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AN ECONOMICS FOR THE TWENTY-FIRST CENTURY

A day spent in a village or shanty town in the developing world rapidly dispels any notion that people might be poor because they are work-shy. Women rise early to prepare food and get children ready for school, often before heading out to their own paid work in offices, markets, or as cleaners and cooks. Men labour in construction or as porters of goods or people. In the countryside, farming and agricultural labour demand long hours of back-breaking toil in harsh conditions.

Despite all this effort, and the huge wealth generated by the global economy, hundreds of millions of men and women remain desperately poor. Why? This section seeks an answer by exploring the nature of markets – the web of economic interactions that binds individuals, communities, and nations together. At their best, markets are mighty engines, generating wealth and transforming the lives and expectations of people throughout society. At their worst, they exclude poor people, exacerbate long-term inequality, and degrade the natural world on which we all depend.

The problem is not with markets *per se* – Amartya Sen once remarked that 'To be generically against markets would be almost as odd as being generically against conversation'[1] – but with the rules and institutions that govern them. The impact of markets on poverty and inequality depends on whether poor people can exert influence over the way they operate. When small producers, farmers, or workers organise, they can use their increased scale and bargaining power to reduce costs, negotiate better prices or wages, and expand their sales.

When they are organised, people can also convince authorities to alter the structure and rules governing markets to ensure that they get a fair deal. To marshal the power of markets to meet the grand challenges of this century will require action by both states and citizens, and a new approach to the main tool used to understand markets, economics.

ECONOMICS

Economics is a broad but divided discipline, comprising dozens of schools of thought covering almost every aspect of human existence and spanning the political and philosophical spectrum. However, this rich diversity of analysis and insight is seldom visible in the economic debates at the centres of power.

For much of the twentieth century, two such schools, the neoclassical and the Keynesian, battled for intellectual supremacy and for the ear of decision-makers. In recent decades, the neoclassical school has been in the ascendant.

Within the neoclassical school, there have been many thoughtful efforts to engage with the deep nuance and complexity of development, but in practice, economic policy-making is often dominated by a much cruder, 'dumbed-down' version that argues for universal and simplistic solutions to complex problems (liberalise, privatise, avoid a fiscal deficit at all costs). While some economists undoubtedly pander to this need for simple messages, others squirm. The International Monetary Fund's disastrous response to the Asian financial crisis of the late 1990s drove an exasperated Joseph Stiglitz (Nobel laureate turned World Bank chief economist) to lament the 'third-rank students from first-rate universities' who were running the Fund.[2]

The dominance of this version of the neoclassical school rests not solely on the frequently inquisitorial attitude it takes toward other approaches, but also on the simple, compelling, yet deeply flawed picture it offers of the world: that of people and institutions as individual actors relentlessly pursuing their own self-interest.

Assuming human society to consist of atomistic, utility-maximising individuals with fixed preferences enables neoclassical economists to develop the complex mathematical models that give their discipline the appearance of an 'objective' science. Such models in turn allow policy-makers to make predictions – implement policy Y and the economy should grow by X – which then justify the allocation of scarce resources, although economists themselves often place heavy health warnings on any effort to predict the future.

The assumptions behind these models often ignore the complexities of real life, in which attitudes, beliefs, and social and political relations influence behaviour as much as does individual self-interest.[3] Markets are often assumed to be natural, when in fact they are governed by detailed rules on contracts, access to credit, competition, collective bargaining, and so on. Such rules are not arrived at in a political vacuum: they reflect the relative strength of those involved in, or excluded from, negotiating them. Prevailing attitudes about the value of particular work are also fundamental, and are often unquestioned by conventional economic thinking.

By making income a proxy for utility (or happiness), the neoclassical approach views development primarily as being about generating rising incomes, and sheds little light on how markets can achieve development in the broader sense, based on rights and dignity.[4] Even within the realm of income, the conventional view focuses on absolute rather than relative incomes, either at a national or individual level, thus often downplaying issues of equity.[5] Yet inequity is associated with unhappiness, and if properly accounted for in the economic models, would reduce the utility of certain types of growth. But traditional economics conveniently ignores this – in this view of the world, poverty reduction takes place as a spin-off of wider economic growth and redistribution, as an afterthought rather than as a central tenet of economic policy-making.

The battle between these different economic visions often takes place over the role of the state. One side prefers a minimalist role for the state, arguing that unfettered markets will lead to the most efficient allocation of resources. This book argues, in contrast, that while liberal favourites like comparative advantage and competition through international trade do indeed play a role, markets alone are always likely to fail both in terms of growth (the success of fast-growing economies countries such as South Korea and China shows just how effective a hands-on role for the state can be) and equity, since political power all too easily follows the economic inequality that stems from absent governments and unregulated markets. In practice, the state has multiple roles, the right blend of which varies by country and stage of development. These include protecting civil society and collective entities, like trade unions, associations, and guilds as well as more purely 'economic' roles such as setting industrial and technology policy, investing and lending capital, guaranteeing the efficient functioning of markets, regulating markets against abuse and (re)allocating income and assets in the interests of fairness.

Two additional, but essential shortcomings of the use of mainstream economics in development are, first, its failure to measure and value unpaid work in the home, rearing children or caring for the sick and elderly; and second, its tendency to discount environmental degradation. Both failings spring from a reluctance to engage with the non-monetary economy, and both must be remedied if policies are to achieve environmental and social sustainability.

The following sections look at orthodox economics more deeply from a number of critical perspectives.

THE FEMINIST CRITIQUE

Mainstream economics fails to measure or value the production and distribution of goods and services that lie outside the monetised economy, notably unpaid work, such as child care, collecting fuel wood and water, or preparing food – precisely the activities that occupy the time and energies of most poor women and which are essential to sustain society.[6]

While social sustainability is valued in a general way, unpaid work is not recognised in national accounts, even though it subsidises the paid work that does get counted, since it has to be done each day if the formal economy is to continue running. A UN report on measures of unrecorded economic activities in 14 countries shows that unpaid work in households is of the same magnitude as paid work in the market.[7] Estimates of the value of household work as a proportion of GDP vary from 35 per cent to 55 per cent.[8]

All this has huge implications for development policy, as well as for women's rights. The time that unpaid caring work 'takes away' from paid work is considered a drag on the 'real economy' rather than a contribution to

it. Therefore only those who can work full-time for their entire lives – mostly men – are considered 'real workers', deserving of decent wages and benefits. The reality is that an increasing number of households are ever more reliant on the lower earnings of women.

This critique is not specifically or uniquely about women. However, the gap between the real and perceived contribution of unpaid labour perpetuates inequality between women and men, and it can result in discrimination against women in public policy and investment decisions. Conventional economic analyses often end up recommending infrastructure projects that address the need for irrigation but not for household water supplies, credit programmes that give loans for oxen but not for corn-grinding mills or fuel-efficient stoves, or labour policies that set minimum wages but do not guarantee a right to maternity leave.

The fact that women and men do different kinds of work springs from a combination of inequality in power, built on social norms and institutions (known as patriarchy), and natural difference (women give birth and breastfeed). The different value attributed by society to the work of women and men is by no means immutable and ought to be changed, since it is both an outcome and a driver of systematic bias against women, transmitted through culture, the family, markets, and the state.

Differences between women and men in terms of what they consume also matter. Women on average choose to spend a higher proportion of their incomes on education and health care, which enhances the well-being and capabilities of their families. Research from many different contexts in both the developing and the developed world shows a correlation between the proportion of money controlled by women and improved child health.[9] Men are likely to spend a higher proportion of income on themselves, but are also more likely to invest in longer-term enterprises, including small businesses, which do not bring immediate benefits to the family but may pay off handsomely in the long run.

By ignoring gender-based differences, policy-makers may exacerbate gender inequality. In parts of sub-Saharan Africa, for example, women have generally been more adversely affected by trade liberalisation. Because of their relative disadvantages in gaining access to credit, new technologies, and marketing networks, as well as their relative 'time poverty', women are slower than men to take advantage of new export opportunities.[10] At the same time, liberalisation has increased competition from imports in the domestic food market, where women farmers play a predominant role. In households in which women's bargaining power is weak, men may pressure women to spend more time on cash crop production, while retaining control over the proceeds.

To date, feminist economics has not been accepted by the mainstream, despite overwhelming evidence that gender equity produces a more prosperous

and efficient economy, and despite women's increasing refusal to act as an infinite resource to be exploited without cost. If development is to succeed in reducing poverty and inequality, economics must acknowledge household politics and incorporate as a positive contribution the work invested in caring for the next generation. The global spread of women's rights shows how fast attitudes about women's 'proper' role are changing. Conventional economic thinking needs to catch up.

THE ENVIRONMENTAL CRITIQUE

Unlike feminism, environmental thinking, the second major lacuna in conventional economics, has moved rapidly from the margins to the mainstream over recent decades, and is reflected in national legislation, the appointment of environment ministers, new academic disciplines, international agreements such as the Kyoto protocol, and massive public awareness. The driving forces behind such change have been the growing and incontrovertible evidence of serious environmental damage and the efforts of active citizens around the world to push the environment higher up the agenda of policy-makers.

As long ago as 1987, the concept of 'sustainable development' came to prominence through the Brundtland Report, which defined it as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'.[11] While vague, the definition cleverly brought together two fundamental issues: the environmental degradation that so commonly accompanies growth in the market economy, and the need for such growth to alleviate poverty.[12] To solve this apparent contradiction, policy-makers need to stop assuming that the natural environment is infinite and begin taking the cost of damaging it into account.

One way to do this is called 'full cost accounting' (FCA). Under FCA, goods and services are priced to reflect their true costs (including environmental and other social costs). Thus the true cost of a vehicle would include its environmental impact and the cost of final disposal, in addition to the cost of manufacture. With full cost accounting, natural resources would be factored into calculations of a country's GDP, natural resources would be redefined as assets on company ledgers, and damage to the environment would be built into a product's cost.

World Bank economists used just such an approach when they estimated the depletion of natural resources and pollution damage in Bolivia in 2003. They found that what conventional economic analysis would have said was a national savings level of 12 per cent of total economic output was actually a net loss of nearly 4 per cent.[13] In China, losses from pollution and ecological damage have ranged from 7–20 per cent of GDP in every year over the past

two decades – not even counting the 300,000 deaths per year that are attributed to air pollution.[14]

While the environment matters to everyone, the environmentally-friendly policies resulting from full cost accounting would especially benefit poor people, whose livelihoods are more directly connected to the natural resource base. Farmers facing drought, fishing communities struggling with falling stocks or dried-up rivers, or slum dwellers at risk of flooding, landslides, and pollution do not need experts to tell them that their environments are deteriorating. For low-income countries, environmental damage is proportionately more costly, since natural resources make up a greater share of their national wealth.[15]

Because of their social and economic roles, women in particular would benefit, as they are often at higher risk and more vulnerable than men to the impacts of environmental degradation. When environmental hazards damage the livelihoods and health of impoverished communities, commonly accepted gender roles place the burden of maintenance, care, and recovery most heavily on women.

Incorporating environmental costs into economic analysis should oblige a fundamental rethink of the focus on GDP growth in economic development. Although there is some evidence that the intensity of natural resource use (for example, energy use per unit of GDP) falls after a country develops past a certain point,[16] such declines are outpaced by overall growth in the economy. In other words, there is very little evidence of absolute 'decoupling' of economic growth from resource use. As of 2007, Peru was the only country in the world that managed to live within its environmental footprint while achieving high levels of human development.[17]

Meanwhile, China and India are pursuing rapid GDP growth in much the same ways that Europe and North America did before them. Their success is driving massive increases in consumption (of grain, meat, steel, oil, and timber) and a sharp rise in greenhouse gas emissions. By acting as the 'world's factory', China also allows the countries that import its goods to outsource their carbon emissions. As a result, in 2006 China overtook the USA as the world's number one emitter of carbon dioxide (CO_2).[18] The global ecosystem simply cannot sustain additional billions of people all trying to live like wealthy Americans, even if they subsequently move on to a less resource-intensive, post-industrial lifestyle. According to an estimate by the UN's *Human Development Report*, if all of the world's people generated greenhouse gases at the same rate as Canada or the USA, we would need nine planets to absorb the impact.[19]

Added urgency comes from improved understanding of the non-linear nature of environmental change. Environmental processes are rife with thresholds, or 'tipping points'. When thresholds are crossed, environmental change can become catastrophic and even irreversible. Cod stocks in the

Grand Banks off Canada still show few signs of recovering more than 15 years after their sudden collapse and the closure of the fishery in 1992. Scientists now believe that a 2°C rise above pre-industrial levels in average global surface temperatures is the threshold at which dangerous effects on geophysical and biological systems would become likely (see Part 4).

In 2009, a group of renowned Earth-system and environmental scientists led by Johan Rockström of the Stockholm Resilience Centre brought these concerns together to map out a 'safe ecological operating space' for humanity. They set out nine 'planetary boundaries' to human activity in areas such as climate change, ozone depletion, biodiversity and freshwater use.[20] Alarmingly, they found that three of these have already been breached (climate change, nitrogen cycle and loss of biodiversity).

