TRANSFORMATIVE SOCIAL POLICY AND THE DEVELOPMENTAL STATE

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INTRODUCTION

Implicit in every development strategy is social policy. Social policy is not something that countries engage in after development or after crossing a certain development threshold. Social policy is consists of major transformative instruments many of which are simply unavoidable for any meaningful policy of "catch-up" and development. And yet much of the "developmental state" literature has ignored social policy as constitutive of such states. Many developmental states have engaged in an extensive range of social policies without always being conscious of themselves as welfare states. Like Moliere's Mr. Jourdain who learned that that he had been speaking prose all his life , some developmental states are now discovering that they have been welfare states all along, albeit nascent ones and far from the full blown form of social democratic Welfare states[1]. Social policy has played an important

[1] This self-consciousness of a developmetal state as a "productive welfare state" is illustrated by the official presentation of papers at a conference on Korea (Mishra 2004)

role in the process, a point much more widely recognized in the second generation "developmental state" literature which pays greater attention to its welfare aspects (Aspalter 2002; Bae-Gyoon 1998; Draibe and Riesco 2007; Gough, Wood, and Barrientos 2004; Haggard and Kaufman 2008; Holliday 2000; Huat 2005; Kwon 2005a; Kwon 2005b; Pempel 2002; Peng and Wong 2004; Riesco 2006; Sang Kyun Kim 2008; White and Goodman 1998)

There is now a growing literature codifying these "welfarist" aspects of the developmental state. However much of this literature does not include these aspects of the developmental state among its defining features and does not seem to consider these welfare aspects as indeed constitutive of the developmental state. This paper sets out to highlight features of social policies in developing countries that are inseparable from the developmental projects being pursued by such countries. The choice of welfare elements discussed is selective, the purpose of the paper being to simply indicate the direction of that the theorizing the "developmental welfare state" should take and underscoring the transformative role that can be assigned to social policy.This paper does not address the political underpinning for the adoption of any social policz nor does it evaluate its normative appropriateness.

Competing Ontologies of "welfarism" and "Developmentalism"

The logic of social policy has a lot to do with how one "stylizes" the spontaneous working of the market. In the neoclassical model it is assumed that markets perform perfectly. There is perfect information and all producers have access to the same technological which obeys constant returns to scale. Savings equals investments and are both determined by the rate of return. All resources are fully employed and if they are not they can be instantaneously and costlessly disposed of. Income distribution is determined bz the marginal returns of the different factors of productions. Individuals are described as rationally pursuing the maximization of utility. Since there are no externalities in production or consumption, individuals preferences are unaffected by those of others. With labor markets always cleared, given the flexibility of wages and productions functions, there is always full employment. This framework has been the lense through social policz has been viewed, often as "distortions" brought about rent-seeking and clientelism. On this jaunndiced view of social policy Tony Atkinson observes::

> The emphasis by economists on the negative effects of the welfare state can be attributed to the theoretical framework adopted in much policy analysis, which remains rooted in a model of perfectly competitive and perfectively clearly markets. In the first-best situation, any real world tax necessarily causes loss of efficiency. Put another way, the theoretical framework incorporates none of the contingencies for which the welfare state exists. There is no uninsured uncertainty in the model; nor involuntary unemployment; nor is the future introduced in any meaningful way. The whole purpose of the welfare state provision is missing from the model" (Atkinson 1999)

In the neoliberal world, social policy appears merely as a corrective mechanism for addressing "market failure" and no for addressing some transcendental values, primacy and normalcy being given to the market. And yet the provision of social protection and concerns of distribution of wealth surely preceded the market and, in any case, the market is simply one of the many institutional arrangements societies have for production and distribution of wealth. There really is no reason for assuming the market is the default position of social transactions.

The neoclassical understanding of the workings of the market have had implications for social policy in the developing countries especially during the reign of neoliberal-inspired structural adjust and stabilization programs imposed by the Bretton Woods institutions during much the last four decades. For much of the 1980s and 90s social policy was assigned a residual role, largely that of politically sugar-coating policies that were entrenching insecurity through massive layoffs engendered by de-industrialization and retrenchment of the state. These palliative programs were often in response to "IMF riots" and the appeals of the international community for “adjustment with a human face”[2]. The political purpose of these programs was underscored by the high publicity given to them despite the miserly resources allocated to them. This marginalization of social policy did not only reflect an ideological onslaught on the welfare state in general but, in the developing countries, it was the reinforcement of the new focus on stabilization and rejection of development as a social project that could be collectively embarked upon and managed with the use of the state as lead instrument. “Development” had been reduced to poverty reduction. Although this was to shift aid from development projects to social programs such programs lacked the transformative features of social policy in its comprehensive sense. In these approaches if the transformative role of social policy is admitted at all it is often confined to the micro-level at which social protection is said to encourage the poor to takes one more risky but higher returns economic activities or where microcredits addresses the “market failures” in the financial market that prevent the poor from investment in themselves. This restriction of social policy is part of the ring-fencing of the core macroeconomic adjustment model from the incursions of social agenda that might sabotage its stabilization purpose.

During the 1980s two streams of comparative studies codified the type of economic and social regimes in the developing and developed countries. The first of this was the literature on “welfare regimes” or “varieties of capitalism” that was focused on the developed countries (Coates 2005; Esping-Andersen 1990; Hall and Soskice 2001; Huber 2002; Manow 2001; Sheahan 2002; Stephens 2002). The other literature was that of the “developmental state” that identified a genre of states that had managed spectacular transformations of the economies of East Asia (Amsden and Euy 1992; Appelbaum and Henderson 1992; Chang 1999; Wade 1991; Woo-Cumings 1999). While the former drew on Keynesian economics the later was related to development economists. Both Keynesian and development economist were

[2] The name of the Ghana social program that was introduced together with structural adjustment is a succinct summary of what social policy had become: Program of Action to Mitigate the Social Costs of Adjustment (PAMSCAD).

