

Perspectives on Global Development 2012: Social Cohesion in a Shifting World

Summary in English



- The world has changed markedly since the beginning of the new millennium. “Shifting Wealth” describes a phenomenon in which the centre of economic gravity of the world has progressively shifted from West to East and from North to South, resulting in a new geography of growth. The new scenario presents some major opportunities and challenges for the creation of socially cohesive societies.
- This report examines social cohesion in fast-growing developing countries and provides policy makers with recommendations for ways to strengthen it. A cohesive society works towards the well-being of all its members, fights exclusion and marginalisation, creates a sense of belonging, promotes trust, and offers its members the opportunity of upward mobility. This report looks at social cohesion through three different, but equally important lenses: social inclusion, social capital and social mobility.
- The report argues that social cohesion is a valuable goal in itself and contributes to maintaining long-term economic growth. Growth paths in which social inequalities are wide, exclusion widespread, and the scope for voicing dissent small are unlikely to be sustainable. The report stresses the need for co-ordinated policy making in fiscal and tax design, employment, social protection, civic participation, education, gender and migration. Because policies in these areas all interact with each other in their effect on social outcomes, each policy area needs to be designed with regard to the others.

Shifting wealth brings opportunities for social cohesion...

Over the last decade, developing countries as a whole have enjoyed a revival in their economic fortunes after some 20 years of missed opportunities and disappointing performance. The 2000s were the first time in many decades that poorer developing countries grew faster than high-income economies. In the 2000s, as many as 83 developing countries managed to double OECD per capita growth rates (a measure used in *Perspectives on Global Development 2010* to define “converging countries”), compared to only 12 countries in the 1990s. The 2010s have begun under bleaker global growth prospects than the 2000s, however, as growth has stalled in advanced economies in the midst of recovery from the crisis. With a less propitious international environment for growth, the new decade is bound to test the strength of new engines of growth and the sustainability of shifting wealth.

Around 50 of those developing and emerging economies have grown at an average annual rate of over 3.5% per capita over the 2000s. Today, nearly 1 billion out of the 2 billion people living on USD 10 to USD 100 a day in the world – the global middle class – live in converging countries. This number is projected to exceed more than 3 billion in 2030. High rates of growth have brought with them new resources that could be used to promote and finance a more inclusive growth process, particularly taking into account the emerging middle classes’ expectations and contributions to social cohesion.

... but it also brings new challenges.

Economic and social transformations during a period of fast growth bring new stresses and strains with which governments have to cope. The challenges include rising income inequalities, structural transformation, and the need to meet citizens’ rising expectations of standards of living and access to opportunity. Citizens living in a fast-growing economy have rising expectations of their current and future standards of living as they seek to share in the benefits of growth. As an emerging middle class increasingly compares itself with peers in advanced economies, its patterns of consumption and demands for quality services can be expected to change. Higher incomes, better health and improved education do not automatically translate into higher life satisfaction as the decline of life satisfaction in fast growing countries such as Thailand and Tunisia reveals. Governments should not ignore the toils of these emerging middle classes nor underestimate their capacity to mobilise people and exert pressure for more open and transparent governments or for an increase in standards of service provision.

In this context, strengthening social cohesion becomes a critical policy objective. Governments which ignore questions of social cohesion risk having to face social instability and undertake ineffective policy interventions. Recent events – ranging from pro-democracy unrest in Thailand in 2010 to the Arab Spring revolutions – lend support to the thesis that it is clearly not sufficient to apply technocratically good policy frameworks while disregarding people’s desire for inclusive political processes.

Policies can make a difference

While a strong growth process throws up new challenges for converging countries, there is ample evidence that public policies can make a difference. Redistributive policies are a powerful example. OECD countries with initially high income inequalities redistribute income through taxes and transfers, while in many developing countries (e.g. in Latin America) tax and transfer systems have a much more limited impact on income distribution.

Strengthening social cohesion requires a long-term vision and commitment. While some policy interventions or reforms can generate results relatively quickly, others do not bear fruit for some time. Building a more inclusive education system, for example, which increases the education levels of the disadvantaged and the average level of education, takes a number of years to translate into increased inter-generational social mobility. That kind of long-term vision and commitment to policies also requires a stable macroeconomic environment.

The task of co-ordinating policy across a number of domains can pose a significant challenge. Tools to facilitate co-ordination include inter-ministerial groups or commissions, ex ante impact assessments of laws, and theme-based horizontal budgeting. For example, gender-responsive budgeting advances gender equality by identifying the interventions required to address gender gaps in sector and local government policies, plans and budgets.