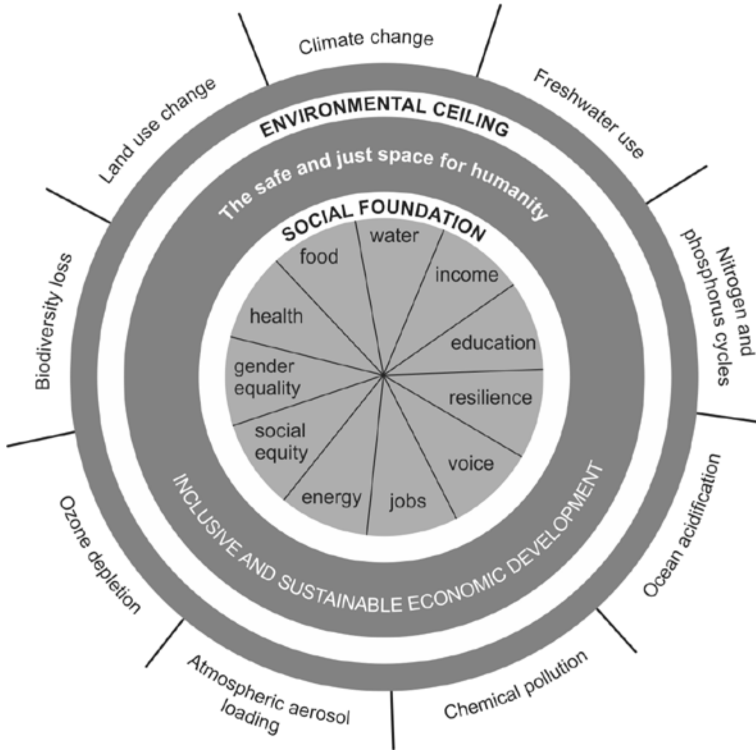
Kate Raworth at Oxfam has tried to bring together the notion of planetary boundaries and a 'social foundation' – a minimum standard of social welfare that any development model should achieve. She portrays successful development as learning to live within a 'safe and just space' between social foundation and environmental ceiling (see Figure 3.1) – breach the floor and people will live in unacceptable poverty and deprivation; breach the ceiling and irrevocable damage could occur both to planetary ecosystems and to the generations of people and other living beings who must cope with the results.[21]

This vision of long-term sustainability can be achieved by tackling the extreme inequalities that characterise the use of resources: just 7 per cent of the global population (those living on $40,000 per person or more per year) generate around 50 per cent of global carbon emissions. The poorest 50 per cent of people create just 7 per cent of carbon emissions.[22] This mirrors the skewed distribution of income: the richest 10 per cent of people in the world control 57 per cent of global income. The poorest 20 per cent of people control just 2 per cent.[23]

We need a new model of development, but changing our standard model of development is a huge task, not least because any new paradigm must avoid 'kicking away the ladder' from countries and communities still struggling to emerge from poverty. It is both politically and morally untenable to say 'the Indians must not have fridges and cars' when rich countries have them in abundance. Instead, a balance must be found that reduces the environmental intensity of rich economies, guarantees fairer access to the world's resources between rich and poor, and preserves the environment.

The good news is that sustainability has become, within a few decades, one of the burning issues of the age, high on the agendas of world leaders and publics alike. But the politics are daunting. The powerful actors who run the economy – corporations, investors, and governments – must be convinced to act in concert and, in many cases, against their own short-term self-interest.

FIGURE 3.1 A SAFE AND JUST SPACE FOR HUMANITY TO THRIVE IN



Source: Oxfam. The 11 dimensions of the social foundation are illustrative and are based on governments' priorities for Rio+20. The nine dimensions of the environmental ceiling are based on the planetary boundaries set out by Rockström et al. (2009b).

ASSESSING DEVELOPMENTAL IMPACTS

As employed by policy-makers, both neoclassical and Keynesian economics fail to take non-monetary aspects of development and well-being into account. By incorporating unpaid labour, damage to nature, and other essential elements, conventional economic analysis can be broadened to address the much wider range of impacts that policies and institutions have on people and on development. There are at least eight core areas to be considered (shown in Figure 3.2):

Orthodox economic activity: growth, return on investment, price stability;

Income poverty: wages, government transfers;

Environmental sustainability: land (soil, forests), air, water (marine and freshwater systems), climate change, biodiversity;

Equity: horizontal (ethnic, geographical), vertical (income, assets), gender, inter-generational;

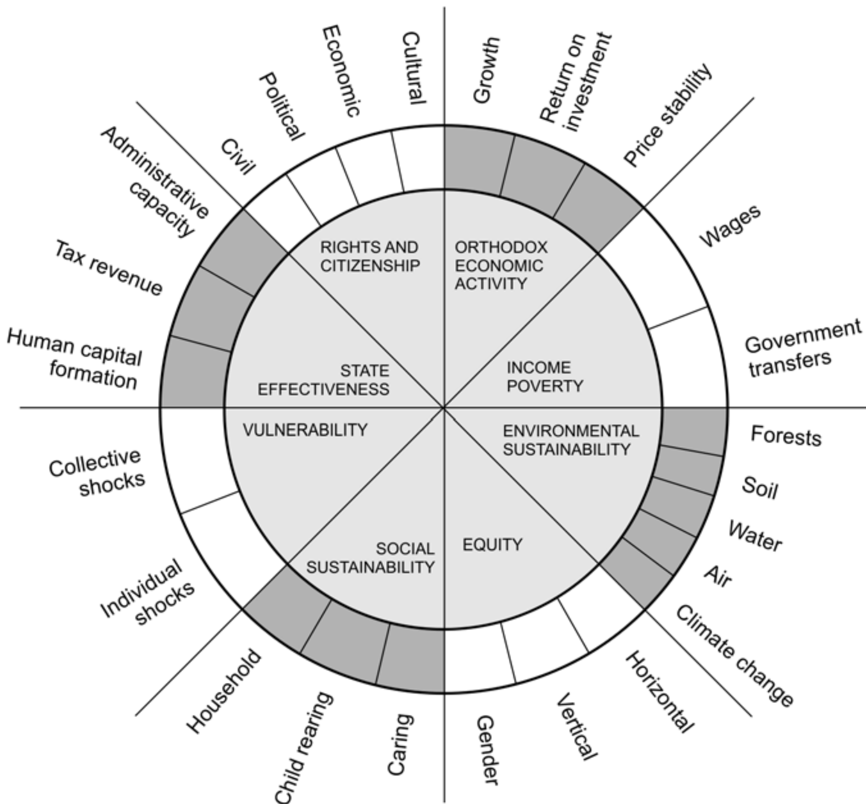
Social sustainability: caring, child-rearing, household;

Vulnerability: level of ability to adapt to individual or collective shocks;

State effectiveness: human capital formation, tax revenue, administrative capacity;

Rights and citizenship: civil, political, economic, cultural, social.

FIGURE 3.2: ASSESSING DEVELOPMENTAL IMPACTS



Only the first two core areas (economic activity and income poverty) are customarily covered by conventional economic policy-making; the remaining six are usually ignored or downplayed. Yet all need to be considered if the real impact of a given policy or institution on human well-being is to be understood.

For example, a government considering whether to promote exports by creating export processing zones or encouraging export agriculture would still need to think about growth, return on investment, and price stability, as well as wages and government transfers. But in addition, policy-makers would have to address the other six areas. Contemplating the impact on land, air, water, and climate change might raise concerns about water use, pesticide run-off, or the rising carbon emissions from transport. Regarding equity, a government may have to consider whether its actions would benefit the coast more than the interior, or would exclude ethnic minorities not plugged into the market economy, or whether they would enhance women's employment and wages. Similarly, on unpaid labour, it may discover that liberalisation could increase women's role in the paid workforce and require state action to support child-rearing.

In the areas of vulnerability, citizenship, and state effectiveness, other equally important considerations would arise. How would vulnerability to individual shocks such as unemployment, or collective ones such as the sudden loss of market access, be mitigated? Would trade union rights be undermined or strengthened? How would the government pay for services, given the low levels of taxation needed to attract investors? Is the government committed to and able to promote industrial upgrading, whether through technical support, finance, or other industrial policies?

The neoclassical approach offers a litmus test, often return on investment or impact on GDP, to provide a 'right' answer. This broader framework instead more accurately reflects the messiness of reality: accounting for wealth and well-being, rather than solely for growth, means internalising the costs of resource use, unpaid labour, and other so-called 'externalities' into everyday economic thinking, and moving the emphasis from flows of goods and services in markets to their impact on welfare and sustainability. This approach includes far more attention to issues of insecurity and inequality, which are central to well-being but are largely marginal to discussions of growth in the market economy.

One approach to implementing such an 'economics for the twenty-first century' is to try to expand the number of factors considered in a calculation of the relative costs and benefits of different policy options, for example by moving towards full cost accounting. This retains the core attraction of economics as a discipline: attaching numbers enables policy-makers to say 'Option A is better than option B'. But there is more to do. Factors such as active citizenship, an effective state, the enjoyment of rights, or a wider sense of well-being are hard to measure, however, and may end up being squeezed

to the margins of debate. As Einstein once observed, 'Everything that can be counted does not necessarily count; everything that counts cannot necessarily be counted.'

An alternative approach would be to treat the numerical exercise as just one contribution to the debate, to be balanced against other less quantifiable, but no less important issues. In any given time and place, a particular policy will be positive in some of its impacts and negative in others. Decision-makers will always need to consult, identify trade-offs, and agree priorities: such discussions are the stuff of politics, which in the end should be advised, but not ruled, by economics.

LIVING OFF THE LAND

The smoky, cold hut in the mountainous interior of Viet Nam is crammed with men and women from the indigenous H'mong people, dressed in traditional black and indigo leggings and smocks. There is barely a trace of the modern world: no plastic, no calendars or photos on the walls. The women, sporting cylindrical black felt hats and large silver hoop earrings, do not speak Vietnamese. The topic also is traditional: how to use straw (and more memorably, rubbing alcohol) to keep their most prized assets, buffalo, warm and fed in winter to reduce the risk of sickness.

This sanctuary of tradition is under siege. The richest houses in the village already boast a motorbike or a television set and, a few kilometres away, the local town is filling with the more intrepid type of tourist. These visitors will bring income, buying artefacts and food, helping the H'mong to diversify their livelihoods and so reduce their vulnerability to crop failure or a sick buffalo. But the tourists' presence will also dilute, if not destroy, the very 'purity' that drew them here. Do the H'mong care? Not yet, apparently. 'Farming is hard. My dream for my kids is education and a skilled job – I want them to get out', says one man. 'Even if they leave the village and I am alone – I want them to study Vietnamese, English, or French, not H'mong.'

The fast-evolving rural world entails both opportunities and threats for its inhabitants. Change is uneven, and often faster in areas that are more connected to markets, but few areas escape change altogether. Rural isolation is being eroded by the spread of roads, literacy, communications and the penetration of the state. Farming communities are becoming increasingly familiar with the urban world, whether from radio, TV, or the stories of returning migrants. Increased ease of movement is blurring the boundary between rural and urban, as family members move between the two worlds, combining jobs and production into complex family livelihood strategies.

Members of farming families work as labourers on neighbouring farms, gather wild produce, raise or catch fish, produce crafts and other goods, or offer services such as carpentry or midwifery. In some of the world's more arid areas, some 100–200 million largely nomadic people also live from herding livestock (the challenges facing pastoralists are discussed in Part 4). Almost everywhere, farmers' children leave the farm and head for the cities, sending back money to help their parents survive.

Small wonder people are leaving. Rural households are not only income-poor: literacy rates and life expectancy are consistently below national averages, and school drop-out and infant mortality rates are higher. Poor

households in rural areas are particularly vulnerable to shocks, due to the vicissitudes of farming and the absence of buffer mechanisms such as access to credit or insurance. When things go wrong, farmers and farm workers are usually on their own. As if this were not enough, in vast tracts of southern and eastern Africa, the scourge of HIV and AIDS has wiped out the working-age generation and its accumulated knowledge, leaving increasing numbers of child-headed households and fallow land. In Burkina Faso, a study of two villages found that HIV and AIDS had reduced income from agriculture by 25–50 per cent.[24]

For the past two decades, aid donors and governments have effectively withdrawn from the countryside. Aid to agriculture dropped from 11.4 per cent of all aid in 1983–84 to 3.4 per cent in 2004–5, and only began a slight upward trend after 2008.[25] Between 1980 and 2004, spending on agriculture as a share of total government expenditure fell in Africa (from 6.4 per cent to 5 per cent), in Asia (14.8 per cent to 7.4 per cent), and in Latin America (8 per cent to 2.7 per cent).[26] Under 'structural adjustment programmes' (SAPs), a radical free-market approach largely imposed on indebted countries by aid donors, the IMF, and the World Bank, many governments broke up state marketing boards and curtailed investment in extension services to farmers, public research, rural infrastructure, and credit provision.[27]

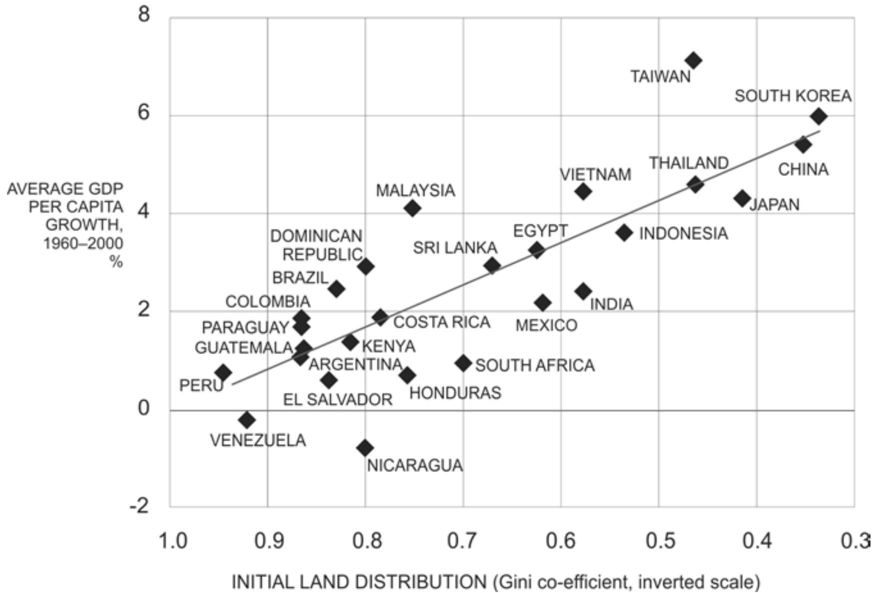
Though abandoned by governments and by millions of residents, half of the world's six billion people still live in the countryside. Rural areas still account for the majority of people living in absolute poverty and for half of the world's undernourished people. Despite urbanisation, around 50 per cent of people living in poverty will still be in the countryside in 2040.[28]

Despite diversification, agriculture remains at the heart of rural life in developing countries. Two-and-a-half billion people live in households involved in agriculture, over half of them either landless or on farms of less than two hectares. One in five works as an agricultural labourer, a proportion that is rising in most regions.[29]

The history of countries as disparate as the USA, Taiwan, and Costa Rica shows that agriculture can enable people to work their way out of poverty. Moreover, improving farm output is a critical first step for national economic take-off. Citing agriculture's 'special powers,' the World Bank concludes that it is at least twice as effective at reducing poverty as growth in other sectors.[30] Growth in smallholder agriculture is particularly effective, especially in countries with a fair distribution of land (see Figure 3.3).[31]

Agricultural growth generates higher incomes for farmers, including smallholders, and more jobs as labour demand rises, pushing up wage rates. The rural economy as a whole then picks up, as more prosperous small farmers and labourers increase demand for goods and services. Greater numbers of rural jobs and increased incomes generally lead to improved nutrition, better health, and increased investment in education, while increased local tax

FIGURE 3.3: MORE EQUAL INITIAL LAND DISTRIBUTIONS GO TOGETHER WITH HIGHER ECONOMIC GROWTH



Source: World Bank, *World Development Report 2006*.

revenues allow local governments to respond to demands for better infrastructure, such as roads, power supplies, and communications. Agricultural growth also reduces food prices for poor people, whether urban or rural.