premised on the notion that there were many structural constraints that were *normal* to markets and that suggested that the neoclassical model was “misplaced abstraction” or “a special case” (Seers 1963). Both these literatures addressed problems of market economies, both presumed “market failures” and both assigned a central coordinating role to the state. And there the symmetric ended. In addition development economics drew from other CANONS – classical economists, the German Historical School and the Schumpeterian view of capitalist economies[3]. While there was clear theoretical association of Keynesian economics and the social policy regimes of the advanced industrial countries – the “Keynesian welfare regime”, - there was no equivalent theorization of the “developmental welfare state”. The literature on development states acknowledged the importance of these elements of social policy to the development project. However these aspects of social policy were often seen as end states of development and their transformative role in the development rapid development and structural change were not systematically elaborated. More significantly, there was no elaboration of the “development welfare regime” to anything comparable to the literature on comparative welfare states for the advanced industrial economies. This lack of theorisation can be particly attributed to theoretical blind spots in development literature that blocked the emergence full-blown theories of the role of social policy in the development comparable to one that developed about the welfare regimes of the OECD countries. One explanation for this lacuna is the divide between the welfare state and the developmental state literatures[4] If in the Post-World era social policy in the developing countries was the handmaiden of developmentalism, in the developed countries it was associated with Keynesian economics which was fundamentally preoccupied with issues of

[3] Thus Lance Taylor remind us although early development economists differed about how to characterize growth paths and how to get between them they all followed Schumpeter in “-in thinking of development as a process of transition from one steady state to another-and “Schumpeter’s (and the classical’) emphasis on studying how economies change over time in specific historical and institutional circumstances”. (Taylor 1988: 165).

[4] I discuss this divide in (Mkandawire 2011).

stabilization and maintenance of full employment or putting back to work those who had lost employment due to the Depression. Not surprisingly its focus was demand management and not supply expansion, the quintessential preoccupation of development theory. Recall that a key assumption of the model was excess capacity and underutilization of existing resources due to low levels of demand. In this model social policy provided both the objective of macroeconomic policy (full employment) and an important instrument in achieving the macroeconomic stability (Fordism). And so if it paid any attention to growth at all, it was through the channel of better capacity utilization by augmenting aggregate demand through state expenditures on social programs. This preoccupation with demand management led to the view among many development economists that Keynesianism and the social policies it spawned did not directly address the long-term problems of economic development and the supply constraints on production. The association of Keynesianism with the welfare state literature made social policy static and passive. This immediately made the welfare state and the literatureof much less relevance to developing countries.

We should, however, recall that even for the developed countries there were strong views within the Keynesian paradigm itself for the need of a growth component. After all the welfare state needed not only full employment but increasing incomes and welfare as well[5]. Among the first attempts at giving a growth element to the Keynesian system was Harrod's work on growth which was immediately followed by neo-Keynesian work by economists such as Joan Robinson, Nicholas Kaldor, using a Neo-Keynesian framework that drew heavily from the classical theories about distribution, savings and investment. However, this more dynamic work did not feature in the latter flourishing of the he comparative social policy research program which was largely focused on comparative staticsso that much of the theorizing about social policy had a rather tenuous relationship with economic growth, a fact

[5] The Kalecki version of "Keynesian economics" had strong growth component right from the beginning but this is not the model that won the battle of the day in the policy circles.

demonstrated by the "discovery" in more recent literature on the welfare state of "social investment" as one of the tasks of social policy (Andersson 2004; Giddens 1998).

The neglect of the productive role of the welfare state was much more a problem of academic modeling that of practice. The welfare state has, in fact, been profoundly concerned with production if only because it was premised on full employment and high taxation, both of which required a vibrant economy. In some of the policy formulations this "productivist" role of the welfare state was quite explicitly articulated. Thius was especially the case in the Swedish welfare state which was influenced by the Myrdalian preoccupation with "social investment" and the Schumpeterian notion of "creative destruction" . This in turnsuggested the need of policy measures to address the consequences of such "destruction" and a rejection of the passive role to social policy:

> "There are exceptions to this passive approach, though. In Sweden in the 1950s, the active labor market policy approach formulated as part of the Rehn–Meidner model appears to be a parallel track inspired by Schumpeter as much as by the Myrdal legacy. Following Schumpeter, the Rehn–Meidner model was actually designed to reinforce the destructive forces of capitalism in order to promote the establishment of new and more wealth-creating structures but, following the Myrdals, the model also provided the policy instruments for equipping the workers of the old structures with skills and other resources that would enable them not only to access but also to gain from the new structures. (p. (Morel, Palier and Palme (Beyond the welfare State" (p. 7)

In the age of adjustment both the Keynesian and developmental framewrk within which social policy was to be understood were overthrown by the "neoliberal counter-revolution" with its own social policy focussed largely on poverty reduction a and targetted "anti-poverty" programs. Such programs are tethered to an economic policy regime whose main focus has been stabilization, fiscal probity and debt relief and are thus unlikely to attend to the full range of measures and objectives of social policy which, in the context of development includes enhancing of economic development.

PURSUIT OF SOCIAL GOALS

Before turning to the more instrumental roles of social policy it is important to stress that countries often pursue social policies for their intrinsic values or as consequence of ideological predisposition - what George Bush apparently pejoratively referred to as the "vision thing". Development posed three issues about social policy. The first one is related to the "social question" that the process of rapid change entails. The second relates to the instrumental value of social policy and its other relationship with the development process. The third is the normative framework social policy establishes for development. Thinking about social policy in developmental terms immediately raises the danger of overly instrumentalizing social policy, thereby undercutting the intrinsic value of its pursuits. Indeed one view suggests that "developmental welfare states", because of their "productivist" bias, may be the polar opposite of welfare regimes that have been the central concerns of much of the theorizing inspired by Esping-Andersen seminal work and whose normative premises are said to be fundamental values of inclusion, equity, solidarity etc However, strictly speaking no policy regime is ever purely *productivist, protectivist or distributivist*. Even the presumably most "productivist" developmental states have had to pay attention to other concerns.