Policy areas that are key to social cohesion

Fiscal policy

Greater fiscal space opens a window of opportunity for development and stronger social cohesion in developing countries. For opportunities to materialise, however, fiscal policy reforms are needed. Available windfall gains and resources produced by shifting wealth are a boon to finance social programmes. They are not in themselves sufficient, however: programmes should be affordable and sustainable. A critical issue in this regard is to ensure the long-term financial sustainability of social programmes, an elusive objective in the widespread context of volatile revenues dependent on fluctuating commodity prices and the prospective depletion of non-renewable natural resources. Converging countries gradually raised their fiscal revenues from 20% of GDP on average in 2000 to 27% in 2008. However, as average fiscal revenues are still low in converging economies compared with high-income OECD countries, where they are above 35% of GDP, there is room for tax reforms that broaden the tax base or increase tax rates.

However, low levels of trust – regarding how taxes are raised and how revenue is spent – often undermine reform that considers taxes in isolation from complementary expenditure and institutional reforms. A number of social factors impact significantly on low state legitimacy, in particular as regards fiscal policy. This can translate into lower revenues and fiscal policies which are generally less effective at addressing inequalities and creating opportunities for upward social mobility. In addition, even where formal democratic institutions do exist, fiscal policy tends to reflect the interests of elites and powerful lobbies if large swathes of the population are excluded from the political process or have limited access to collective instruments for influencing policies.

Economic and fiscal institutions that de-link expenditures from the volatility of current revenues are key in ensuring sustainable financing of social cohesion policies. An important role of macroeconomic fiscal policy is to create the conditions for sufficient and predictable fiscal space to finance development expenditure priorities related to social cohesion, be they social pensions, unemployment compensation, education or youth employment programmes. Fiscal rules that compel governments to save during good times so they can maintain public investment during economic downturns can play an important role. Similarly, sovereign wealth funds can help non-renewable commodity exporters extend resource-linked revenues over time and across generations.

Tax administration reform is another powerful way of increasing fairness, transparency and tax morale in developing countries. In order to be effective, however, it must be part of a co-ordinated effort to strengthen the social contract. Reforms, such as setting up semi-autonomous tax collection agencies, will have a greater impact if combined with expenditure policy reform. Better and more transparent tax collection must be linked to better public services. This fiscal exchange, i.e. the link between services received in return for taxes paid, is essential to creating a virtuous circle for tax compliance and service delivery.

Employment and social protection

The deep transformation that shifting wealth has brought about calls for the establishment of labour market institutions that can facilitate the wage-setting, distributional and allocative roles of labour markets. Reforms setting out guarantees for workers and collective bargaining systems can begin to establish institutions that will assist markets in adjusting prices to the new labour market regime more smoothly, while ensuring that wages reflect productivity increases. Protecting workers need not mean protecting jobs. Indeed, it is possible in emerging countries with mature social protection systems, to advance an agenda which seeks to provide income security through social protection rather than job security by offering unemployment insurance and assistance, income support while out of employment and in old age, and a range of public services, including healthcare.

In the short run, more traditional instruments of labour market regulation, and in particular minimum wages, have assumed a prominent role in the policy debate, which includes low-income countries in sub-Saharan Africa and poorer ones in Latin America. Minimum wages are a useful tool against working poverty even when compliance is limited. Indeed, minimum wage increases also spill over into the informal sector, raising wages throughout the economy. Some countries, like Brazil, have used minimum wages extensively to raise the living standards of workers. But they are not targeted instruments and tend to have wide-ranging side-effects: large increases in minimum wages can be costly or cause negative employment effects when misused. Moreover, the effects of minimum wage changes are unequal across workers, depending on the degree of enforcement and labour market segmentation. Active use of minimum wages to increase incomes should therefore not be a substitute for effective social policy and for ensuring that labour market institutions fulfil their price-setting role efficiently.

Labour market institutions and social protection systems should be judged not only in terms of their efficiency, but also their ability to prevent or mitigate duality and segmentation. Recent innovations in social protection (the expansion of cash transfers, conditional or not, social pensions, and new forms of health coverage) have helped to reduce coverage gaps in social protection. However, they can often lead to dual systems where the poorest are covered by social assistance and the wealthy by either contribution-based or private alternatives. This leaves a significant gap, a “missing middle” of coverage amongst a large segment of informal middle-income workers. Institutions will need to evolve to better reflect labour markets’ realities if they are to produce fair outcomes with minimal strife. Universal entitlements de-link social protection from job status and offer the best prospects in terms of coverage levels and incentive structures for labour markets.