The contribution of small farms to growth usually dwindles as an economy takes off. As wages rise and the use of technology increases, the commercial advantage shifts to larger farms, while the centre of gravity of the economy as a whole normally shifts to largely urban manufacturing and services, which suck in labour from the countryside.

Beyond its role as a springboard for economic growth, small-scale agriculture also acts as a vital social safety net, employing millions of people who would have minimal prospects of finding decent work in the cities, and providing a social security system of last resort for those unable to survive in the city in times of economic crisis. During Indonesia's financial crash of 1998, agriculture absorbed an extraordinary 4.5 million people in a mass out-migration from the cities, as migrants headed back to their old villages after losing their jobs in factories and on building sites.[32]

Agricultural growth reduces poverty most effectively when small farmers capture a fair share of the benefits. That in turn requires strengthening their power in markets, reinvigorating the role of the state, and ensuring that all the rural poor, male and female, indigenous and non-indigenous, have a voice in these processes.

New trends in agriculture have transformed rural people's lives and livelihoods and have reawakened the interest of governments and aid donors. The rising global demand for food, the advent of supermarkets and contract farming, and a new wave of technological change may hasten the out-migration of small farmers. But these actors could also augur well for agricultural growth and rural livelihoods, if states and citizens can harness them for fighting poverty and inequality.

But so far, the renewed profitability of agriculture has been a very mixed blessing for small farmers, who have often failed to benefit from improved prices due to the rising cost of inputs. More seriously, a wave of so-called 'land grabs' – large-scale land acquisitions by foreign investors – risks a new round of expulsions of farmers from their land. By 2011, estimates suggested that such deals covered 80m hectares (an area the size of Germany and Sweden combined), 60 per cent of them in Africa.[33] The most comprehensive research to date suggests that as much as 80 per cent of this land is not being developed, as investors see it as more of a speculative investment than a place to grow food.[34]

The next section examines how a combination of active citizens and effective states could again make agriculture a source of widespread prosperity.

ALL CHANGE ON THE FARM

Tourists arriving to see the extraordinary wildlife parks around Kenya's Lake Naivasha pass serried ranks of greenhouses and fields devoted to producing flowers and high-value crops such as green beans and peas for European consumers. The plains around the Colombian capital of Bogotá churn out millions of roses for Valentine's Day bouquets. Indigenous peasant farmers in the Guatemalan highlands grow snowpeas (mangetout) and raspberries for the USA. The coastlines of developing countries everywhere are dotted with fish farms – prawns in Bangladesh, Ecuador, or Indonesia; salmon in Chile.

Driven by booming demand, improvements in refrigeration, and falling transport costs, fresh and processed fruits and vegetables, fish and fish products, meat, nuts, spices, and floriculture now account for 43 per cent of agro-food exports from developing countries, worth about $138 billion in 2004.[35] Even in domestic markets in poor countries, urbanisation and new generations of middle-class consumers are creating booming markets for poultry and vegetables. Whether small farmers can benefit from this 'new agriculture' is a critical question for their future survival, and is linked to the changes in the way that food is bought and sold, both in the North and the South.

Transnational companies have expanded their operations in developing countries to achieve vertical integration of their operations and to appropriate a larger share of value along the production chain. Small producers increasingly deal directly with such large corporations, whether to buy fertiliser or seeds, or to sell their produce or their labour, a negotiation characterised by the enormous imbalance in their relative power – millions of isolated small producers versus a handful of corporate giants. Just four companies account for 45 per cent of all coffee-roasting activities.[36] In cocoa, four companies control 40 per cent of the grinding industry, [37] and similar stories can be told for other food sectors. Six companies now control 80 per cent of global pesticide sales,[38] down from 12 firms in 1994.[39]

Some transnational corporations have stepped belatedly into roles vacated by the state under structural adjustment programmes, albeit with a very different approach. Global seed and fertiliser giants now provide small-scale farmers with inputs, finance, and extension services. Such services are sometimes part of production agreements that also include a guaranteed price, a practice known as 'contract farming'. The impact on small farmers of such arrangements depends on the nature of the contract – there are examples of both 'good' and 'bad' contract farming. When it works well, it combines the best of both small and large farm systems – the higher productivity per hectare of small farms and the access to capital, markets, and technology enjoyed by larger players.[40]

However, contract farming can also involve extortionate interest or extraction of profits, and may push smallholders towards the monocropping favoured by the companies. Because transnational companies have strict requirements regarding size and appearance of certain crops, contract farming is also often associated with reduced biodiversity, as farmers are essentially required to plant one and only one crop variety. The arrangement shifts control away from women, who still do much of the work but no longer receive the money because contracts are usually signed by men. Most seriously, under contract farming, poor farmers must bear all the risk inherent in their trade. If crops fail it is the farmers, not the companies, who take the hit, and contract farmers can easily get into serious debt as a result.[41]

A study of contract farming in Thailand found that farmers' incomes fluctuated wildly.[42] Farmers had to take on bank loans that took five to ten years to pay off, while companies signed contracts only year-to-year. Some farmers were left without a buyer for more than six months, with no notice or compensation. The average debt of households involved in contract farming was more than ten times the national average for farming households, making it almost impossible for the farmers to quit. They often never received a copy of the contract binding them, and sometimes did not even have the opportunity to read it. The study concluded that the farmers are *de facto* employees,

but the company takes no responsibility for social security, sick leave, paid leave, or severance pay.

The typical tourist image of colourful, chaotic street markets and warrens of small shops is a stereotype that is quickly going out of date, thanks to the rapid spread of supermarkets in developing countries. In response to urbanisation, the rise of a consuming middle class, and more liberalised investment rules, locally- and internationally-owned supermarkets now buy the lion's share of farm production in many countries, creating a demand for intermediate- to high-quality products in countries that traditionally exported such goods.

The first wave of supermarkets hit developing countries in the early 1990s, appearing in major cities in the richer countries of East Asia (outside China), Central Europe, and Latin America. By 2000, they accounted for 50–60 per cent of retail sales, close to their share in the USA or France. They soon expanded to smaller and poorer countries in Central America, the Andes, and Southern and then Eastern Africa. Their take-off in Asia is now registering even faster growth than in Latin America. According to China's Ministry of Commerce, 70,000 supermarkets opened in rural areas of the country in 2005.[43] The phenomenon is now beginning to be seen in South Asia and West Africa.

The implications for small farmers are profound. Supermarkets source the majority of their products locally, and the volumes traded are significant. In Latin America, at the turn of the twenty-first century, the value of local fresh fruit and vegetable purchased by supermarkets was 2.5 times higher than the region's exports to the rest of the world.[44] Domestic markets are central to the livelihoods of small farmers, and supermarkets could potentially expand farmers' sales. But unless they can meet the supermarkets' demanding quality and quantity requirements, farmers risk being consigned to the least profitable backwaters of the domestic economy, just as they are currently at the global level.

The rise of food processors and fast food chains in developing countries poses similar challenges. Citing problems of scale and quality, branches of McDonald's and Pizza Hut in Ecuador prefer to import potatoes for french fries, even though the Andes is the original home of the potato. Similar problems have dogged the spread of tourism. Caribbean smallholders have watched in frustration as hotels import burgers, vegetables, and fruit from the USA, while they have to eke a living from low-priced and volatile commodity markets such as the one for bananas. In St Lucia, local producers have come up with a brand name, 'Farm Fresh – St Lucia's Best', to build the profile of local suppliers, but they need training and technical support to meet the quality and quantity standards required by the tourist trade.

New corporate buyers could potentially help to revitalise small-scale agriculture. Such an outcome will only occur, however, if farmers organise to increase their ability to negotiate a fair deal, and if they receive the support they desperately need to raise the quality and quantity of their output.

BOX 3.1
FISHERIES: MANAGING A FINITE RESOURCE

For millions of poor people in rural areas, fishing is a source of livelihood, income, and food. Fish provides at least 20 per cent of the protein consumption of 2.6 billion people (almost half the global population),[45] and fishing directly or indirectly employs almost 500 million people across the developing world. Despite the fact that the world's fisheries generate approximately US$120bn per year, 95 per cent of the labour force survives on $2 per day or less.[46] Developing countries account for 50 per cent of the total volume of traded fish, representing the single biggest food item in developing country exports.[47]

The international trading system in fish suffers from many of the same problems as agriculture: developing country governments are being pressured to open their markets to cheap imports, with devastating impacts on local fishers, while Northern governments persist in heavily subsidising their fishing industries, which fish with little regard for the health of coastal ecosystems.[48] About half the world's fish catch is taken by small-scale fishers and the other half by large-scale corporate fishing fleets, but small-scale fisheries generate 20 times more jobs.[49]

In most developing countries, fisheries management is weak, and overfishing and conflicts between small-scale fishers and commercial fleets abound. Over the past 40 years, standing fish stocks in South-East Asia have been reduced to less than a quarter of their former levels, prompting governments in many countries to try to manage the resource through licences and permits.[50]

The Philippines, home to between 1 and 2 million fishers, is piloting an alternative approach known as community-based coastal resource management (CB-CRM), whereby fishing communities are responsible for restoring ecosystems, patrolling fisheries, and monitoring impact. CB-CRM builds on a long tradition of organisation at both local and national levels. Started by the Filipino association Kilusang Mangingisda, which is now a nationwide movement with approximately 400,000 members, the CB-CRM approach has spread across South-East Asia.

With numbers and organisation came influence, and in 1996 the Philippines government revised the fisheries law, establishing municipal jurisdiction over fishing grounds and creating municipal councils where government agencies and representatives of fishing communities now discuss and agree on local fisheries management provisions.[51] Local fishers have seen a halt in the decline of their catches, and in some cases even a recovery, though overfishing remains a problem.

Source: L. van Mulekom, 'Reflections on Community Based Coastal Resources Management (CB-CRM) in the Philippines and SE Asia', Oxfam International internal paper, 2007.

GREEN REVOLUTION REDUX

Modernising and improving on largely traditional techniques for ploughing, sowing, and harvesting is a mainstay of development practice in agriculture, and certainly part of the answer to the plight of small farmers and to the rising global demand for food. Some observers place enormous hopes in the technological revolution under way in the laboratories of universities and global corporations, trusting in a repeat of the phenomenal increase in agricultural productivity in Asia in the 1960s and 1970s known as the 'Green Revolution'.

The Green Revolution stemmed from two parallel initiatives. Better known is the widespread adoption of new rice and wheat varieties, combined with the use of chemical fertiliser in largely irrigated environments. But equally important was state investment in roads, irrigation, and other infrastructure and institutions to ensure stable prices for farmers. Together, these initiatives spurred significant success in reducing rural poverty, although many farmers went heavily into debt as they had to invest in fertilisers and pesticides, and there were serious knock-on effects on the environment. The first Green Revolution bought us time – food production per capita went up even as population continued to rise. But it was not a sustainable solution.

Recently, a number of major donors, led by the Gates and Rockefeller Foundations, have set up the Alliance for a Green Revolution in Africa (AGRA), hoping to repeat the Asian experience.[52] They will face a drastically different terrain to their predecessors half a century ago. The first Green Revolution relied on strong civil-service institutions, functioning credit markets, a predominance of rice and wheat production, dense rural populations that made it cost effective to provide technical assistance and other services, and relatively abundant water for irrigation. Africa, in contrast, has weak or non-existent agricultural support institutions, weak market structures, insufficient water, and a profusion of staple food crops.[53] Moreover, the network of state-funded research that made the Green Revolution possible has largely been supplanted by private corporate R&D.

It is unlikely that any technological magic bullet will address all these issues. Even more challenging is the fact that Asia's achievement was driven by drastically increasing the use of fossil fuels, irrigation, chemical fertilisers, and pesticides, all of which exacted an environmental cost which is now coming home to roost. Modern agriculture has bequeathed a world of exhausted and eroded topsoil, scarce water, irrigation-induced salinisation, water systems polluted by pesticide and fertiliser run-off, compacted soils, and reduced biodiversity. Not to mention global warming: agriculture and forestry produce an estimated one-third of all greenhouse gases.[54]

In these conditions, incorporating small farmers into current commercial agriculture practices hardly appears to be a sustainable option. All agriculture

will have to adapt to growing environmental constraints. Technological innovation will undoubtedly play a large role in such adaptation, and small farmers will have to organise and cultivate state support if they are to overcome their relative technological exclusion. If they do not, they risk being driven out of farming altogether.

Recent and incipient waves of technological change pose additional threats and opportunities. For example, nanotechnology (the manipulation of matter on the scale of atoms or molecules) could produce a petroleum-based, stain-resistant substitute for cotton, which would have cataclysmic implications for the ten million small farmers in West Africa who grow cotton for a living.[55] On the other hand, the University of Stavanger, Norway, has developed a nanoporous membrane that can prevent water loss from soil and regulate soil temperature in the face of extreme weather.[56]

Biotechnology, and in particular the introduction of genetically modified seeds for crops such as maize, canola, soybean, and cotton, has attracted the most controversy. Supporters of GM technology claim it will create seeds geared to poor people's needs. 'Golden Rice', a GM variety engineered to remedy the vitamin A deficiency that afflicts hundreds of thousands of children with blindness, is perhaps the best-known example. GM also promises crops appropriate for difficult geographies and climates, for example drought-resistant varieties that could play a role in adapting to climate change.