What emerged from the comparative social policy literature on the OECD countries was the notion of welfare regime as an ensemble of policies and institutions that ensure the basic reproduction of society through family polices and child care; protects the citizens through the vagaries of life; ensures redistribution of income within a given generation or across generations; and provides the citizens with the requisite skills and know for the enhancement of societies productive capacity. Each of these objectives is intrinsic value. However the point we will be making here is that in a transformative social policy each of these functions of social policy can be harnessed for productive and developmental purposes without compromising their intrinsic value. In other words such an approach would seek to reconcile means and ends to avoid the situation where horrible things are done in the name of the final goal. Obviously any social institutions with such a remit must have considerable impact on social change.

The ideologies driving social policy have included nationalism and the nation-building projects that goes along with; varieties of socialism with their egalitarian ethos, religions and its notions of justice; class ideologies and their demands for solidarity; the quest for modernity and the emulative impulses its induces, etc. There is, of course, also the learning effect. Many of the lessons on the social consequences of rapid industrialization that were learned *ex post* are now known *ex ante* so that government can act pre-emptively. Such lessons are not only with respect to protective roles of social policy but apply to the productive role of social policies as well. Many labor practices that earlier capitalists may have dreaded are now understood to be good for the efficient management of capitalist firms. In addition, late industrialisers may be confronted by international regime that insists on certain social standards. Some of these measures may be insisted upon by the more industrialized countries to protect their own industrialize but in many cases they are the *acquis* of the labor movement and have thus acquired a universality that constitute the context within which late development must now take place. Thus membership to international convention may introduce norms and goals that significantly affect social policy goals. Social protection and labor imposed by International Labor Organization treaties are one familiar example. Even more pertinent for developing today are the United Nations' Millennium Development Goals that have set targets for the achievements of a number of social goals by member states.

All these goals may have instrumental value for economic development but they are generally pursued for their perceived intrinsic values. The challenge is how the instrumental aspects of these policies can be galvanized for developmental purposes without undermining their intrinsic purpose.

INSTRUMENTAL VALUE OF SOCIAL POLICY

James O’Connor (1973) argued that in all models of capitalist accumulation there are two instrumental preoccupation of policy: the legitimation of the accumulation regime and the reconciliation of the imperatives of legitimation with those of accumulation. Without succumbing to the functionalist thrust of the argument, I will use this framework to discuss transformative social policy by examining how social policy impinges on:

1. Legitimacy and Political ” of the development Project
2. Accumulation and investment
3. Human Resource Development
4. Labor markets conditions

We noted that in a developmental context, the transformative role of social policy would be more pronounced than in other contexts. This is not to suggest that other aspects of social policy would not matter but to simply argue that in such contexts these other concerns would have to contend or interact with the deliberately “productivist” elements of social policy. To say that “catch up” dominates social policy consideration in late industrialisers is not to suggest that it determines it. For one in capitalist societies there is an oorganizing principle which insists that social policy be incentive compatible with the market.

Legitimation and “Embedding” of the development Project

Social transformation in the case of late industrialisers is often telescoped and can be extremely disrupting, tearing asunder long-established social bonds and long held norms and world views. It is this that makes the “social question” even more acute among late comers than it was for the pioneering countries. And it was the response he ravaged of laissez faire these that provoked what Karl Polanyi (1946) called the “double movement”.. It is thus not surprising that many late industrialisers have adopted a number of social policies at much lower levels of economic development than the “pioneers”. In the language of Polanyi this was one way of “embedding” the market to the social sphere that was broader that of the bourgeoisie.

The quintessential developmental states of East Asia were authoritarian and their efficacy has been attributed to their “autonomy” which left them unencumbered by social claims. Given such a characterization more attention has been paid to what Michael Mann (Mann) refers to as the “despotic power” of the state (referring to the “range of actions which the elite is empowered to undertake without routine, institutionalized negotiation with civil society”) than to the infrastructural power (defined as the ‘capacity of the state to actually penetrate civil society and to implement logistically political decisions throughout the realm’) (Mann 1985). The extraction of resources (human or material) from society without recourse to force is a key element of such infrastructural power. The earlie view of “autonomy” which associated it with authortarian rule was modified with the notion of “embedded autonomy” which pointed to a special relationship between the state and business and the many mechanism of consultation between them (Evans 1995). However this focus on the "embeddedness" of the state with respect narrow sections of society tended to neglect the implicit or explicit social policies of authoritarian states aimed at other sections except to the extent that it enhanced human capital. Indeed this restricted view of "embeddeness" led to the characterization of East Asian as "social policy free zone" (Chang 2004).. Even in its most authoritarian moments the developmental state had to adopt policies that gained it legitimacy in the eyes of the population or, at least those section of the population that were central to its industrialization project – capital and labor. In general this literature exhibits some ambiguities. While measures by the state to "embed" itself in bourgeoisie society are suggested as source of its effectiveness, instrumentalizationof social policies to extend the embedded of the autonomous state to other social classes is viewed negatively as aimed simply at pacifying the workforce or as "pre-emptory means to address existing or expected distributional conflicts or to facilitate the industrialization process, rather than to reduce social inequalities" (Chung 1992: 3 see also Deyo, 1989 #50; Holliday 2000; Midgley 1986).

It should be pointed out that the welfare regimes embedded within the developmental project may have been confined to a limited sphere the radius of such a sphere ultimately depending upon the model of industrialization and the elements of labor that were necessary to this industrialization as was the original Bismarckian welfare state. This narrow basis of social policy and its delimitation has been replicated in many ways, producing social policy that was segmented according to how the industrialization processes patterned the labor force. This segmentation of social policy has open room for an assault on social policy on neoliberal populist grounds, leading in some cases to abandonment of the segmented welfare regime. The policy, however, s not that welfare is segmented but the speed at which the welfare state is spread and unified.