Universal access to basic social services may not be achievable in the short to medium term, but governments still have a number of more affordable tools at their disposal. Extending social services via targeted cash transfers for example can be comparatively affordable; programmes in Brazil, Indonesia and Mexico have attained coverage of up to one-third of the population whilst costing less than 1% of GDP. Contribution-based systems can be unbundled and opened up to uncovered workers, as is the case of unemployment insurance savings accounts in Latin America.

Fostering social cohesion via social services and other programmes is contingent on the availability of adequate resources and also on improving the efficiency of public spending. The idea that governments cannot afford measures to strengthen social protection needs to be contrasted with the fact that governments often provide large subsidies or payments which benefit the non-poor. For instance, instruments such as fuel and food subsidies can be extremely expensive and distortionary. This is particularly the case with fuel subsidies which tend to be highly regressive.

Education

Education is a vital part of any social cohesion agenda as educational outcomes affect all three dimensions of the social cohesion triangle. When opportunities for quality education are afforded across the population, schooling becomes a strong leveller of opportunities, bringing prospects for upward mobility even to disadvantaged groups. Increasing educational attainment is an important way for converging countries to reduce inequality in market incomes in the long run, particularly as returns to education have changed as a consequence of shifting wealth. Beyond enrolment, the quality of education needs to receive attention so that increases in educational outcomes effectively translate into greater productivity, better growth prospects and improved chances in the labour market.

Ensuring that children have equal opportunities to build their human capital, regardless of socio-economic background, is a key challenge to strengthening social cohesion. A number of interventions can help diminish the importance of background and encourage students from all sectors, including the most disadvantaged, to acquire more education. A key objective should be to minimise the differences in individuals’ ability to benefit from formal schooling. Non-school inputs, such as early-life nutrition and pre-school programmes play a key role here: more than 200 million children are estimated to fall short of their development potential due to stunting as well as iron and iodine deficiencies.

Equally, instruments that reduce opportunity costs of continued education can improve attainment levels. Lowering the cost of schooling is an important first step in encouraging secondary completion and higher education enrolment. Conditional cash transfers and Food for Education initiatives are known to be efficient tools for increasing school attainment.

Efforts to close the gender gap in education are particularly important because, on top of the imperative of equal access to education for boys and girls, it can help break the inter-generational transmission of poverty. Indeed, maternal education has positive effects on children’s health and future prospects. Gender-sensitive school policies and facilities do foster social integration.

The schooling experience itself also impacts social cohesion, as it shapes and transmits common values that underpin social capital and inclusion. How children are schooled is important for building their sense of belonging to a society. Schooling should be organised to increase the participation of children from disadvantaged groups, thus making education more inclusive. Greater inclusiveness can also result from the development of teaching techniques and curricula that foster diversity and enhance positive perceptions of others within the system and society. This applies particularly to the better integration of minorities in education. Countries where inclusion at school is greater are generally also those where trust between different groups in society is stronger. Moreover, inclusive schooling systems tend to perform better in terms of learning outcomes than segmented ones.

Gender

Despite high growth in the last 20 years, many countries have not made any real headway in improving gender equality. Cultural dynamics and the fact that social institutions lie at the root of existing power relations make challenging discriminatory social institutions a daunting task. Providing incentive for change is therefore crucial. Change should be initiated in the areas of employment, education and entrepreneurship through, for example, increasing women's access to credit and technology and providing conditional cash transfers specifically targeted at transforming discriminatory social institutions such as forced and early marriage.

A critical starting point for addressing institutional bottlenecks in the area of gender equality is to enhance women's productive activities by guaranteeing them property and inheritance rights. Limited access to resources reduces the ability of women and girls to generate a sustainable income, and can lead them to take up more poorly paid or insecure employment. Furthermore, the lack of access to and control over land can have a negative impact on the food security of the household, increase women's vulnerability to poverty or violence, prevent them from accessing bank loans or financial services, and reduce their decision-making power.

Migration

South-South migration – migration between developing countries – has significantly increased and diversified over the last two decades and this trend is likely to intensify in the future. But the integration of immigrants is a challenge not only in rich but also in poor countries. The experience of emerging economies is symptomatic of the challenges that integration represents for immigration countries around the planet. Although they do face the same challenges as native populations, immigrants are also often deprived of access to decent public services. While limited resources in new immigrant destination countries cause concern over the development of specific measures against the social exclusion of immigrants, the history of integration in OECD countries seems to suggest that the earlier countries address this issue, the more successful policy interventions will be.