These optimistic claims are disputed, not least because such warm words are not matched by deeds: the vast majority of GM crops have been genetically engineered to meet the needs of large-scale farms, for instance in reducing herbicide or insectide use and minimising the need for labour. The only major exception to date is insect-resistant Bt cotton, grown by some nine million small farmers in China and India.[57] Although transgenic maize is being grown in South Africa and the Philippines, there is no serious investment in the five most important semi-arid tropical crops – sorghum, pearl millet, pigeon pea, chickpea, and groundnut – which are grown mainly by small farmers. There are wider concerns on GM crops, including that they encourage monoculture and 'genetic erosion' – the loss of variety as seed varieties die out. But perhaps the greatest underlying concern is that the introduction of any large-scale, centrally controlled technology tends to shift power away from small actors towards big players, in contrast to 'appropriate technology', but also to 'dispersed' technologies such as mobile phones.[58]

An alternative route to technological adaptation could lie through sustainable agriculture (see Box 3.2). Attempting to marry the best of old and new farming technologies, the sustainable approach seeks to integrate natural biological and ecological processes, minimise the use of non-renewable inputs, and make productive use of farmers' knowledge and skills and their capacity to work together. The most comprehensive survey to date puts the number of farmers involved in transitions towards sustainable agriculture at

12.6 million, between them farming over 1m hectares – 3 per cent of the total cultivated area in developing countries. These farms show a mean increase in yields of 79 per cent, contravening the widespread supposition that sustainable agriculture necessarily sacrifices high yields. Over half of the projects involving integrated pest management have reduced pesticide use *and* increased yields.[59]

Sustainable agriculture may be more compatible with climate change and other environmental constraints than a new Green Revolution. For example, maintaining organic soil cover to minimise erosion, a practice known as 'zero tillage', which has been hailed by the World Bank as 'one of agriculture's major success stories in the past two decades',[60] also sequesters significant amounts of carbon. Carbon constraints, whether through higher prices or government regulation, may work to the benefit of sustainable agriculture and small farmers relative to industrial and large-scale agriculture, which tend to be more avid carbon users.

To date, sustainable agriculture has received relatively little backing from governments, but political pressure from organised farmers and their allies could turn that around. That said, many sustainable practices rely on highly specific knowledge of local ecosystems that it is hard to replicate.

Arguments over the kind of agriculture that can feed the world are often excessively and unhelpfully polarised. In all probability we are going to need both large-scale and small-scale agriculture to feed the world as its population rises to some 9 billion by mid-century. That will also mean continuing to rely for the foreseeable future on high chemical input agriculture even as we seek a transition to more organic and bio-integrated systems of agriculture.

THE BIOFUEL BOOM

Farmers everywhere try to cash in when demand for a particular product rises, whether through shifts in consumption patterns (such as the transition to meat-based diets in Asia) or technological change. The latest boom commodity, biofuels, uses plant-based 'biomass' to generate energy, for example replacing fossil fuels in transport or electricity generation. A combination of rising oil prices, technological innovation, and government support to biofuels through subsidies and regulation, driven by fears over energy security, and concern over climate change, has led to a global biofuels boom. The main crops grown for biofuels are sugar, cereals like corn (maize), palm oil, and fibrous plants like jatropha and eucalyptus.

The impact of such fuels on carbon emissions and the ecosystem is highly disputed (especially in the case of maize-based ethanol). The World Bank believes a major switch to biofuels will actually increase global warming, due to the deforestation it causes.[61] The jury is also still out on whether the biofuel boom, and the scramble for land it has triggered, will benefit small farmers

BOX 3.2
A BEGINNER'S GUIDE TO SUSTAINABLE AGRICULTURE

Key principles are to:

- Integrate natural biological and ecological processes such as soil regeneration, predation, and parasitism into food production;
- Minimise the use of those non-renewable inputs that cause harm to the environment or to the health of farmers and consumers;
- Make productive use of the knowledge and skills of farmers;
- Work together to solve common problems in areas such as pest, watershed, irrigation, forest, and credit management.

Defining practices and technologies include:

- *Integrated pest management*, which uses ecosystem resilience and diversity for pest, disease, and weed control;
- *Integrated nutrient management*, which seeks to fix nitrogen within farm systems rather than import nutrients, and to reduce nutrient loss through erosion control;
- *Conservation tillage*, which reduces the amount of tillage, sometimes to zero, so that soil can be conserved and available moisture can be used more efficiently;
- *Agroforestry*, which incorporates multi-functional trees into agricultural systems and collective management of nearby forest resources;
- *Aquaculture*, which incorporates fish, shrimp, and other aquatic resources into farm systems, to increase protein production;
- *Water harvesting*, which allows for irrigated cultivation of abandoned and degraded lands owing to better rainwater retention;
- *Livestock integration*, which incorporates livestock into farming, including the use of zero-grazing cut-and-carry systems.

Source: J. Pretty (2006), 'Agroecological Approaches to Agricultural Development', background paper for *World Development Report 2008*, World Bank.

and other poor people or generate sustained growth.[62] Biofuel plantations for jatropha or sugar create jobs, but working conditions are often horrific, wages are low, and the plantations can squeeze out small farmers. The chair of the UN Permanent Forum on Indigenous Issues warned in 2008 that 60 million indigenous people worldwide face eviction from their land to make way for biofuel plantations.[63]

In the case of palm oil, small farmers account for a significant proportion of total production in Indonesia and Malaysia, where 38 per cent of the world's palm oil is grown[64], and could stand to benefit from the boom. However, many of Indonesia's 4.5 million small producers are heavily indebted to the companies that buy their crop, and have little power to negotiate decent prices. As with any other commodity boom, the extent to which small producers can exercise power in the new market will help to determine whether biofuels exacerbate exclusion and inequality in the countryside, or whether they will provide new pathways out of poverty for small farmers.

The exact impact of the biofuels boom on food prices is also a matter of some dispute, but the transfer of massive quantities of maize into ethanol production was a contributing factor in the sharp rise in world prices in 2008 and again in 2011.

An extraordinary amount is being asked of agriculture. The World Bank estimates that to meet projected demand (based on a combination of rising population and changing dietary preferences) global cereal production will have to increase by nearly 50 per cent and meat production by 85 per cent between 2000 and 2030. In addition, the burgeoning demand for biofuels and animal feeds cuts into the production of staple foods.[65] Not only must yields rise (there is little spare land, and the remaining forests must be conserved), but they must do so sufficiently rapidly and cleanly to compensate for other negative trends, such as climate change, salinisation, and deteriorating soil fertility.

At the same time, productivity must be increased in a way that benefits poor people and reduces inequality. Technology will have to be governed in a very different way if it is to help achieve these objectives, with a much higher degree of state regulation and direct involvement in R&D, backed up by an enhanced voice for farmers and other citizens' groups in how technologies are developed and used. The current situation, dominated by large corporations, with farmers as mere consumers of technological change, skews agriculture towards a chemical- and capital-intensive model that is likely to bypass small producers and ratchet up inequality and environmental damage in the countryside.

Whether and how agriculture rises to these challenges will depend in large part on how poor people in rural areas organise to make themselves heard, and on the willingness and ability of the state to pursue a pro-poor development path. The next section explores this essential combination of active citizens and effective states.

POWER IN MARKETS

A hundred rice farmers, men and women, are gathered in the shade of a giant mango tree in the village of Ruwayo, in central Nigeria. The sound of women cracking peanuts into tubs provides a backdrop to a rambling conversation

about the life of the small farmer in Nigeria. 'We used to feel the government support in the old days, in the 1980s', says one woman. 'They gave us fertilisers, we could hire tractors.' Now banks will not lend money to farmers without collateral, while money-lenders charge eye-watering interest rates. The local farmers' organisation set up a savings and loan scheme, but their problems do not end with credit. Farmers must take the prices offered by visiting buyers because they have no transportation of their own. If they rent a truck, the police demand bribes at every roadblock on the way into town.

For many of the poorest farming communities, the way forward lies not through high-tech innovation, but through improved organisation to enhance their market power. Small farmers lack power in markets precisely because they are small, poor, and unorganised. This makes it harder for them to obtain information on markets and prices, or credit to invest in improvements, or simply to survive between harvests. They have little bargaining power because they lack transport or storage facilities, and are unable to offer a steady supply of produce. They are price-takers, not price-makers.

At a political level, the voices of small farmers are often drowned out by better-organised and -resourced groups of large farmers, agribusinesses, and city-dwellers. Moreover, women farmers face prejudice on the part of lenders, agricultural extension workers, and farmers' organisations. Remoteness from a city or town, with their markets full of hungry consumers, is a major obstacle, because small farmers lack the clout to get governments to build roads or other transport links.

Organisation is central to meeting such challenges. In Holeta in the central highlands of Ethiopia, for example, where in 2002 most families lived on less than $1 a day, local farmers were efficient producers of millet, but the price they commanded was barely enough to cover their production costs. So the community established a 'cereal bank' into which producers 'deposit' their harvest and from which they draw corresponding payments. Today, they enjoy a reliable store of grain all year round, sell into the market when the price is high, and no longer need to purchase seed.

People living in rural areas have long organised in a range of different ways: trade unions, co-operatives, funeral societies, mutual health insurance groups, self-help groups, and savings and credit groups. Since the 1980s, the number of independent producer organisations (POs) has mushroomed.[66] Between 1982 and 2002 the number of villages with a PO rose from 21 per cent to 91 per cent in Burkina Faso.[67] Between 1990 and 2005, the number of co-operatives increased from 29,000 to 50,000 in Nigeria.[68] Over a longer period (1966 to 1998) in India the total number of co-operative societies increased from 346,000 to 488,000, involving 65 per cent of all rural households.[69]

In previous decades, the reputation of POs in many countries was tarnished by government-sponsored top-down 'co-operatives' that did little for their

members. Even today, in Ethiopia rural co-operatives are largely controlled by party officials, while in Ghana, they must pass a six-month probationary period that is often extended before they can formally register. As a consequence, many POs remain as unregistered, informal organisations, which limits their legal safeguards and their ability to raise loans.[70]

As a new generation of bottom-up POs takes root, that legacy of suspicion is being overcome. In the northern Albanian village of Kiri, where villagers gather wild mountain herbs to sell for cash, the legacy of forced collectivisation under communism made people initially reluctant to form a co-operative. So they set up a Herb Association which helped them improve the quality of their product, find new buyers, and increase household incomes by 40 per cent. Oxfam has seen farmers, governments, and aid donors embrace such initiatives in countries as diverse as Mali, Honduras, and India. A significant proportion of new POs are commercially oriented and concentrated in high-value product markets, often for export. Relatively few operate successfully in domestic staple food markets, where prices are too low and transactions too small to cover the costs of organisation, both in finance and time.[71]

Marketing is the core activity of most POs, whether they are full-blown co-operatives or looser associations. In addition, POs help farmers obtain cheaper credit and negotiate better prices for inputs such as fertilisers and seeds. Some POs arrange or acquire processing facilities and transport to markets (especially important in remote areas), and provide the kind of training and technical assistance needed to move into higher-value products and to guarantee the higher quality standards needed to break into more lucrative markets.

- The National Smallholder Farmers' Association of Malawi (NASFAM) was built from the bottom up and currently has over 100,000 farmer members.[72] The Association markets members' products, such as tobacco, cotton, groundnuts (peanuts), and rice, negotiates better deals for transport and fertiliser, and arranges loans for its members with major national banks.[73]
- In a remote rural area in southwestern Uganda, one farmers' association successfully negotiated a contract to provide high-quality Irish potatoes to the Kampala outlet of Nando's, the South African-owned fast food chain. To meet the required volumes, frequency of supply, and quality, the farmers invested in learning technical, organisational, and management skills; the contract provided them with the security to make these investments.[74]
- In Bolivia, the National Association of Quinoa Producers (ANAPQUI) brings together about 5,000 growers of quinoa, a traditional, highly nutritious Andean grain, which enjoys a small but growing export market. The association pays a fixed price, agreed in advance, organises

BOX 3.3
THE SWEET TASTE OF SUCCESS IN COLOMBIA

In 2002, a group of private sugar mills applied for a licence to build a large *panela* mill in the impoverished Patía region of northern Colombia. *Panela* is a brown sugarloaf made from sugarcane, which is used as a low-cost, nutritious sweetener. The step up from small, family-run units to industrial production promised to create jobs and improve cost and quality for consumers. Just the sort of investment to pull people out of poverty, economists said, as the urban market was largely untapped.

The impoverished farmers who made their meagre living from *panela* did not see it that way, fearing they would be pushed out of even an expanded market. Some Rural Development Ministry officials concurred, adding that a single factory could manipulate prices to both farmers and consumers. Moreover, when the initial tax breaks ran out, the factory might close down, leaving everyone worse off.

The small producers formed an informal association and launched a campaign to persuade the government to reject the planned mill. *Panela* production is the main source of income for the rural population, they argued, and an industrial mill would provide jobs for only a handful of the hundreds of poor farmers and their families who might lose their livelihoods. Furthermore, the profits would accrue to owners who never showed their faces in Patía.

The campaign succeeded in blocking the project – fortunately without violence. The investors shrugged their shoulders and took their money elsewhere, but the experience had changed the farmers. They had discovered not only that many more people were willing to buy their *panela*, but also that they could make more money by selling directly to wholesalers. Most importantly, they had discovered the power of organisation.

Flushed with victory, in 2004 a group of them established their own trading organisation, which after initial difficulties was able to raise the price paid to producers by over 40 per cent. The association plans to further increase producers' income by tapping the more lucrative organic market.

The *panela* producers' experience exemplifies the challenge and promise of achieving economic development in a way that enhances, rather than undermines, small farmers' power in markets and the need for farmers to organise if they are to influence the structure and rules governing the markets in which they operate.

Source: C. Penrose-Buckley (2007), *Producer Organisations: A Guide to Developing Collective Rural Enterprises*, Oxford: Oxfam GB.

technical assistance, and runs a processing plant for its members. Many quinoa farmers have expanded their farms and some have mechanised their production, thanks to the greater incomes and security they now enjoy, which have also allowed more families to keep their children in school.[75]

Beyond these immediate benefits, the strength in numbers and exchange of experience within POs can build people's self-confidence. POs often become engaged in political action, since their economic success can depend on changing the rules or practices that govern markets, which only states can enforce. These can be as sophisticated as demanding legislation to establish floor prices or competition laws, or as simple as building roads. Where a government is committed to agriculture, POs play a vital role in ensuring that policies reflect the needs of small farmers, and not just of the usually well-organised large farm lobby.