Ensuring Labor peace

Manaing labour relations n the process of development, is one of the most politically explosive roles played by the state this is because they are the intersection of the policies for growth and the politics of inequality. It is also state policies in the labor market that often most vividly distinguish authoritarian regimes from democratic states. Not surprisingly, one of the major roles assigned to the the welfare stateis fostering "labor peaceThis “peace” produces an invaluable determinant of economic growth – stability can play a role in exhilarating the “animal spirits” of investors by ensuring political stability. For the developed countries Bowles and Gintis have observed:

> First, there is a significant "macro carrot" affect, noticeable in numerous advanced capitalist countries in the post-war period: insofar as the growth of the citizen wage represents a quid pro quo for relatively harmonious capital-labor relations in production, the welfare state may enhance work effort. The strong negative relationship between strike incidence and the extent of social democratic participation in government is suggestive of this carrot effect. (Bowles and Gintis 1982: 343)

The dangling of this “macro carrot” is equally important for developing countries. For all the labor unrest in some of the Asian developmental strategy there is ample evidence to suggest widespread adhesion by the population to the otherwise topdown development project. The Gramcian hegemony of such a project has been attributed to all kinds of things – docility, Asian values or Confuiccian deference to authority, , acquiescence under the duress of brute force, patriotism and selfsacrifice, etc. But there is a persuasive literature on how politics and social policy played their part in “buying peace” (Ringen, Kwon, Yi, Kim, and Lee 2010). The idea of “Industrial citizen” in Korea and Japan was a way of integrating labor into the developmental model. China’s current talk about “Harmonious society” speaks to the same problematique. Brute force alone could have susatined the developmental projects of these countries for so long.

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The productive role of social policy

In this section, we argue that social policy has played an important role in the link. Social policy can play a role in determining t (a) his investible level and distribution of the investible surplus and (b) the use by directing or stimulating investment and the mastery of technology

Social Policy and Reproduction

The most direct channel through which social policy affects resource mobilization is the reproduction of labour as a means of production.. Social policy either by omission or commission has enormous implications on demographic dynamic. One child-per-family policy in China and the "family friendly" policies of the Nordic countries are examples of policies that have had significant and not always intended or anticipated consequence on child birth, aging and labour supplies. For developing countries social policies can determine the nature and timing of the "demographic transition which have been suggested as one of the major determinants of economic growth acceleration because they leads to a dramatic increase in the active labor force (Bloom and Williamson 1998). Social policy can affect both child mortality and child spacing with policy measures ranging from prioritization of the education for women and access to health services and family planning can have a significant impact on population growth.

In addition to contributing the overall size of the active labor force, social policy can affect levels of labor participation of different groups by removing impediments to their involvement in their labor market. Removal of ethnic, gender or religious discrimination is one familiar case. A whole set of measures affecting care can influence women's participation in the labor market.

One notion from the welfare regime literature may be not be applicable in developmental situation is the notion of "decommodification" which involves weakening the citizen's dependence on the market (Esping-Andersen 1990). In developing countries employment generation and mobilization of labor through increased labor participation are key developmental and social objectives. Thus, for instance "women friendly" policies can enable women to combine employment and caring for families" (Hobson 2006). One of the great transformations of the development policies has been entrance of women into paid wage labor. In many cases this has involved some "de-famialisation" through reliance on markets (maid services or employment related company welfare) or through state provision.

Social Protection and Accumulation

Social policies can be a source of investible fund through various providential schemes. In virtually all the "late industrialisers" pensions have played an important role in the accumulation process. Quite remarkably although pension funds constituted large amountsof money in some developing countries, little was said about their developmental role in earlier literature. The most iconic providence fund is Singapore's Central Providence Fund which has played a vital role in the generation of savings. Citizens were forced to contribute to the Central Provident Fund which accounted for 25 percent of gross national savings in 1985. The Funds contributions enabled Singapore to raise its gross national domestic savings to as much as 40 per cent on the average in the 1980s (Huff 1995). In a similar vein South Korea the pension system were designed not too exclusively to protect workers but designed "as a source of capital rather than as a means of old-age income security" (Jung and Alan 2009: 427). Huge funds were collected in the process, constituting 30 percent of GDP in 2006. As in Japan, in South Korea a substantial portion of the pension funds were lent the Ministry of Finance which in turn has used these funds to invest in various public projects (Iglesias and Palacios 2000). The pension system was used particularly to financing heavy and chemical industries (Kwon 2004, Kim 2006) (Jung and Alan 2009).

Many other countries had similar “forced savings” schemes many of which were wholly or partially privatized during the era of neoliberalisation (Huber and Stephens 200; Mesa-lago 2002; Singh 1996; World Bank 1994). Many countries may not have wisely allocated these funds but the privatization, rather than re-examining the investment portfolio of these funds[6], has denied the state access to useful funds for investment in infrastructure. Privatized pension funds now tend go into real estate speculation in shopping malls or into buying treasury bonds to finance government deficits or are simply transferred abroad as part of the portfolio diversification.

Social Protection and Financial Conditions

Financial conditions here refer to how financial institution and markets are structured (the private/public ownership divide, the nature of competition, universal banking versus arms-length “Anglo-Saxon” banking , the role of stock markets etc.). Earlier understanding of the institutional requirements for financing development among late industrialisers were captured in the work of Gerschenkron(1962)who argued that such economies would require specialized institutions. First, in these countries firms were unlikely to have sufficient internal funds to finance the relatively large and more capital intensive “catch-up” industrialisers. Furthermore such economies were unlikely to rely on individual investors who were more

[6] Mismanagement of these funds was often attributed to political interference. Privatisation was advanced on the grounds that it would insulate pension scheme from political interference. However, as the experience of Argentina, with the 2008 nationalization of its private individual accounts system, suggests that privatisation is not irreversible(Kay 2009)

inclined to invest in more familiar activities and safer assets such as government bonds. The general understanding was that development required some form of credit rationing to direct funds towards what were considered as strategic sectors or industries in the process of economic development.

The way pension these funds are collected and managed can shape the financial sector while the financial sector can, in turn; affect their returns and the portfolio choices available to them. The way in which labor income and welfare is regulated thus influences whether savings will flow into the banking system (Vitols 2001: 175-6). The link between social security funds and development finance has been a feature of “late industrialisers” with the German “universal banking” and the Bismarckian state the most emulated among other late comers. The firm or industry level policies that ensured wage compression and lower levels of household inequality and that laid great emphasis on solidaristic retirement provision were important factors in supporting the bank-based system in Germany (Vitols 2001). “This elective affinity between solidaristic labor regimes and bank-based financial regimes is important in controlling the relative size of the market segment of the financial system” (Vitols 2001: 176).

