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 and Jaspars 2006).

Suddenly, there has been a flourishing of experiments and pilot schemes. As a result, we have begun to accumulate substantial experience of what happens when conditional or unconditional cash transfer schemes are operationalised. A brief summary of some of those schemes should be sufficient to highlight their potential as anti-poverty devices.[4]

Most cash transfer schemes, other than the income-for-school-attendance schemes in Latin America, such as the *bolsa familia*, and social pensions, as discussed above, have been introduced in response to ecological or economic shocks and the resultant emergencies. They have thus not been introduced in the most propitious of circumstances. Nevertheless, the outcomes have been encouraging for those who believe they should be utilised more extensively and built into the fabric of social protection policy.

Those that have been most carefully evaluated include schemes in Ethiopia, Somalia and Zambia. In the *Cash for Relief Programme* (CfR) in Ethiopia, one of its main objectives was to enable households that had been hit by crop failure to rebuild their assets, so as to restore the infrastructural relationships that made the economic base of those communities sustainable. The evaluation for the scheme's primary funders, USAID, found that the cash grants had been successful in regenerating the livelihoods of people living in the area (Brandsetter 2004). Rather than merely consume (which would have been likely with food aid alone), they had controlled debts and had invested in restoring land productivity. The donors found that cash grants

> *"allowed individuals and communities to begin making a series of decisions, giving them the power to prioritise needs for their families and presenting them with a creative way to receive relief assistance with dignity".* (USAID 2004)

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[4] For a longer review, see Standing 2007b.

Also in Ethiopia, in the face of annual food crises, Save the Children, a UK-based NGO, has implemented several cash relief projects, and evaluations have concluded that they too have functioned efficiently, have been more cost-effective than food aid and have had no inflationary effect.[5]

Another example is the *Emergency Cash Relief Program (ECRP)* implemented in a drought-affected and politically contested zone of north-eastern Somalia in 2003-04. Some 13,380 socially vulnerable households, identified as such by an NGO, were each given a one-off US$50. The initial rationale for providing direct cash transfers was that they constituted a rapid response to an emergency. The programme coordinators found that they unblocked the critical economic constraint to livelihood revival.

While there was food available locally, the purchasing power of the local population was extremely low and the local credit system was overstretched. The cash transfers enabled people to reduce their debts, purchase food and water, and give themselves some sense of 'empowerment', enabling them to maintain their livelihoods and the complex arrangements of work and social support that bound their community together. Without the income grant, work and the community would probably have collapsed altogether.

The targeting used in the ECRP was complex: the formal conditions for entitlement were that the person should be a destitute pastoralist and belong to a 'structurally vulnerable group', with priority being given to women, minorities, elderly, disabled, and members of large families. Village Relief Committees were in charge of identifying suitable beneficiaries. Each of those conditions no doubt had some anomalies. But, crucially, the coordinators found that the overhead costs were comparatively low – 17% of total costs compared with 25-35% for other, commodity-based relief interventions. The conclusion was that the cash transfer scheme functioned relatively effectively. In our terms, it helped generate work and economic security in very difficult circumstances.

Another example is the *Meket Livelihood Development Pilot Project* involving cash transfers provided in two areas of Ethiopia in 2001-04. In the evaluation carried out for Save the Children, it was found that the cost of implementing the scheme was much less than the equivalent for food aid schemes (Kebede 2005). The latter had substantial transaction costs for beneficiaries (which are rarely taken into account in monitoring and evaluation analyses). For instance, because recipients had to share food aid, they had to work out how to share. This resulted in time and food being wasted in the course of exchanges of food items between households wanting one and not another item. The work time involved was also considerable, including the cost of waiting for deliveries and for loading and transporting the food.

By contrast, simple cash transfers permitted the beneficiaries to make strategic choices for themselves. The evaluation observed that not only did the cash transfers allow

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[5] Gebre-Selassie and Beshah 2003; Save the Children 2004; Knox-Peebles 2001.

households to build up assets, notably through the acquisition of livestock, but also enabled many households to reduce the distress renting out of land. Indeed, among the benefits of cash transfers were that they enabled recipients to obtain higher crop prices, partly by allowing them to sell when prices were more favourable, rather than when they were desperate for cash. This is a classic advantage of basic economic security. The transfers helped some recipients to pay off debts, others to pool savings in an *equb* (group saving scheme) and others to buy seeds, sheep or goats, thereby enabling them to *work*.

Cash transfers also enabled more people to *work locally*, reducing the pressure to migrate temporarily in search of cash income, which in turn had a positive impact on the children, allowing adults more time at home to care for them and strengthening the parents' moral pressure on them to attend school. This is surely a powerful development advantage of cash transfers.

Another successful example is the pilot *Kalomo Social Cash Transfer Scheme* initiated by the Zambian Government with financial support from the German development agency GTZ in two districts of Zambia. The regular cash transfer was unconditional, in that it did not require recipients to spend the money in any particular way, thus giving beneficiaries a sense of autonomy. However, it was means-tested. Beneficiaries were selected by local Community Welfare Assistance Committees, using a participatory method to identify the poorest 10% of households by means of a hunger poverty line. But crucially the selectivity was based on a Voice mechanism, i.e., involvement of a body representing the community.