Oxfam's experience suggests that POs work best when they focus on a single role, such as marketing or negotiating better prices, at least to begin with. More ambitious plans, such as owning and operating processing plants, often fail. Focusing on relatively high-value products, such as dried fruit or cotton, seems to work better than concentrating on staple foods. Building on small, pre-existing groups where mutual trust is already established works better than creating large organisations from scratch. Member-driven organisations last longer than top-down ones, while keeping the group independent of political parties and focused on its core business is essential.[76]

POs are not without difficulties. The costs of setting up the organisation, training members, and establishing an efficient administration often have to be raised from outside, either from sympathetic NGOs or the private sector.[77] Members have to invest time in group meetings and activities on top of their daily toil in the fields. When groups become larger, it takes considerable time and effort to manage decision-making in a way that respects all members' interests.

The focus on high-value cash crops frequently discriminates against women, and reinforces male dominance of POs' leadership. It also means that POs tend not to address the needs of the poorest and most vulnerable of small farmers, since high-value crops entail risks that the poorest cannot afford. Women's organisations, such as India's Self Employed Women's Association or Nicaragua's Rural Co-operative Women's Federation, have stepped in, setting up women-only groups among milk producers, salt farmers, gum collectors, and livestock and fruit producers.[78]

Producer organisations frequently face violence at the hands of those with vested interests, be they landowners jealously guarding their property and privileges, or middlemen reluctant to surrender their control over buying or transport. Many governments are not neutral actors in pursuit of the public interest, but rather act on behalf of economically powerful elites. POs may be derailed by violence or party politics, or stifled by red tape – typically, the

BOX 3.4
NICHE SOLUTIONS: FAIRTRADE AND ORGANICS

The booming market for organic and fairly traded products offers small farmers the chance to grow and sell higher-value products which are more labour-intensive, thus creating more jobs. Fairtrade products carry the FAIRTRADE Mark, which guarantees that the market chain for the product is certified by the Fairtrade Labelling Organisation (FLO) to fulfil international social, economic, and environmental standards. A minimum price is paid to the producer in advance, plus an additional premium that must be spent on community development.

Although the Fairtrade market is growing fast, it remains relatively small. Global sales were estimated at €4.4bn ($5.8bn) in 2010, up 27 per cent on the 2009 figure.[79] Such figures still constitute a tiny fraction (about two hundredths of 1 per cent) of global merchandise trade, however: fair trade is neither a panacea, nor a substitute for wider reform of international trading systems, discussed in Part 5.

While organics constitute a larger market, small-scale producers are sometimes excluded by the costs of certification and the demanding standards involved. Moreover, unlike Fairtrade, which is specifically designed for small farmers, large farms have clambered on board the organics bandwagon, threatening to squeeze out small farmers in the same way as with non-organic, high-value crops.

complexities of legal registration.[80] However, they are an important expression of active citizenship, and can play a vital role in improving the effectiveness of state agricultural policies.

THE ROLE OF THE STATE

No matter how successful a producer organisation may be, citizen action alone will not meet the challenge of rural development. It also takes an effective state. While governments in numerous countries have recently revived their role in agricultural policy, for two decades both state intervention and agriculture itself were deeply unfashionable with aid donors and governments alike.

Hostility to state intervention in agriculture was not without foundation. Many of the state marketing boards dismantled at the behest of the World Bank and the IMF under structural adjustment programmes (SAPs) were indeed corrupt and inefficient, and paid farmers little and late, if at all. Excessive taxation of farmers and price controls on their products funnelled

resources away from deprived rural areas towards the cities and industries that leaders judged to be the future of their countries.

Weak as public institutions were, however, they provided some of the essential services that poor farmers needed. In the wake of SAPs, credit, veterinary care, and technical advice virtually disappeared in many countries, and prices fluctuated wildly, both within and between seasons.[81] Cuts in public credit left what the World Bank termed 'huge gaps in financial services, still largely unfilled'.[82] As Joseph Stiglitz once remarked, the 'invisible hand' of the market was invisible because it was simply not there.[83]

Structural adjustment also had profound impacts on the 'unpaid economy' by reducing state investment in services and infrastructure, thus increasing the burden on women in their roles as family care-givers and water-carriers. Farmers in better-connected areas, such as those close to urban markets, benefited from improved prices, while those without market power – either because they had little land or were from largely excluded groups, such as women or indigenous communities – found the deregulated market much less likely to work for them.

Structural adjustment's cure for agricultural stagnation proved worse than the disease. Thankfully, the political and economic tides are now flowing towards an enhanced role for the state and other institutions and away from the market fundamentalism of the 1990s. At the same time, governments and aid donors are re-evaluating the role of agriculture in development, as witnessed by the World Bank's *World Development Report 2008*, the first on agriculture in 25 years.[84] The report advocated what it called a 'new agriculture for development agenda', involving efforts to increase productivity in the staple foods sector; connect smallholders to rapidly expanding high-value horticulture, poultry, and aquaculture, as well as dairy markets; and generate jobs in the rural non-farm economy.[85] Aid to agriculture is slowly rising (but still only stood at 7 per cent of overall aid in 2009);[86] the US government responded to the 2008 price spike with a 'Feed the Future' initiative[87] of at least $3.5 billion for agricultural development and food security over three years, while African governments themselves took the initiative, setting up the Comprehensive Africa Agriculture Development Programme (CAADP) to boost the role of agriculture across the continent.[88]

However, there is a great deal of inertia in politics and, despite the softening of the rhetoric, the default position of promoting deregulation and withdrawal of the state remains strong within governments, among recalcitrant aid donors, and especially at the negotiating tables where trade and investment agreements are hammered out. All such accords curb the scope for state intervention in the economy. Trade negotiations must catch up with the new thinking on agriculture and the role of the state, or they will risk binding countries irreversibly into agreements that could undermine their long-term development (see Part 5).

The answer to rural poverty and inequality is not to give up on the state, but to reform and enhance its support for agriculture and small farmers, especially in the early stages of development, as well as to curb the proclivity of governments and large landowners for intervening in ways that undermine poor farmers. Studies of successful agricultural take-offs show that the process of transformation was 'kickstarted' with strategies including land reform, state-backed specialised rural banks and credit subsidies, state marketing boards and price stabilisation policies and state-subsidised agricultural insurance and warehousing.[89] In India, for example, subsidies on credit, fertiliser, and seeds were effective, as were extension services such as training in new technologies and techniques, state spending on irrigation and roads, and steps to curb the volatility of prices paid to farmers.[90] By reducing risks to producers, such measures initially encouraged them to invest in their farms, although the efficacy of such investments fell with time.[91]

Malaysia's transformation from agricultural economy to manufacturing exporter in the space of three decades was built on effective state intervention in agriculture. This pursued twin objectives: to stabilise rice prices and improve the incomes of the country's millions of small rice farmers, and to generate revenues from exports such as rubber and palm oil. For rice, the government provided input subsidies, particularly for fertilisers, and made large investments in irrigation and land development, especially during the early years. It also guaranteed a floor price for producers, in contrast with other countries that squeezed rural producers in order to keep prices low for urban workers. Outputs and yields responded by growing rapidly during the 1970s, reducing poverty and the risk of inter-ethnic conflict, while export taxes helped to fund the country's industrialisation.[92]

In recent years, Malawi has shown what state action can achieve in terms of poverty reduction, if not yet in terms of broader economic take-off. After a series of poor harvests left almost five million Malawians facing food shortages, the government defied pressure from the country's aid donors and introduced subsidies on seeds and fertilisers to pre-empt famine. The results were spectacular, more than doubling the national maize harvest, averting widespread hunger and helping to halve child mortality rates.[93]

Governments also need to address the need of small farmers for secure title to their land, especially for women (who in many cases have never enjoyed independent rights to the land), including through land reform where necessary. (Land rights are discussed more fully in Part 2.)

As noted above, governments need to support research and development to produce the kinds of seeds and other technologies that small farmers need. Despite the much greater importance of agriculture to their societies, developing countries invest only one-ninth of what industrial countries put into agricultural R&D as a share of agricultural GDP (including both public and private sources).[94] Much of that is geared to large-scale export agriculture with

limited relevance to small farmers. Two-thirds of global R&D on agriculture is undertaken by profit-driven transnational corporations.[95]

Yet public sector R&D has clearly worked. The publicly funded Consultative Group on International Agricultural Research (CGIAR), the international network of agricultural research institutes that spearheaded the Green Revolution, has released more than 8,000 improved crop varieties over the past 40 years, although it continues to underinvest in those crops of greatest importance to poor farmers.

Successful state intervention can benefit consumers too, by enabling farmers to increase productivity, selling cheaper but still making a better living. Between 1980 and 2000, the Green Revolution in Bangladesh meant that the real wholesale price of rice in Dhaka's markets fell from Tk.20 to Tk.11 per kilo. But over the same period, farmers increased yields from around 2 tonnes to 3.4 tonnes per hectare, effectively offsetting the impact of falling prices on their incomes.[96]

Balancing the needs of producers and consumers is one of the core roles of the state in regulating agricultural markets. Drastic changes in food prices, such as the recent surge in prices discussed in the section 'The human impact of the financial crisis', have a complex impact on poverty, depending on the balance of production and consumption in any given household. Many poor farmers are actually net consumers. One study estimates that 70–80 per cent of rural African households do not grow enough to feed themselves all year round, and so rely on the market to cover the shortfall.[97] Rising food prices hurt poor consumers and may not even help poor farmers, when the benefits accrue to processors and traders and are not transmitted down the value chain.

As in the parallel argument for state intervention to nurture infant industries, the role of the state is particularly important at the earliest stages of development, but it should fall away as agriculture takes off and fully-functioning markets emerge in the countryside. An economic analysis of the return on investment in India's Green Revolution found that state spending on credit, electricity, and fertiliser yielded net benefits in the early years, but fell away until by the 1990s all were generating a net loss.[98]

However, this exit can be politically difficult, as the longevity of Europe's Common Agricultural Policy and the US farm subsidies demonstrates. In India, one difficult legacy of the successful kickstarting of the Green Revolution is that the state still spends some $9bn a year on subsidies,[99] mainly on fertiliser, electricity, and irrigation, which largely bypass the poorest people in the countryside, whether landless labourers or smallholders. Fertiliser subsidies in particular have become little more than a slush fund for the fertiliser industry, which receives payments directly from government on a cost-plus basis, thus removing any incentive to improve efficiency. Such arrangements create vested interests that prevent the

government from redirecting that money towards public goods, such as rural roads or agricultural research, where investment produces far higher social and economic returns.[100]

THE FUTURE OF SMALL-SCALE FARMING

High commodity prices, growing demand for biofuels, a possible shift to low-carbon agriculture, booming consumer demand in the cities and in the North for year-round supply, and growing markets for organic and Fairtrade products could all work in favour of small farmers in the coming years. Whether they can break into these new and growing markets will depend largely on their ability to organise and upgrade their production.

Domestic and regional markets may offer more potential than Northern export markets, especially in light of the latter's tariff barriers and intimidating array of health and quality standards (although many smallholders in Latin America appear to have had some success in riding the globalisation wave).[101] In 2002, Africa's domestic consumption of food staples, including cereals, roots and tubers, and traditional livestock products produced and consumed mainly by poor people, was estimated at around $50bn a year, more than five times greater than the value of its traditional commodity exports, and this was expected to double by 2015.[102]

However, with urbanisation and the spread of supermarkets, local markets are becoming more like international ones. Small-scale agriculture will have to learn how to meet more exacting quality standards and face intense competition even to sell locally, or else will be left with the lowest-value dregs of the market. The hiding places from globalisation are shrinking, and both state action and producer organisation are essential to equip small farmers to keep up with the pace of technical and commercial change, and to reform the business model that currently excludes them.

The countryside in many developing countries is being rapidly transformed. While change has brought a mixed bag of opportunities and threats for poor farmers, the threats are greater and the opportunities are slimmer than for large farmers and other powerful players. Many of these changes are likely to ratchet up inequality in the countryside, both between rich and poor, and between women and men. Poor farmers are more vulnerable, more likely to be squeezed out of new, higher-value agriculture, and less likely to benefit from new technologies.

How governments and rural people shape and adapt to change will to a large extent determine the course of global poverty and inequality over the coming decades. Only a concerted effort by a combination of effective, accountable states and active, organised citizens to redistribute power in agricultural markets can arrest growing inequality and rekindle agriculture's ability to trigger national economic take-off and poverty reduction.

In any case, many rural communities will in all likelihood face a future of out-migration and an ageing population. In Peru's Sacred Valley, as the evening sun lights up the plots of maize and the dusk is redolent with the smells of eucalyptus and herbs, 18-year-old Segundino punctures the beauty of a tourist paradise: 'We grow maize, potatoes, wheat, everything, but I want to finish school and carry on studying. Farming is pure sacrifice. Here in the community it's just work and school. We play the odd game of football, but that's about it. I want to go to the city.'[103]

Segundino's words are echoed by young people in rural communities around the world. Education, newspapers, radio, television, and the internet, and consumerism more generally, have profoundly altered the way that rural people think about work, farming, and their – and more particularly, their children's – futures. Farming has become, often in little more than a decade, a low-status occupation to be avoided.[104] Governments can slow the drain to overcrowded capitals by investing in provincial cities and revitalising local economies, but they are seldom able to stop it altogether. Where the productivity and welfare of small farmers can be increased through improved irrigation, credit, technology, and organisation, supporting agriculture is synonymous with development.

Tremendous results could potentially be achieved through improving the efficiency of irrigation. This does not necessarily mean introducing new technology, but new organisation and forms of ownership, of both the physical infrastructure and the water itself. In larger systems, organising farmers into associations that actually own the physical infrastructure and employ the irrigation engineers needed (as is the case in Taiwan with some systems as large as 100,000 hectares) would put the incentive to increase efficiency in the right place. If farmers could actually sell the rights to water they save, they would have an incentive to save water, which would also help roll back the problem of waterlogging and salinisation. Continued investment in small-scale irrigation in hilly areas would also pay dividends and here there is not a problem of salinisation. But significant areas of the world – north-east China, north-west India, mid-west USA – are dependent on groundwater irrigation that is not sustainable. When the aquifer dries out, production will decline. Thus, some forms of irrigation themselves are not sustainable, which provides a new challenge to global food production.

Where the land is exhausted or inhospitable, and productivity improvements are unlikely, it may be better for governments and aid donors to facilitate a dignified exit. The key is to give people the best range of positive choices: not obliging them to flee to the shanty towns in hunger and despair, but rather enabling them to make a positive decision either to stay on the land, or to seek a better life in the city, because they are equipped with skills, capital, and the self-confidence born of power and voice, and can prosper in either environment.