The IFIs understood this financial nexus. The sheer magnitude of funds involved relative to national financial institutions has made such resources a focus of attention in the design of financial systems for economic growth. The liberalization of financial markets and the introduction of stock markets were thus closely related to the privatization of pension funds. Chile took the imitative in this. The Pinochet regime dramatically illustrated the elective affinity between social security systems and financial institutions. Following this experience many developing counties have been forced to privatize their pension funds mainly to kick start stock markets. The argument is that such stock markets will contribute to the "deepening" of financial markets, which will, in turn, contribute to higher growth, a contested position considering that none of the higher performing developmental states have relied on such stock markets (Singh 1996).

Distribution and accumulation

One aspect of the "social question" has been the increasing inequality in the early stages of development. This was sanctioned not only by the Kuznets Hypothesis" on the inverted u-shaped trajectory of inequality but also by the dominant theorization of the link between income distribution, savings and investment. At the ideological level this was given a Calvinist twist whereby nations would have to go through a vale of tears of high inequality and sacrifice before redemption. Essentially this meant eschewing policies that would counter the ineluctable process of growing inequality. Another argument for accepting growing inequality took a more classical form, being focused on functional income distribution. The earliest formalization of this problem in the development debates goes as far back as the classical economists who were concerned with question of distribution among the various class recipients of specific types of incomes. More specifically, wages for workers, profit for capitalist, rents for landlords and interest for the financiers. It was generally understood by the more progressive economists of the time that the accumulation of wealth and growth would be accelerated if the surplus was shifted towards profit and away from the rentier classes who were generally viewed as unproductive and wasteful. In development studies, this classical focus of functional income distribution was revived by Lewis. For Arthur Lewis the implicit view was that the allocation of surplus should favor capitalist who would reinvest it. In the debate on Latin America, it was generally argued that the reduction or removal of rents accruing to the Latifundista would unleash capitalist development. Many neo-Keynesian economists have, by implication, subscribed to this view, although their concerns for aggregate demand may have suggested a re-distribution in favor of workers with higher propensities to consume.

In more recent years there has been literature that challenged both Kuznet's hypothesis and the classical argument for inequality in capitalist economies. There are least two arguments for considering income distribution. The first is the political economy argument that high levels of inequality can lead to resentment and politics of confiscation and to punitive taxes which reduce investment incentives and thus leads to lower levels of growth. (Alesina and Rodrik 1994). The second argument is that in situations of extreme inequality and credit market imperfections, the poor will not have access to credit to allow them to invest in themselves or their offspring (through better education and health). Further, the poor will be averse to risk and will therefore not undertake risky but high return activities. Perroti summarises the argument as follows:.

> "The basic idea that emerges from these models is simple: when individuals cannot borrow freely against future income, the initial distribution of resources can have a large impact on the economy's pattern of investment and therefore of growth. A fairly general, although not universal, conclusion of these models is that, if wealth is distributed more equally, more individuals are able to invest in human capital, and consequently growth is higher(Perotti 1996)

This analysis fits in with the emphasis by such institutions as the World Bank on "equality of opportunities" rather than outcomes. As we noted earlier, rather thatn point to compressive, transformative social policy, this analysis has, instead, pointed towards financial market reforms to make credit accessible to the poor (e.g. microcredit)

Income distribution matters for the economy. But what income distribution? Economists distinguish between personal and functional distribution income. The evidence used – that of personal income distribution – may have been the appropriate one against Kuznet's hypothesis but they are hardly the correct ones for the classical case which builds on functional income distribution. The choice between the two measures is not matter of indifference in terms of thinking about social policy. While personal income distribution may be good tends to focus social policy towards poverty and may be an appropriate measure of the well-being of families, functional income distribution seems more appropriate for the larger issues of macroeconomy including growth and stability and for understanding the root and systemic causes of poverty, partly because it is functional distribution that shapes the personal income distribution and partly because functional income distribution is important to understanding the different rates of accumulation. It is perhaps not surprising that with the dominance of neo-liberalism and an agenda on poverty that does not demand much redistribution the focus has been on personal income distribution. Furthermore, the two measures point to distinct political economic frameworks. The focus on personal income distribution has, for instance, been associated with a political economy that revolves around the "median voter". In contrast, classical economists and later post-Keynesian economists focused their attention on functional income distribution has tended to look at class relations. Moreover, functional income distribution tends to address the distributional issues pertinent to social policy, distribution and accumulation in a capitalist economy and consequently places social policy in a dynamic context. Foley and Taylor observe

> In our view the core insights that unify heterodox perspectives are: a focus on the functional distribution of income (the division of national income between wages and profits); the avoidance of model closures that imply full employment of a given labor force; differential modeling of the consumption and savings decisions of workers and capitalists; the adoption of an investment demand function independent of savings decisions; and a separate treatment of the firm as an economic agent independent of its owner households. These insights contrast sharply with the insistence of the orthodox approach on attained equilibrium models with full employment of labor, continuously fulfilled expectations, and a representative household, which imply a savings-constrained growth process." [Foley, 2003 #13879]

In other words the "profit-wage bargain" was a central issue in development and that functional income distribution is determined by processes of bargaining and social conflict.

Functional distribution seems to becoming back in the analysis of the current crisis as attention is paid to the implications of shifts of income from wages and profits to rents and interests accruing to the financial sector, a point acknowledge even within the IMF (Kumhof and Rancière 2010).