The selection mechanism also tried to differentiate households by whether or not they consisted of members who were unable to work or who were excluded from other poverty schemes, such as the food-for-work scheme. It focused on giving cash transfers to the most 'labour-constrained' households, setting up bank accounts for those in most critical need, and providing a modest grant for each household ($8 per month if the household had children, $6 otherwise).

Those operating the scheme have claimed that the money was spent on basic consumption goods, and education and healthcare for family members (Schubert 2005). In other words, it showed that people were able to spend such cash transfers rationally and for their own longer-term welfare. It was also apparent that a majority of the beneficiary households were headed by elderly persons or women, about half of the households were AIDS-affected, and nearly half contained orphans. As with other schemes of this sort, it was evident that when women, rather than men, controlled the transfers they were more likely to spend a large part of them on their children and their family.

The Zambian scheme had a more general message. It has been estimated that if it were scaled up to reach the poorest 10% of all Zambian households the cost would amount to merely 5% of the total overseas aid to the country, or about 0.5% of its Gross National Income. In other words, a national scheme is financially feasible. It would be much cheaper than the country's 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 would do the opposite by helping to stimulate local markets. In Zambia, no less than 70% of all social transfers are spent on locally produced goods and services, thus generating local employment or livelihoods (Samson et al. 2006; DFID 2005).

Cash grants in Africa

"Childcare grants, disability allowances, pensions and other direct transfers of cash can be used even in countries with poor infrastructure, little capacity to deliver services or no interest in reform."

--- Commission for Africa Report, 2005.

The Zambian, Ethiopian and Somalian cash transfer experiences offer encouraging evidence that they are affordable and are conducive to livelihood revival in chronically poor areas. In times of emergency, cash grants should not be seen as pure alternatives to other forms of commodity-based aid. Such transfers might be inflationary if local food supplies are not available, and this may mean that in the initial aftermath of a disaster, particularly a quick-onset disaster, food aid should complement cash transfers, to restrain inflationary pressures, with direct commodity aid being gradually faded out as local producers respond to the increased demand for staple goods and services. Cash transfers need complementary programmes designed to boost local supply, as was found to be the case following the Mozambique floods a few years ago (Abt Associates 2002).

Following those floods, USAID funded cash grants of about US$92 for 106,280 flood-affected rural families in a scheme implemented by a private company. Recipients were issued with cheques at local sites, while a commercial bank provided tellers who were able to cash the cheques, all protected by a local security firm. The outcome has important lessons. An impact evaluation found that most of the money was spent on local goods and services, which stimulated the local economy, regenerating livelihoods in a sustainable way.[6]

Such schemes have not only been taking place in Africa. Among the growing number that have been launched outside Africa as part of emergency and rehabilitation programmes funded by foreign donors is the *Cash for Herder* scheme in Mongolia, implemented by the Swiss Agency for Development and Cooperation (SDC) and the Red Cross in 2003. The evaluation two years later found that while another in-kind project that they had operated was 'appreciated' by recipients, it had not helped regenerate the local economy, whereas the cash transfer had led to investment in assets that regenerated livelihoods. The evaluation concluded,

[6] Abt Associates 2002; Hanlon 2004; Christie and Hanlon 2001.

"The cash approach made use of the creativity and experience of beneficiary families to develop strategies out of their crisis…[It] showed that poor people and people under severe economic stress are very well capable to handle cash responsibly and develop and take strategic decisions on what to spend the money in order to improve the livelihood and their families in the medium and long term… most important, beneficiaries do become economic and social actors in their own community again, taking their decisions on how to spend the money." (SDC-IFRC 2005)

The evaluation found additional advantages, in that 'the response and preparation time' was short, and the administrative overheads were low. These advantages can be considerable for hard-pressed officials running such schemes.

By 2005, the SDC had implemented 13 cash grant projects of this type in eight countries, including such difficult places as Ingushetia and Mongolia. Its assessments have been sufficiently favourable to make the SDC continue to rely on them. But it is not alone. In the past few years, the US Office of Foreign Disaster Assistance (OFDA), which long regarded cash transfers as out of the question, has provided quite substantial funds for cash grants in various countries, including its scheme in Ethiopia in 2003.

Tellingly, the growing legitimacy of simple cash transfers was reflected in the Group of Eight Statement of 2004, which, when referring to the international response to famines, made the commitment,

"We will unleash the power of markets through cash-for-work and cash-for-relief programs." (Group of Eight 2004)

Thus the scope for cash transfers in Africa, Asia and Latin America has been recognized, becoming a significant part of non-contributory social protection and a means of enhancing work opportunities. In Latin America, cash transfers have become a central part of social and *development* policy. Both the *Bolsa escola* in Brazil and the *Opportunidades* 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.

9. 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 they are intended, an extraordinary record of failure to reach the poorest and most insecure, and a failure to reduce inequalities in the labour market. They rarely meet any of the Policy Principles laid out at the outset of this paper. Often the expenditure leads to corruption and to much of the money going to groups that have the least need for them. And yet hope seems to spring eternal. In particular, countries are still being encouraged to look to yesterday's mechanisms of industrialised countries, with what many still refer to as ‘the Swedish model’ being regarded as a system that is both desirable and feasible as well as still with us.

The real message should be that much too much can be expected from labour market policies. They are better at assisting in making labour markets function more efficiently in various ways, rather than in overcoming poverty and economic insecurity. Labour markets are part of the broader economic system, and policymakers would be better advised to look to social policies to deal with poverty and the maldistribution 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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