CASE STUDY

HOW CHANGE HAPPENS: THE FISHING COMMUNITIES OF TIKAMGARH

Two hundred men and women sit clustered under giant shade trees on the banks of a dried-up lake: a small pond choked with lilies is all that remains of what should be a lake teeming with fish, built by kings over 800 years ago, and recently restored by the community. Birdsong and voices pierce the dry heat. The land is parched, but the story is uplifting.

'Previously we covered our faces in public', laughs one woman. 'Now we talk back, even to our fathers-in-law.' And not just fathers-in-law. The people of Tikamgarh have come on an extraordinary journey, winning unprecedented rights to the fishponds, and transforming their own lives along the way.

Landlords and contractors have traditionally controlled most fishponds in the impoverished Bundelkhand region of India. Struggles for the right to fish and to use the fertile land exposed when the ponds dry out during drought have been violent and continuous, but the 45,000 fishing families of the Bundelkhand seem to be gaining the upper hand.

Over the past 20 years, the introduction of new varieties of fish and the practice of stocking ponds with fish fry raised in nurseries have greatly increased yields. Rather than favouring the poor, however, such technological improvements prompted landlords and contractors to seize even the smallest of the region's 1,000 ponds.

Protests led the Fisheries Minister in the Congress Party government of Madhya Pradesh, who was himself from a fishing community, to push through legislation in 1996 that granted leases to fishers' co-operatives. A wave of organisation in poor fishing communities followed. Vikalp, an NGO led by Om Prakash Rawat (a former engineer in the State Electricity Board), played a crucial role in helping them to establish co-operatives.

Contractors retaliated by setting up bogus co-operatives of their own and using other tricks to get around the legislation, and when that failed they resorted to violence. In a particularly bloody struggle over Achrumata Pond, fishers fought a pitched battle with thugs hired by landlords to steal their fish. The thugs won the first round, burning down the villagers' huts, but the victims then turned to other villages for solidarity.

Co-operative leaders and sympathetic outsiders got to know each other on their endless visits to police stations in search of justice in the Achrumata case. Working together, they convinced the police to accept an official complaint, seen as an unprecedented symbolic blow to the landlords. Word spread and other communities also filed formal complaints.

Although the police did no more than accept their complaints, such official recognition galvanised the fishing communities. Six communities marched to

Achrumata and fought back. Three people were seriously injured and houses were burned down in the battle, but the landlords were forced to back off. As their self-confidence grew, the communities seized several other ponds. A meeting of some 150 people then decided to launch a campaign to persuade the authorities to enforce the law.

Fishing communities now control over 100 ponds, and 67 of these are now planning to set up a commercial company to market their fish. Their numbers, and the extent to which they had organised, also persuaded local officials to adopt a more sympathetic stance. With Vikalp's advice, the groups are improving the ponds and their organisation, emphasising the empowerment of women in the process.

The success of the people of Tikamgarh depended on factors common to many change processes. Technological shifts triggered changes in behaviour. A series of violent clashes radicalised people. Government took the lead in passing new laws, while the police, under pressure from a popular movement, amazed everyone by enforcing the rule of law.

The communities themselves are the heroes of the story, but they received important support from enlightened political leaders and NGOs. They overcame a powerful opposition and are now building their organisations – a key step in defending their gains.

Unfortunately, the progress achieved by the fishing community of Tikamgarh is being undermined by a drought that has lasted for three years. Up to 75 per cent of the local workforce has been forced to migrate in search of paid work until the rains return to fill the ponds. 'I don't know why it's raining less – God must want us to migrate', laments one old man. The skills and organisation gained, however, remain and will be essential as the communities seek to adapt to the changing climate.

Source: Author visit, October 2006.

THE CHANGING WORLD OF WORK

Asha, aged 13, is one of 2,000 ragpickers in the city of Nashik in India, an important religious centre on the Godavari River, 185km north of Mumbai. Asha has been ragpicking for around six years. Like other young ragpickers, she heads out to go ragpicking as soon as she gets up, working solidly for around four hours every morning. In the afternoon, from 12pm to 5pm, she goes to school, where she is in eighth grade. After school, she comes home to help her mother around the house and care for her two younger sisters and her younger brother. 'My life is ragpicking, school, and household chores', she says. 'I don't have any friends or any entertainment.'[105]

In many developing countries, rubbish recyclers epitomise the struggle to survive. Moving like wraiths through the fumes and smoke of burning rubbish heaps on the fringes of the city, such as Manila's evocatively named (but deeply unpleasant) 'smoky mountain', they are mostly women and children from the most marginalised groups. From the city dump, rubbish bins in residential streets, or vacant land, ragpickers collect tin, paper, plastic, bones, copper, metal, or glass, which they then sell to scrap merchants for cash. Beatings, rapes, dog attacks, harassment, injuries, illness, and abuse are a daily reality, and exploitation at the hands of the buyers is common.

Urban residents, particularly those living in poverty like Asha, rely primarily upon wage labour or self-employment to survive. In rural areas too, growing numbers of families rely on paid work, either because they are landless, or to supplement farm earnings. Work can be degrading, a desperate scrabble for survival, with people enduring dangers, exhaustion, and hardship to keep hunger at bay. However, decent work can be central to an individual's identity and sense of well-being. Good-quality jobs enhance the quality of life by guaranteeing rights and freedoms and equipping individuals to exercise those rights, as well as paying a decent wage.

MORE JOBS, MORE JOBLESS

In 2009, 3.05 billion people aged 15 and older worked for money – nearly half the population of the planet. While agriculture still employs 1.07 billion, as noted above, people are leaving farming in droves. Contrary to previous centuries, when workers moved out of agriculture into industry, overall industrial employment is also falling. The slack is being taken up by the service sector – a vast spectrum of jobs covering everything from maids to

street-sellers to modern banks which already employs 1.32 billion people, eclipsing farm work.[106]

Not all those who want work can find it: open unemployment in the world was about 205 million in 2009.[107] An additional 310 million people are under-employed, working for only a few hours a week.[108] In all, close to one billion new jobs will be needed in the next decade, more than double what the economy will produce at current rates.

Youth account for a fifth of the world's working-age population, but over a third of its unemployed. Across all countries, the unemployment rate among young people is double the average for all adults, and worldwide one in eight young people has no job. The particular tragedy of youth unemployment is that, like child malnutrition, it leads to life-long harm because it means fore-going the accumulation of on-the-job skills and an employment history that would send positive signals to future employers. Besides the personal cost involved, youth unemployment has clear costs to society in terms of wasted talent, and the likelihood that disenchanted young people will turn to crime and violence, as well as the more constructive protests that saw unemployed youths at the heart of the protest movements of the Arab Spring in 2011.

The nature of work has evolved rapidly in recent decades, notably through the mass entry of women into the paid workforce, the continued growth of the so-called 'informal economy', government drives to deregulate and 'flexi-bilise' labour markets, and the expansion of global supply chains and invest-ment. As in the world of smallholder agriculture, these changes present both opportunities and threats for poor people, who need power in markets (in this case labour markets), effective organisations, a responsible private sector, and an effective, accountable state, if they are to reap the benefits.

WOMEN AT WORK

Millions of women have found jobs on the bottom rung of the globalisation ladder, working in garment factories or in the 'new agriculture', growing fruit, vegetables, and flowers for export. These new jobs are in many ways very positive for women, both as individuals and collectively, not least because they challenge assumptions about what they can contribute to families – and, ultimately, to wider society.

In boom areas such as the clothing industry, women's new jobs have brought them tangible benefits. In 1982 the government of Bangladesh began to promote export-oriented manufacturing; within two years, the garment industry took off. By 2004, an estimated two million people worked in the garment factories.[109] Most of the workforce consists of young women, many of whom have migrated from desperately poor rural areas. The wages earned by these women are exceptionally low by international standards, and barely above the national poverty line. Yet their daily wage rates are around twice as

high as those paid for agricultural labourers, and higher than could be earned on construction sites.[110]

Paid employment has improved many women's bargaining power within the family, especially with husbands, fathers, and brothers. A 1990 survey of more than 30 Bangladeshi garment factories found that two out of three women had some control over their earnings. According to one woman, 'In my mother's time … women had to tolerate more suffering because they did not have the means to become independent. They are better off now, they know about the world, they have been given education, they can work and stand on their own feet. They have more freedom.'[111]

Many married women workers interviewed in 2003 said that they now take decisions with their husbands on family matters, and 13 per cent said that their husbands now shared some of the housework, especially shopping and cooking – a small but significant shift. 'The garment sector has brought a silent revolution for women in our society', says Shirin Akter of Karmojibi Nari, an NGO supporting women workers.[112]

However, all too often, jobs in the proliferating garment factories and fruit farms have exacted a heavy toll in the form of excessive hours, workplace abuse, and long-term damage to women's health. Fruit and flower pickers and packers from Colombia, Chile, the USA, and South Africa commonly report headaches, respiratory problems, and eye pain from handling pesticides. Garment factory workers from Bangladesh to Morocco commonly suffer headaches, coughing, vomiting, fever, and physical exhaustion. Poor ventilation in lint-filled rooms can lead to debilitating respiratory diseases. Hired in jobs that demand highly dexterous and repetitive movements, many women suffer joint injuries and back, leg, and shoulder pain.[113]

Paid jobs are also largely in addition to women's previous burden of unpaid work. A study in Ghana showed that women were doing 30–46 hours of unpaid caring work a week, while men in the same categories did an average of eight to 11 hours a week of unpaid work.[114] These statistics may even underestimate the degree of 'time poverty' experienced by women, since the time use studies on which they are based often fail to capture women's 'multitasking' between a variety of roles.[115]

Boxed in by long working hours and unreasonably high production targets, many women are unable to care for their children, and so move their daughters into their own previous roles, cutting short their education. Exhausted women stop participating in social organisations, depriving the broader community of their leadership, energy, and creativity. Angela, sewing garments in a Kenyan factory, expresses frustration at her isolation from the wider community: 'It is not possible to do anything else. There is no time to take care of your own children, visit people, do business, or go to college. Even going to church has become a problem …. We are somehow isolated.'[116]

NOBODY'S FORMAL ANY MORE

'In La Paz, everyone works, but no one has a job', jokes one Bolivian government official. According to the International Labour Organization (ILO), formal, recognised waged employment is in the minority across the developing world, varying from 45 per cent of the non-agricultural working population in Asia to a mere 30 per cent in sub-Saharan Africa.[117] In many countries, the so-called 'informal economy' has mushroomed in recent decades, driven by a combination of technological shifts, globalisation, and government policy. In Malawi, only one in every 250 people has a formal job in the private sector.[118]

During Latin America's recession in the 1980s and the adjustment of the 1990s, the informal economy acted as a gigantic sponge, soaking up those who had been sacked, or who were entering the workforce for the first time. As Latin America's streets became clogged with vendors desperately seeking customers, incomes plummeted. In La Paz, where 60 per cent of the workforce is now in the informal economy, there is one street trader for every three families, and there are just not enough buyers to go around.[119]

In part, the informal economy flourishes because of the 'barriers to entry' for formal business. In Chad, starting a new business requires 11 different procedures and 66 days, and costs over 200 per cent of the average yearly income. By contrast, in the US the same process requires just six procedures, six days and 1.4 per cent of the average income of an American.[120] Surveys of self-employed workers and 'micro-enterprises' show that they often prefer the informal sector as it offers more autonomy and flexibility. The picture is different, however, for waged workers in the informal economy, who usually hanker after a formal job with a contract and benefits.[121]

Even when workers have an employer, work has become more precarious; increasing numbers of people are employed on a temporary and casual basis, often without clear employee status. Their jobs are characterised by low or unstable wages, few if any benefits, little access to social protection programmes, lack of coverage by labour legislation, and little or no respect for the internationally recognised rights to freedom of association and collective bargaining.[122]

Estimates suggest that in 2000 60 per cent or more of women workers in the developing world were in informal employment of this nature, ranging from a low of 43 per cent in Northern Africa to as high as 84 per cent in sub-Saharan Africa.[123] It is precisely these jobs that are worst paid and least protected. Worldwide, women earn on average two-thirds of a male wage.[124] Other groups who experience some of the worst wages and working conditions include the world's estimated 216 million migrants[125] and 176 million working children between the ages of 5 and 14 years.[126]

Development thinkers and the ILO used to view the informal economy as an outdated relic of under-development destined to be replaced by regular

paid jobs. But informality has become an integral part of modern globalised business practices, leading the ILO in 2002 to revise its definition of the informal economy to include all jobs lacking secure contracts, worker benefits, or social protection, thereby recognising that informal workers' rights are a priority to be addressed.[127]

The informal economy also poses a broader challenge to development, as it weakens the social contract between citizen and state. Finding a job there might be perfectly rational from an individual's perspective, but governments have an interest in expanding the net of the formal economy to broaden the tax base, encourage firms to expand (for example, by gaining access to bank credit), and extend the state's ability to regulate the quality of employment. Building the combination of active citizens and effective states is much harder in an informalised economy.

BEND UNTIL YOU BREAK

The boundary between formal and informal economies has been blurred by a combination of pressures that have transformed the nature of regular work. Traditional permanent, waged jobs accompanied by benefits such as health insurance and retirement pensions are being replaced by a new age of insecurity in the workplace. The drivers of change are both technological and political. Improvements in communications and other technologies have allowed firms to drive down costs by parcelling out their production chains across continents. Fordist mass production, with its giant factories, regular jobs, and workplace trade unions' has given way to smaller factories pursuing low-inventory, 'just in time' production methods. These require a flexible workforce and make it harder for trade unions to organise across continents and multiple workplaces.

Deregulation of the labour market is often described as enhancing 'flexibility'. Occasionally, flexibility benefits workers, such as when it means greater entitlements to family leave or flexible working hours, but largely it is a euphemism for driving down entitlements and job security.[128] Typical 'flexibilisation' measures include the introduction of temporary contracts, little or no recognition of labour rights such as freedom of association or collective bargaining, part-time working (which limits access to standard benefits such as holiday pay and pensions), piece-rate payments, and making it easier for employers to hire and fire staff.