Late industrialisers have to deal with dynamic externality associated with the discrepancy of ex ante and ex post bargaining over distribution. This relates to the intertemporal decisions about investment, consumption and accumulation (Vartiaien 2004). Going back to the seminal Lewis model the critical assumption: What made capitalists reinvest by translating high profits into high savings and high business? There were two major criticisms of the Lewis model. The first was that there was no automaticity to the behavior of the key actors in the economy and that there was, indeed much more room for discretion in the use of economic surplus and setting of wages. Marxists criticized it for its assumptions about capitalist behavior and pointed to waste and repatriations of surplus (Baran 1957). They also challenged the assumption of the competitive capitalist sector that paid homogenous wage rate. Instead they pointed to the existence of an oligopolistic sector that was able to pay higher wages from its higher profits and higher productivity technologies, thereby producing a “labor aristocracy” (Arrighi 1973),

One important feature of the “East Asian Development state was the “High profit-High growth” nexus behind the high les of growth (Akyüz 1996)[7]. How was this achieved? A number of arguments have been advanced in the development state literarture which have included nationalism of the bourgousie, the coersive force of the state and its ability to

[7] With respect to high share of profits in the East Asian economies You argues:

> “A high business saving rate may be due to a high share of business profits in the distribution of income and/or a high profit-retention ratio. Can we say then that the high rates of business savings in East Asia derive from the income distribution that is unusually favourable to profits? The answer is a qualified yes. All the East Asian countries have relatively high profit shares (equivalently, low wage shares), but almost a half the developing countries have profit shares similar to or higher than the East Asian level.” (1998: 49)f

“stablise” labour and, through carrots and sticks, to make the business class to buy into its porojject and the autonomy to force capitalist to invest (Koo and Kim 1992). [8] This, I believe, has obfuscated an important aspect of economic and social policy in the South Korean, namely the measures to support high profit, to ensure lower wages and labor peace accompanied by restriction on the use or allocation of such profits. There were a number of instruments for ensuring proper use of surplus. These included “severe restrictions on luxury consumption, both directly through restricting the import and domestic production of luxury consumption goods, and indirectly through high taxation and restrictions on consumer credits, although the mix of measures differed across countries” (Akyuz, Chang, and Kozul-Wright 1998). The other measures were restriction of earnings from the financial sector. This was achieved by the state controlling or owning the banks, elimination speculative investment opportunities, restrictions on the outflow of capital. If we add to these land reform measures that basically eliminated rents for landlords, we have an economy in which profit reigned supreme.

For government who sought to stimulate investment by favoring profit earners and restraining wages, a critical assumption in this is that capitalists would be “patient” enough to reciprocate with high levels of reinvestment of profits. A major challenge in relating labor and financial markets in the process of development is one of finding systems that ensure both “patient capital” and “patient labor” to underpin their accumulation and innovation systems. In the context of catching up, patient labor in the labor market should have as a counterpart patient capital in the financial market. For example, workers would be “patient” enough to accept a lower wage on the assumption that higher profits will lead to higher investment and, therefore employment and higher wages in the future. However, there was a

[8] Park Chung Hee's junta arrested leading businesspersons on charges of "illicit wealth accumulation" during previous regimes, with full intention to punish. Yet very soon Park turned around completely pardoning those arrested in exchnage for economic co-operation. He asked them to participate in his ambitious industrialisation projects as leading entreprenuers, and subsequently allocated to them the bulk of foreign and domestic capital along with many other trade and tax privileges. p. 125 (Koo and Kim 1992)

problem of credible commitments by capitalist to reinvest the surplus transferred to them through wage restraint.[9] .. That is context of catching up; patient labor in the labor market should have as a counterpart patient capital in the financial market The real problem in development has been one designing socio-political arrangement systems that ensure both "patient capital" and "patient labor" to underpin their accumulation and innovation systems.

The state can be seen as a kind of broker that ensures that the ex post distribution of resources is such that it corresponds to those incentives that were ex ante necessary to induce the necessary investments". The can also intervene in the economy to make high re-investment of profits the preferred behavior of capital owners. Here "social pacts" can play an important role. One of the functions of social policy has been to give credence to such arrangement either through state regulation or state-guaranteed or "wage bargains".

Examples from developed countries and late industrializes demonstrate the labor market policies that have been important for fostering investment. In Northern Europe the state fostered accumulation by underwriting the labor codes developed by corporatist arrangements (Mkandawire 2007). Manow (2001) observed that workers' wage restraint in exchange for employers' commitment to reinvest profits in the company was essential to the long term economic coordination in Germany and Japan. One solution adopted by developmental states was implicit agreements trading cooperation for long-term employment and real wages, which required external employment and wage protection. The East Asian Tigers' enterprise paternalism, together with national legislation mandating a number of employment benefits, gave workers a modicum of security. In this context, particularly in Japan and Korea, the famous lifetime employment system, as well as other aspects of the corporate welfare system

[9] This is a problem frequently faced by labour in developing countries. As Cristina Laurell (Laurell) notes with respect to Mexico, in the 1990s, "the large profits obtained primarily through wage depressions had not increased the rates of productive investment or job creation. Rather the scarcity of profitable investment opportunities in the national economy has provoked capital flight, along with a boom in luxury consumption (generally of imported goods) among the tiny minority of the population that is favoured by the neoliberal model". The headline in a recent article in the Herald Tribune (Sept. 30, 2006) says it all: "VW workers agree to a longer week: No extra pay, but investment is promised."

encouraged by the state, was crucial for providing industrial peace, which was crucial in industrialization.

In a capitalist country the state is always on the lookout for a “capitalist strike” whereby capitalist withdraw their services from the production process. Consequently it is always important that the social policies are somehow “market compatible”. Lindert has argued, for instance that welfare states tend to tax dividends less than liberal economies while taxing labor incomes more. They also tax consumption more. Most of the costs of the welfare state are born by the recipients themselves through taxation. The point is that welfare state have been solicitous of capital by providing incentives for reinvest of economic surplus

Social Policy, Human Capital and Investment[10]

Earlier development economics recognize the importance of “Manpower” as one important issue that would have to be addressed by any planning. In more recent years, new growth theories have accorded human capital a central role through their recognition of technological change as “endogenous” meaning that it is ermined by a number of deliberate and structured factors in society. There is always the discrepancy between social and private returns of growth-enhancing investment, such as health and education due to the presence of positive externalities. These positive externalities have been one major argument for public intervention in such social investments which government must undertake if the economy is not to be stuck in a “low development trap”. In the neoliberal view the interpretation has been given a financial twist suggesting that the problem is one of imperfections in the financial sector which do not permit the poor to borrow to investment themselves. The standard solution has been microcredit. This translation of the human capital problem into a financial policy issue is in sharp contrast to the experience in the developed countries where, the recognition of the importance of human capital has immediately raised issues of social

[10] This section draws on (Mkandawire 2007)

policy in addressing market failures in the more directly productive process of skill formation.