Migration-related social cohesion must go beyond anti-discrimination measures. A smooth integration process should, in particular, include a comprehensive set of social, employment, education and housing measures. Efforts also need to be made to improve native-born citizens' perceptions of immigrants. Policies should prevent and reverse the social exclusion of immigrants, which is still the biggest single barrier to full integration; foster positive bonding between immigrants and local people; and, finally, promote social mobility for immigrants by improving labour market mobility, facilitating entrepreneurship, better skills matching, and encouraging education.

Designing and implementing social cohesion policies

Civic participation – an inclusive policy agenda

Giving space to dissenting voices is fundamental to the creation of a sustainable, socially cohesive society. The harnessing of civic participation and political feedback mechanisms is essential if growth processes are not to be derailed. This is particularly true in the context of shifting wealth, where faster economic growth and more social dislocation require innovative responses. The process of policy making is as important as the policies themselves for building social cohesion. Social cohesion will be enhanced by an inclusive, co-ordinated policy-making process.

Inclusive policy making brings in the views of all stakeholders – from those who will be implementing the policies to the final beneficiaries. The policies which result from such a process benefit from having greater legitimacy and support, factors which ultimately determine their effectiveness. Promoting civic participation and decentralisation could prove to be a powerful tool for improving service delivery as well as something to be valued in its own right. Similarly, women are important agents of change, and facilitating their full participation in democratic life is an important policy objective.

Implementing a social cohesion policy agenda requires effective administration and co-ordinated action across multiple policy domains. Strong institutions and a quality public service underpin successful public action. First, countries should focus on strengthening the civil service and the quality of regulation, inter alia by improving human resource management in public employment and implementing “performance based budgeting” mechanisms. Second, horizontal co-operation across ministries is needed, as the effectiveness of different interventions is interrelated. Third, many emerging and developing economies are fortifying their institutional capacity through decentralisation and local capacity building, but the benefits are far from automatic. The involvement of multiple actors across different levels of government requires negotiated roles to ensure accountability. In sum, complex links between policy areas mean that tools for both vertical and horizontal co-ordination are needed, and the centre of government

must take an active managing role. Institution building takes time and hence implementing a social cohesion agenda requires a long-standing commitment.

Better data, better assessments, better policies

Policy making also needs to be more evidence-based. Economic and social policies to foster social cohesion in practice require a framework for ex ante and ex post assessments of their impact: Do they lead to more or less social exclusion? Do they foster trust and civic participation? Do they help to improve social mobility? The monitoring and evaluating of social cohesion policies which can answer these questions requires new data. As advocated in the Sen-Stiglitz-Fitoussi commission's report in 2009, progress measurement should embrace indicators beyond GDP growth to capture other dimensions of well-being. Absolute and objective measures of progress should be complemented with relative and subjective measures for more effective assessment.

Efforts to collect data in order to calculate such measures currently focus on developed countries and are mostly carried out by private organisations. Comparability, availability and quality of data could be improved if national statistical offices (also) gathered them. However, the potential of the data can be fully exploited only if i) there are international standards for data collection; ii) statistical capacity building is facilitated in countries where it is needed; and iii) data is made public as much as is possible.

Outlook: Social cohesion for long-term, sustainable growth

The structural transformation of economies brought about by integration into the world economy offers various unprecedented possibilities to foster social cohesion. The availability of greater fiscal resources can be used to develop more comprehensive social security systems to protect all sections of the population. The success of changing discriminatory institutions against women in some countries can be an inspiration to others. In a more fully integrated economy it becomes imperative to develop an educational model that enables upward social mobility.

To promote social cohesion is not to promote an apolitical vision of the challenges facing society. Fostering it as an overarching objective can only be realised if the main stakeholders of a society – the authorities, business organisations and civil society groups – are involved and actively work together to jointly address collective action. Donors can lend their support by helping to develop an environment where people can actively participate and speak out and where the government is being held accountable. The transition process that many converging countries are now undergoing is likely to be turbulent and prone to conflict. If managed carefully, however, it offers the opportunity to address long-standing inequalities, develop a more inclusive social security system, create a sense of belonging and thereby strengthen the potential for a long-term, sustainable growth path.

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