Women predominate in many of the categories of jobs and workers targeted for flexibilisation or ignored altogether by labour law: domestic workers, home workers, agricultural workers, undocumented workers, and workers in export processing zones. In the case of domestic workers, a review of the labour legislation in 60 countries revealed that nine exclude domestic workers from their labour code, while 19 refer to them in a 'specific' chapter, which

often means that they are afforded a lower degree of protection than other categories of workers.[129]

Flexibility often includes loosening minimum wage requirements and ending sector-wide collective bargaining. As well as introducing or scrapping legislation, governments have undermined labour rights by failing to update labour laws to match the changing nature of work, and by turning a blind eye to the violation of existing labour codes. As a result:

- In Chile, 75 per cent of women in the agricultural sector are hired on temporary contracts to pick fruit, and put in more than 60 hours a week during the season – but one in three still earns below the minimum wage.
- Fewer than half of the women employed in Bangladesh's textile and garment export sector have a contract, and the vast majority get no maternity or health coverage – but 80 per cent fear dismissal if they complain.
- In China's Guangdong province, one of the world's fastest-growing industrial areas, young women face 150 hours of overtime each month in the garment factories. They have little option but to comply, given that 60 per cent have no written contract and 90 per cent have no access to social insurance, should they be fired.[130]

DOING BUSINESS THE WORLD BANK WAY

The International Monetary Fund (IMF) and the World Bank have been among the most determined proponents of 'flexibilisation'. In 2002, the World Bank recommended 'eliminating labour-related rigidities' in Mexico, including 'the current system of severance payments; collective bargaining and industry-binding contracts … restrictions to temporary, fixed-term, and apprenticeship contracts'. In 2001, the IMF 'viewed favourably certain aspects of the [Chilean government's] proposal (such as reducing restrictions on work schedules and allowing part-time contracts …)'. However, it 'expressed concern over other elements (such as allowing collective negotiations at the inter-firm level…) which would reduce labour market flexibility'.[131]

Since 2003, the most important source of pressure from the Bank has been the labour section of its annual *Doing Business* publication. The labour market flexibility indicators of this section are often used in World Bank and IMF country-level strategy documents to force countries to do away with various kinds of workers' protection. For example, a recent World Bank Economic Memorandum to Colombia demanded that the government make hiring and firing decisions more flexible in order to improve its *Doing Business* indicators, even though it is uncertain whether this will have a positive economic impact. The World Bank also made compliance a condition for loans to Colombia.

The 2008 edition of *Doing Business* declared the Marshall Islands to be the world's 'Best Performer' for 'ease of employing workers', displacing the previous champion, Palau. What the Marshall Islands and Palau have in common is that they are tiny Pacific island nations that have no labour code and are not members of the ILO.[132]

Infringing workers' rights and limiting their compensation is increasingly common in developed countries as well. For a short time in history, thanks largely to a vocal trade union movement, a few privileged workers won the right to be compensated for most of the costs of maintaining the labour force and of caring for past and future workers: health care, a monthly salary (paying for rest time at weekends), compensation for injury and old age, and paid leave for illness, maternity/paternity, breastfeeding, funerals, religious events, and holidays. In some cases, employers and the state also paid for training/retraining, job search, or removal costs when workers were transferred or economic restructuring took place. In both developed and developing countries, that era now risks being consigned to history, degrading the quality of work and the lives of workers.

Flexible labour policies entail costs to society in terms of the health and education of future generations of workers, and even in the quality and reliability of production. Without a stable income or access to social protection, workers, particularly women workers, are trapped in poverty and are vulnerable to shocks. When in addition the state cuts back social spending, the accumulated hidden costs (ill health, lack of training opportunities, short working life spans, and so on) become overwhelming. The result: greater inequality.

A study of women factory workers in Lesotho, for example, found that long and inflexible work hours, between 10 and 12 hours a day during the week and up to 10 hours a day at weekends, constituted a major obstacle to mothers caring for their children.[133] During periods when hours were even longer, women reported never seeing their children awake. They were allowed no time off to care for, or get medical care for their children, and their wages were docked when they did. Some women therefore avoided both pre-natal and post-natal clinics, putting their own health at risk as well as that of their children.

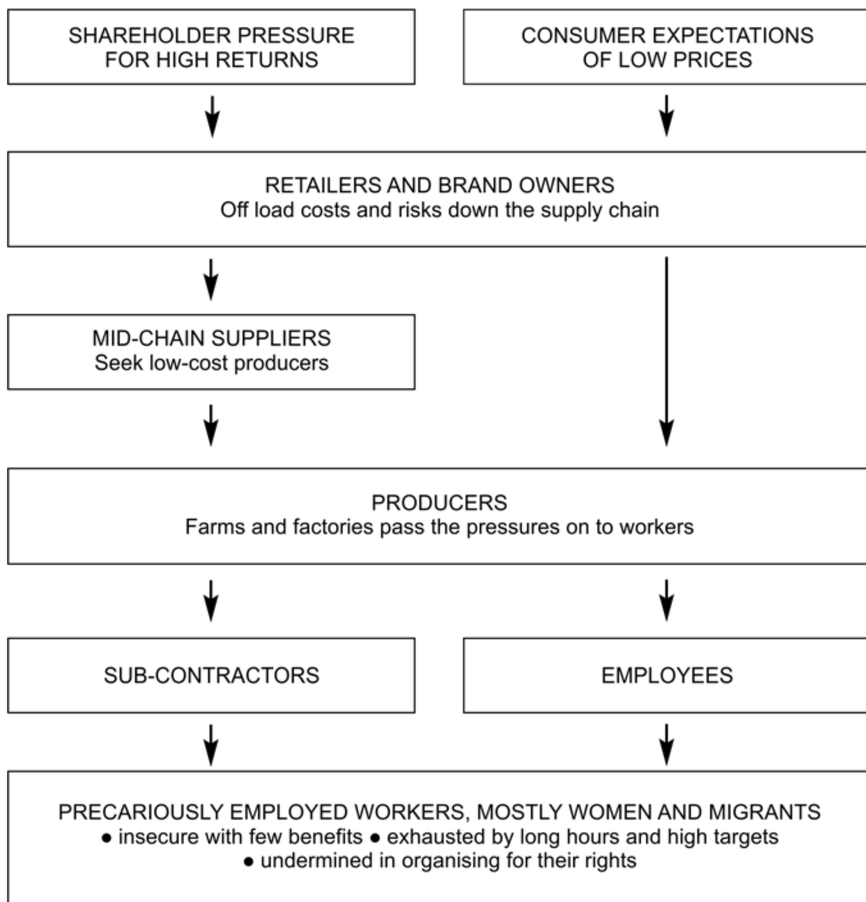
For any single country, the flexible labour policies encouraged by international financial institutions may seem necessary to stay competitive with other cheap and 'flexible' countries. But the advice to 'flexibilise' has been given simultaneously to many developing countries, setting national and provincial governments to bid against each other, so reducing the gains from investment for them all.

Cheap labour may produce a short-term boost to a company's profits, but it is a poor development strategy. Since jobs are the key source of income for poor people, low wages drive up inequality and undermine social cohesion; underpaid workers consume less, and so reduce the domestic market for goods and services that is vital for many firms. Impoverished families are

unable to spend as much on health and education, undermining the prospects and productivity of future generations. In addition, an economy whose competitive edge derives from low wages is always vulnerable to competition from even lower-wage rivals entering the same markets.

In sectors such as food, clothing, and electronics, global supply chains are driving the push for flexible labour practices. Retail giants have responded to cut-throat competition by pushing risks and costs down the supply chain, as shown in Figure 3.4, and evading their corporate social responsibility.

FIGURE 3.4: SUPPLY CHAIN PRESSURES CREATE PRECARIOUS EMPLOYMENT



Source: Oxfam International (2004) 'Trading Away Our Rights'.

Oxfam's study of eleven garment factories in Tangiers found evidence of the pressure on suppliers. Together the factories employ more than 6,500 women, producing shirts, trousers, dresses, skirts, and children's clothing for several of the largest Spanish retailers. All the factories reported falling prices, on average around 30 per cent over three years. 'Prices fall every year … a pair of trousers worth €3.30 ($3.90) three years ago is now worth €2 ($2.40)', said one factory manager. 'They always want higher-quality garments, the price goes down due to competition, and you're in no position to argue.' In the previous three years, lead times had fallen from 14 days to 5 or 7 days, some of the shortest in the industry.[134]

At the sharp end of this frantic drive for cost-cutting are the weakest actors in the supply chain – casual workers. Employees interviewed in Bangladesh's proliferating garment factories work a seven-day week, often putting in fifteen hours a day or more. In a busy month, workers carry on through the night before snatching a couple of hours' sleep on the factory floor. If a worker puts in over 100 hours overtime a month on top of her normal 63-hour week, she gets a bonus, which brings her monthly earnings to barely $60.[135]

A similar situation applies on export farms. According to one South African apple farmer, 'We employ people as we need them, but you need to break their expectation of having a permanent position, so you hire for two to three weeks and then you let them off for a few weeks, and then you hire them again.'[136]

TRADE UNIONS CHALLENGED

In the filthy casualty ward of a Bangladeshi hospital, two doctors are bent over a prone figure in the light of a single bulb. The woman on the bed is Minara, a sewing machine operator at one of Bangladesh's 2,700 garment factories, whose workers have just joined a Bangladeshi garment workers' union. She was rushed to hospital an hour ago with deep cuts to her neck, face, and hands after a razor attack by two *mastaans*, thugs hired by the factory owner. Her sister is semi-hysterical, weeping that Minara will now be scarred, and will be thrown out by her husband.[137]

Once the standard recourse for workers in their struggle to claim their rights, trade unions have suffered serious setbacks since the 1980s. Approximately 90 per cent of the world labour force is unorganised, and union membership is declining in direct proportion to the growth of the informal economy.[138] Unions have struggled to reach out to people working within homes, or unprotected by contracts. Workers in the informal economy are not united by the same type of job, or even the same employer. They are determined to hang on to even meagre jobs, and may not share common interests with formally employed workers.

Even in the formal economy, the task of trade unions has been made a good deal harder by changes to labour legislation in recent decades, including the

ban on union organisation in many export processing zones. Worker organisations continue to face repression and violence; union leaders around the world confront harassment, rape, and death. Two countries in every five have serious or severe restrictions on the core right to freedom of association.[139]

Within trade unions, the view among many male workers that women are temporary, secondary, or less valuable workers, 'helping out' their male partners, has hampered the ability of unions to respond to the changing nature of the workforce. Women are under-represented in union leadership, issues of importance to female workers are often sidelined, and young women in particular may find the typically bureaucratic and procedural style of trade unions off-putting. Research suggests that the reliance of whole families on women's wages, coupled with cultural expectations of women's roles, means that women are often reluctant to risk family livelihoods by embarking on union activity, although when they decide to do so, they can be extremely tenacious.

Many unions have also wrestled with their political role, in particular their links to progressive political parties. Ever since they began to form, the focus of trade unions on the rights of poor workers has inevitably drawn them into the political arena, pressing for changes to labour legislation such as health and safety codes or minimum wages. Many left and centre-left parties around the world were initially founded by trade unions. However, involvement in politics can be a serious drain on resources, and electoral victories by sympathetic political parties can be a mixed blessing. In South Africa, Brazil, and Bolivia, progressive governments desperate for experienced leadership have turned to the trade union movement, skimming off generations of leaders and dragging unions into electoral politics.

Historically, the benefits of an active trade union movement have accrued not just to union members, but to society as a whole. Trade unions have been at the heart of the social democratic contract between state, workers, and business that has underpinned the prosperity and stability of welfare states around the world. They are a vital means of ensuring that the chaos and change that inevitably accompany economic growth do not exacerbate suffering and inequality. Furthermore, investors are more likely to be attracted by stable industrial relations. According to Mamphela Ramphele, managing director at the World Bank, 'Co-ordination among social partners can promote better investment climates while also fostering a fairer distribution of output.'[140]

As the traditional model of organising a stable workforce on a single worksite becomes less and less relevant, new approaches have emerged. In South Africa, the Women on Farms Project supports workers demanding a minimum daily wage on farms that grow table grapes and other fruits for export. Previously, the women had no organisation – hardly surprising, given their relative isolation and the seasonal nature of their work. Less than 5 per

cent of farm workers in South Africa are unionised, and the overwhelming majority of these are permanent workers and hence male. Sikhula Sonke ('We Grow Together'), a women-led trade union formed to defend the rights of seasonal workers, especially women, has a membership of close to 4,000 women farm workers and is engaged in education, women's leadership development, and advocacy. Already, at a local level, the union has won victories over protective clothing, access to toilets in the fields, equal pay for equal work, maternity leave, and respect for minimum daily wages.[141]

Even the ragpickers of Nashik in India are organising. A local NGO, Lokvikas Samajik Sanstha (LVSS), is supporting the ragpickers to form a union and gain access to health care, legal support, health insurance, ration cards, education, vocational training, and recreational facilities, and is encouraging them to open bank accounts to save money for emergencies. The ragpickers have also persuaded Nashik Municipal Council to issue them with photo identity cards, which identify them as legitimate waste collectors, give them access to free medical treatment, help reduce harassment and abuse, and increase personal dignity. The women have even taken over the official role of municipal rubbish collection in some residential areas, which has provided them with increased job security, income, and safety and the residents with a better service.

There have been other victories for workers' rights in recent years. In 2003, after a 15-year struggle, domestic workers in South Africa were finally brought under the Unemployment Insurance Act covering employed workers, while in Ghana in the same year, the New Labour Act allowed temporary and casual workers to benefit from collective agreements, access to the same medical services as permanent workers, and equal pay for work of equal value.[142]

Given the rise in women's employment and entrenched attitudes in the labour movement, women's organisations such as India's Self Employed Women's Association (SEWA) have also come to play an essential role, capitalising on their experience in popular communications, community organising, and their links with academics and international networks. In Nicaragua, the María Elena Cuadra Movement of Employed and Unemployed Women (MEC), established in 1994, works through community-based rather than workplace-based groups, with 2,000 volunteers reaching out to women in work and at home. MEC helped to win the country's first National Health and Safety Law in 2007, as well as increased site inspections in export processing zone factories to ensure compliance with health and safety legislation, and human rights training for mid-level private sector managers.[143]

GOVERNMENT AND PRIVATE SECTOR CHALLENGED

When governments fail to uphold core labour rights, it is often for political reasons, not economic ones. Faced with powerful business elites who fear trade union activity, governments frequently are unable to resist pressure

BOX 3.5
INDIA'S WOMEN ORGANISE

The Self Employed Women's Association (SEWA), established in 1972, is a union of low-income working women who earn their livelihoods by running small businesses, doing sub-contracting work, or selling their labour. It is the first trade union of workers in the informal economy, not only in India but in the world. With over 950,000 members in 2006, SEWA is also the largest trade union in India.