Labor Marked Policies and Training Regimes

Social policy links education and training to economic performance by determining levels of school enrolment and accessibility to various institutions of training; and providing incentives to firms and individuals to acquire skills. It helps in the coordination of decisions by different actors on the acquisition of skills. The literature on *Varieties of Capitalism* has identified the associated "training regimes" as one the constitutive elements of welfare regimes (Estevez-Abe, Iversen, and Soskice 2001). Such training regimes" are defined as the "ensemble of institutions...and specialized actors… engaged in the organization and provision of education and training as well as the specific customs, rules, and regulations governing their internal functioning and mutual coordination within different national policy frameworks" (Buechtemann and Verdier 1998). What this analysis suggests is that skill formation and training regimes are often embedded in much larger welfare policy concerns that have ramifications that go beyond the economic, and impact on the political and social relations (these includes gender). It further posits the view that in the advanced economies, at least, one finds a strong correlation between key components of social protection (employment, unemployment and wage protection) and the dominant skill profile of the workforce. Similar differences can be made among "training regimes" in develoing countries.

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Innovation poses a number of problems that often lead to "market failures" in the labor market. These include technological externalities or spillovers that encourage "free riding" by rival firms because of knowledge leaks, imperfect patenting, and movement of skilled labor to other firms and the problems of incentives in light of difficulties and uncertainties of surplus appropriability that often means that the innovator does not appropriate all the social gains from innovation. The scarcity and specificity of skills in rapidly industrializing countries means that firms have to contend with the ever-present danger of their skilled employees being poached by other firms. A related problem faced with respect to labor skills is that of a "hold-up", which arises in situations where (a) there are turnover (hiring and firing) costs or specific investment, and there are rents which are subject to renegotiation at the firm level (at the time of contract renewal); (b) where there are problems of writing contracts on all future "states of the world"; and (c) when any contract entered into is renegotiable by mutual consent (Malcomson 1997). These problems of "poaching" and "hold-up" are not simply hypothetical but constitute veritable concerns in the labor markets of developing countries. Many studies on the problems of training in developing countries cite the problem of poaching as a serious one and as one of the major constraints on firm level training of workers.

Workers may wish to know that should they invest time and money on training they will be rewarded with a secure and commensurately paid job. Employers may also wish to know that if they invest in training workers they will not be victims of poaching. The problems of "poaching" and that of "hold-up" can sometime be solved by the employers. In the case of poaching employers can apply collective pressure to force employees to take on the social responsibility of training or to adhere to certain wage practices as has been the case in some developed countries, adopt industry determined wages or set up standardized training of workers. However, assume a high level of organization. In situations of extreme informalization, such measures are unlikely to be effective. Such private solutions are ultimately costly on both the firm and society. In general various solutions to these skills problems have all involved state action, even if only to ensure the enforcement of the private arrangements. Social policy has played used to certain rules and principles of equitable distribution (such as incomes policy, enforcement of social pacts, and so on), all of which have the effect making innovative investment by the firm no longer dependent on the bargaining power of its own workers [Antoni and Pagano, 2002).

Many of the problems of externalities and coordination can be alleviated by social policy which guarantees certain rules and principles of equitable distribution (such as incomes policy, enforcement of social pacts, and so on), all of which have the effect of making innovative investment by the firm no longer dependent on the bargaining power of its own workers and ensures that they will be rewarded for acquiring for-specific skills. Even in the most coordinated, developed countries of Northern Europe, collective pressure on employees has only become effective through social policies such as subsidization of training; these countries have “training regimes” that may help speed up adjustments in the labor market and to shift the basic equilibrium within which the market operates. Active labor market policies can be used to ensure a rapid adjustment of demand and supply, to speed up the increases in the stock of skills in the labor market and to change the incentive structure for the acquisition of skills” (Ashton, Green, James, and and Sung 1991: 141). And through regulation the state has ensured that the contracts are contractual credible arrangement and allowed the long-term economic coordination between employers and employees to address the “labor question” [Manow, 2001 #3123]. In this way the ”compulsory welfare capitalism” takes on the role of “an insurance device that make lifetime careers safer and enable people to engage in productive and risky activities that they would otherwise not undertake” (Vartiainen 2004: 208).

The experience of more recent developmental states points in the same direction of interventionist social policy. The successful developmental states of East Asia adopted "aggressive, proactive manpower development strategies based on a medium to long term vision of occupational skill requirements rather than short-term market driven considerations" in human capital and the adoption of unemployment insurance are part of such a strategy, but policies that encourage the growth of firms that offer formal sector employment and thus the expansion of social insurance coverage are also important. The East Asian Tigers' enterprise paternalism, together with national legislation mandating a number of employment benefits, gave workers a modicum of security. In this context, particularly in Japan and Korea, the famous lifetime employment system, as well as other aspects of the corporate welfare system encouraged by the state, was crucial for providing industrial peace, which was crucial in industrialization. Although such welfare schemes were private, they assumed a statutory and non-voluntary character as the private firms became holder of public social rights. In contrast, Latin America has been associated with more flexible labor markets and short term links to firms, with high levels of turnover (Mkandawire 2007). Similarly, growing trends of informalization in Latin America and elsewhere has weakened the training regimes that rely on formalization of labor and led to devaluation of skills.

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The Choice of Techniques and social Policy

One preoccupation of earlier literature on development was that of choice of techniques (Dobb 1969; Lebeinstein 1963; Sen 1967; Stewart 1978). The problem arose from the view that the surplus-maximizing, and therefore high growth enhancing technologies, did not generate much employment in the short run while the labor intensive techniques did not produce much surplus for reinvestment. This technological dualism posed a new social problem of how to reduce inequality among workers in different sectors with different labor product ivies. In some case such policies may be explicitly stated but in all cases they are implicit. Import substitution strategies were often associated with segmented social policy which did not often=emerge by design. Instead it was the dualism of the industrialization policies in terms of scale of production units, technologies used and degree of formality. This often created highly organized labor in the large-scale, oligopolistic firms amble to bargain for a share of the profits and rents earned by the oligopolies, often generating a "wage-technique" spiral" in which the first sought higher productivity by adopting capital intensive techniques which, in return provoked demands for labor for a higher share of the earnings (Arrighi 1973; Frankema). Labor in the modern, often transnational sector often had access to many modern social rights which were often pronounced in universalistic terms. In many cases this led to what Peter Evans calls "an anti-Schumpeterian triangle" of state, Labor and capital " where protected workers, protected entrepreneurs and the state elites and employees engaged in rentier games, driven by a political logic rather than by the driving force of competition and innovating" (Filgueira 2007). The solution has been various measures of "labor compression" through "solidary wages" underpinning by social policies that provided a "social wage". Even within the Import Substitution strategies policies to reduce wage gap was facilitated by the "closed" nature of the labor market:

> "ISI programs not only emphasized the need to protect key domestic markets against foreign competition, but also often promoted the emancipation of the urban working class. The absence of international market discipline enabled long-term wage regulation programs that sought to suppress wage gaps across industries and between blue- and white-collar workers." (Frankema)

The effectiveness of this "wage compression" became most transparent when globalization led to a widening of the wage gap and skilled labor now competed in global markets, unrestrained by national wage restraints.

The East Export orientation model was premised on two objectives (a) reduction of inequality through land reform (b) employment, partly driven by the pressures of communism in the area. In practice governments have tended to walk on two technological legs employing capital intensive in one sector while encouraging labor intensive activities ion other. Here a common aspect of industrial policy related to social policy – that of domestic sourcing. In most of these “late industrialisers” much of the export production came from the large firms. Their role in employment came not so much from direct employment (as most of them tended to be capital intensive), but from their linkages with smaller more labor intensive industries. These linkages were not simply spontaneous or market driven technological choices but constituted part of the national labor market policy and other social policies which encouraged or insisted on local sourcing and encouraged forward and backward linkages in the economy. Thus while the technologies adopted were dualistic, the rapid growth of the intensive industry provide a near full regime that, until the financial crisis of 1997, did not a further social protective measure other than lifetime employment[11]. In many cases the implicit policy was one that produced a gender-divided market in which women occupy the low wage, labor intensive, thus effectively subsidizing the export industries which relied on inputs from this sector or benefited from the foreign exchange earned by these industries (Seguino 1997).

Social Policy and market expansion

The role of social policy in stimulating or patterning investment through spending was one aspect of the Keynesian welfare state. This role was generally not considered as relevant

[11] A more recent model referred to “export populism” has been initiated in Argentina. Based on a exportable commodity which is taxed to subsidise the “wage food” (Richardson 2009)

for supply-constrained developing countries although. There were, however some structuralists concerned with under-consumption, considered it relevant for developing countries as well Building on Keynesian and Marxists theories, structuralists advanced the argument that patterns of income distribution in many developing countries led to idle capacity utilization due to underconsumption. The work of Celso Furtado (Furtado 1965) and Ragnar Nurkse (Nurkse 1953) immediate immediately come to mind. The analyses led to social policies such as such as land distribution designed partly stimulate aggregate demand through In the populists versions these theories have been accused for the “macroeconomic populism” that destabilization Latin American economies (Dornbursch and Edwards 1992)..

In an age of demand compression it may seem foolhardy to consider the growth effect of social transfers through Keynesian demand effects in poor countries. One striking feature of social spending in the developing countries is income the pro-cyclicalily (Ocampo 2008). This is in sharp contrast with the situation in the advance welfare states where social spending has served as important countercyclical cushion. In the open economies approach that prevailed in the 1990s, expansion of the nontradable sector was discouraged. While for the tradable goods the assumption was simply that the external market offered unlimited opportunities. There is renewed interest in the demand management aspect of economy policy partly in response to the procyclical policies of neoliberal policies. In more recent years, the ideas have reappeared in the context of the current crisis as China is advised to invest more in housing, and health services to stimulate the domestic economy. Even in the pots-Keynesian models, demand-led growth has focused on investment and not on consumption. In the neoliberal world, the focus has been on level of demand rather than on structure of demand.

CONCLUDING REMARKS

In this paper we have selectively highlighted the transformative aspects of social policy in the development process. We have suggested that among the many instruments deployed by developmental states social policy was not only for the much commented upon "legitimation" of what were otherwise authoritarian developmental states but also a range of other social policies that have impinged on the productive systems and capacities of these countries. Social polices play an important role in ensuring the political stability required for economic development. They are important in the mobilization of both financial and human resources and they play an important role in addressing the externalities generated by labor markets And techlogical innovation Many of the positive effects of social policy are recognized in the literature often in an ad hoc manner without being seen as constitutive elements of every successful developmental state.

While stressing the instrumentalist role of social policy we are fully aware of the danger that this could lead to sacrificing the fundamental objectives of social justice and social integration to a subservient role for social policy to pursue "productivist" goals

The discussion of transformative social policy is line for calls for "bringing the developmental state back in", at least in the African debates. The new view of developmental states should draw on the rich experience on the transformative role of social policies. Obviously not all the positive effects of social policy interventions were the consciously desired the outcomes (negative or positive). No all the success in the social sphere by developmental states can be attributed to deliberate social polices based on *ex ante* knowledge of their effects but the *ex post* lessons of such policies and their intended and unintended consequences can be absorbed *ex ante* by the late comers. Although we have separately discussed possible social policies and their impact on development we should bear in mind that in reality these various social policies constitute product "production regimes" in which the various polices work synergistically only of they are consciously designed to do. These call for a developmental regime that can strategically exploit these synergies – "a developmental welfare state", if you like.

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