SEWA groups its membership into four broad occupational categories:

- hawkers and vendors, who sell a range of products including vegetables, fruit, and used clothing from baskets, push carts, or small shops;
- home-based producers, who stitch garments, make patchwork quilts, roll hand-made cigarettes (*bidis*) or incense sticks, prepare snack foods, recycle scrap metal, process agricultural products, produce pottery, or make craft items;
- manual labourers and service providers, who sell their labour (as cart-pullers, porters, or construction workers), or who sell services (such as wastepaper picking, laundry services, or domestic services); and
- rural producers, including small farmers, milk producers, animal rearers, nursery raisers/tenders, salt farmers, and gum collectors.

SEWA pursues a mix of what it calls 'struggle' and 'development' – that is, unionising activities to improve pay and working conditions – and investments to provide services and promote alternative economic opportunities. Over the years, it has built a network of institutions in both rural and urban areas:

- SEWA Union (the primary organisation to which all members belong and which provides overall governance);
- SEWA Bank (which provides financial services, including savings and credit);
- Gujarat Mahila Cooperative Federation (which is responsible for organising and supporting SEWA's membership in several types of co-operative);
- Gujarat Mahila Housing SEWA Trust (which provides housing services);
- SEWA Social Security (which provides health and child care and insurance services);
- SEWA Marketing (which provides product development and marketing services);
- SEWA Academy (which is responsible for research, training, and communication).

Source: SEWA, 2008 (www.sewa.org).

to use repression rather than foster negotiations. The low political priority accorded such rights means that government labour inspectors are poorly funded, often ineffective, and sometimes corrupt, taking bribes in exchange for turning a blind eye to abuse. Labour legislation is often outdated and discriminatory, providing governments with a poor tool for promoting rights.

What is more, in the absence of effective regulation and enforcement, individual companies find it hard to forego the competitive advantage they gain through violating rights, even when it undercuts the long-term stability needed for sustained growth. The global free-for-all fostered by deregulation and flexibilisation erodes the will of those companies that do wish to respect rights.

A combination of effective states and active citizenship is needed to meet these challenges. Strong, independent trade unions with political clout can balance the overbearing influence that business associations often wield. That allows governments sufficient autonomy to ensure that the legislative framework and state policy encourage rather than discourage respect for rights. Properly funding and equipping labour inspectorates to enforce the law, and ensuring that labour legislation keeps up with the changing workplace, are two essential steps. In Central America, for example, women workers' organisations have criticised occupational health and safety laws based on risks in construction and agriculture – traditionally men's jobs – that fail to recognise conditions such as repetitive stress injuries, which are common to women's jobs in factories and households. Labour legislation may also discriminate against women where only workers in full-time, permanent employment gain access to employment benefits.

The private sector, too, must rise to the challenge of social responsibility. Industries that are physically constrained from moving their capital around, that are making longer-term investments due to other factors such as market size, or that depend on good community relations are most likely to champion more responsible practices. Supermarkets, for example, seeking a 'licence to operate' in large developing countries may be more amenable to pressure to respect freedom of association or collective bargaining (even mighty Wal-Mart backed down over the Chinese government's insistence that it recognise trade unions in its 60 Chinese supermarkets[144]).

Many global supply chain practices result in precarious conditions for workers – and these are precisely the ones considered by businesses to provide an edge in highly competitive markets. In the words of one South African fruit marketing agent, 'Margins are so tight, we've got to survive and thus cut and restructure labour. You can't turn a packhouse on and off, you can't turn tractors on and off, you can't turn trees on and off, but you can turn people on and off.'[145] Oxfam's research has documented pressures and incentives for company buyers to boost sales and profit margins, ignoring unethical practices and even abuses of labour standards.[146] Ethical purchasing managers

struggle against common beliefs that promoting decent jobs and labour rights is uncompetitive, and can end up being sidelined, especially in a business downturn.

To change such practices will require a co-ordinated effort across the globe. Activists have galvanised consumer pressure in wealthy countries to get some big brands to move. Driven by public outcry over poor labour conditions in some supply chains, 'multi-stakeholder initiatives' such as the Ethical Trading Initiative have brought together supermarkets and clothes retailers, among others, with trade unions and NGOs to seek ways to protect labour standards in their supply chains.[147] They have identified and piloted corporate purchasing practices that respect 'decent work', freedom of association, and the role of trade unions. Activities include experimenting with different ways of commissioning independent 'social audits' of suppliers and finding ways to promote labour standards among smallholders and home workers. Some institutional investors such as pension funds, who see the risk to corporate reputations and share prices from bad labour practices, have also weighed in.

Many firms are finding that promoting decent work can be good for business. In the Dominican Republic, Costa Rica, Mauritius, and the Philippines, employers have found that low wages and poor working conditions are associated with employee dissatisfaction, whereas higher wages, better working conditions, and more job flexibility help to attract and retain a more contented and better-trained work force.[148] The 'demonstration effect' of seeing a rival factory gain an edge through promoting better practices can be far more effective in convincing business leaders to follow suit than any number of research papers or campaigns.

THE FUTURE OF WORK

Creating jobs, in sufficient number and of sufficient quality, lies at the heart of the challenge of development. For people living in poverty, a decent job is the best guarantee of transforming their lot. Workers must enjoy basic rights if work and the income it brings are to free people from poverty and contribute to national development. The struggle to ensure respect for such rights is far from easy and, in many ways, it is getting harder. The spread of democracy, active citizenship, and literacy in developing countries gives some grounds for optimism, but a dark shadow is cast by the evolution of the economy: away from mass production towards informal jobs and global supply chains, both of which are characterised by a race to the bottom in wages and conditions.

The situation of women workers in global industries is a battleground between competing visions of economic development, with consequences for all workers and for the fight against inequality and poverty. One vision recognises caring work as a vital component of economies and affirms the

BOX 3.6
CAN TRADE AGREEMENTS PROMOTE LABOUR RIGHTS?

Labour provisions appear in almost all US and EU bilateral and regional free trade agreements, but parties merely commit to uphold domestic labour laws, irrespective of their quality or current levels of enforcement. There is no requirement for ILO standards to be incorporated into domestic law and no enforceable obligations are placed on foreign investors. The US–Jordan Free Trade Agreement, for example, requires only that parties 'strive to ensure' that domestic laws are consistent with 'internationally recognised labour rights'. The agreement has had little effect on working conditions in Jordan, which are atrocious, especially for immigrant workers.[149]

One trade agreement that seems to have improved labour standards is the US–Cambodian Textile Agreement, under which improved access to the US market is conditional on the enforcement of internationally recognised labour rights. Independent monitoring by the ILO prevents the labour clause from being hijacked for protectionist purposes. By 2007, 300 garment factories had joined the ILO project.[150] Wages, working conditions, and respect for workers' rights have improved measurably and foreign investors have benefited from higher productivity and quality and lower rates of accidents, staff turnover, and absenteeism.[151] However, the agreement has not succeeded in securing respect for the right of workers to organise.

In the North American Free Trade Agreement (NAFTA), one of the oldest and best known of the modern generation of regional trade agreements, the supposed remedy for labour rights violations has proved a paper tiger. After more than a decade, none of the 28 labour standards complaints submitted under the NAFTA side agreement on labour rights has advanced beyond the second step of a seven-step process.[152]

Moreover, many developing country governments question the underlying purpose of labour rights clauses in trade agreements, suspecting that they owe more to protectionism and a desire to safeguard jobs in the North than to genuine concerns to promote labour rights in the South.

responsibilities of the state and employers to contribute 'employment benefits' and taxes as investments in maintaining a healthy, trained, and productive workforce. The opposing vision ignores the caring economy and treats as 'savings' and 'efficiency' company or government policies to shed the costs of workers' health, leave time, incapacity, or old age.

Although the latter vision ignores the costs of maintaining a healthy society, these do not go away. They shift to workers, with women paying the highest price through their unpaid caring labour and their low wages. Women are ground down by long hours, low wages, and anxiety, and such 'indecent work' fails even to guarantee sufficient food on the table.

For years, ILO conventions and the welfare state promoted shared responsibility for such costs, divided between the state, the private sector, and the worker. Replacing welfare state policies (and trade union aspirations) based on rights with an exclusive emphasis on responsibilities (for example, the responsibility of workers to provide their own support for unpaid caring costs) undermines both workers' lives and the capacity of growth to generate decent jobs, transform lives, and galvanise economies.

To ensure that hard-won labour rights are not swept away, but are extended to women and others in the new economy, will require innovative and dynamic organisation, backed by effective and accountable states. It is a huge test for the labour movement, the women's movement, and enlightened business leaders. Globally, organisations such as the UN and the ILO can play an influential role, as can consumers and retailers. At the very least, the outside world must help, not hinder, the struggle for workers' basic rights.

PRIVATE SECTOR, PUBLIC INTEREST

As poor men and women seek to feed their families and build better lives, they grapple with a range of risks and opportunities, their strategies constantly evolving to cope with change. In this effort, the market is the sea in which they swim, and the main denizens of that sea are private companies.

The private sector spans all private, for-profit businesses, from giant transnational corporations to peasant farms, backstreet workshops and market stalls. In the formal economy, private firms enjoy both rights (for example, limited liability in the case of financial collapse) and responsibilities (to obey laws, for example on working conditions and taxation). How companies balance their rights and responsibilities – that is, whether they have long-term or short-term mindsets, respect labour rights, consider their impact on local communities, or manage their environmental footprint – is determined by the actions of states and citizens, and the will of their owners, managers, and staff.

Private firms directly influence the lives of poor people in six main ways: they provide products and services; generate income and investment; create jobs; develop skills through training and experience; develop and transfer technology; and establish physical and institutional infrastructure. Firms also exert indirect influence, for example through their impact on the environment, through taxes, or by lobbying for changes to government rules and practices.

In recent years, harnessing the dynamism of the private sector has triggered extraordinary development in a number of countries, especially in Asia. However, in the absence of an effective state and active citizens, especially trade unions, the private sector can also exploit workers, undermine democracy, and despoil the environment.

SMALL BUSINESS

The power and profile of large transnational corporations (TNCs) leads many NGOs, including Oxfam, to engage them at the international level in an effort to change their policies and practices. Yet on the ground, the development efforts of governments and NGOs alike more often concentrate on small and medium-sized enterprises (SMEs), which are much more present in the lives of poor people.[153]

SMEs create many more jobs and have more local linkages than TNCs. They employ poor and marginalised people who might otherwise struggle to find jobs in large modern companies, and act as a safety net by soaking

up labour in times of crisis. They are incubators of entrepreneurial skills and social mobility, especially for women entering business for the first time. However, small businesses are also responsible for some of the worst abuse of workers' rights, including forced and child labour.

As economies grow, small and medium-sized businesses tend to move out of the informal economy, acquiring legal status, becoming liable for taxes and benefits, and paying wages in a more regular fashion. Not only do they become more formal, they also become more important to the economy as a whole: formally-registered SMEs employing up to 250 people account for just 16 per cent of GDP in low-income countries, but this rises to 39 per cent in medium-income countries and 51 per cent in high-income countries. The variation between countries is huge: while less than 5.5 per cent of the formal workforce is employed in SMEs in Azerbaijan, Belarus, and Ukraine, the share rises to more than 80 per cent in Chile, Greece, and Thailand.[154]

Because SMEs can be either exploitative sweatshops or seedbeds of innovation and entrepreneurship, there is little agreement on their contribution to development. Some see them as a distraction from the general business of promoting the private sector, whether big or small; others see them as something close to a job-creating, growth-promoting panacea; still others worry about their frequently harsh employment practices and hostility to trade unions.

The UN reports that 'SMEs are marginal in the domestic ecosystem. Many operate outside the formal legal system, contributing to widespread informality and low productivity. They lack access to financing and long-term capital, the base that companies are built on.'[155] SMEs often find themselves trapped in a financial 'missing middle', unable to access credit like large companies (which can borrow from the banks) and worse off than individuals, who can turn to a plethora of microfinance providers.[156]

In spite of official neglect SMEs play a critical role in many economies. India's nearly three million SMEs account for almost 50 per cent of industrial output and 42 per cent of India's total exports.[157] With appropriate government support, SMEs can drive the economy. SMEs played a central role in Taiwan's spectacular growth, built on exports that rose a hundredfold between 1965 and 1987. When labour costs rose in the 1980s, the government actively pushed SMEs to upgrade into ever higher-technology products such as computers, particularly for export. It regulated foreign investment to encourage technology transfer to Taiwanese companies. Over the years, many SMEs became successful exporters, while their linkages to the domestic economy spread the benefits internally. Unlike neighbouring China, SMEs enabled Taiwan to grow rapidly without driving up inequality. In 2006, almost 98 per cent of its approximately 1.3 million enterprises were classified as SMEs; they realised 30 per cent of total sales and employed 77 per cent of the workforce.[158]

States can create the kind of operating conditions that all businesses need, whether large or small, for example by ensuring reliable energy supplies and decent transportation and communications systems. They can avoid getting in the way: excessive regulation can be particularly toxic for SMEs that cannot afford lawyers, and often drives them out of the formal economy altogether, depriving the state of taxes and employees of legal protection. States can also help SMEs develop their businesses with training and support where private suppliers do not exist, particularly in remote areas. Where SMEs lack financial services, governments can act to ensure access to credit.

More broadly, governments can foster technological upgrading, local linkages (both to large firms and to other SMEs), and 'clustering' of SMEs from a particular sector in the same location – such as southern Brazil's shoe industry or Bangalore's software cluster. For their part, SMEs need to strengthen their industry associations, so that their voice is not drowned out by the well-organised lobbyists of large domestic companies and TNCs, whose interests are not always compatible with those of small companies. SMEs have also been wrongly left out of the debates on corporate social responsibility. Just as with large firms, there are both good and bad SMEs, and pressure is needed to push firms towards responsible social and environmental practices.

One promising recent development has been the rise of 'social enterprise' – private firms with an explicit social purpose. Blurring the boundaries of private and voluntary sectors, these aim to apply a private sector focus on efficiency and scale to social and environmental challenges. Examples include health care initiatives such as the India's Aravind Eye Care Hospitals[159] and a plethora of renewable energy start-ups covering everything from biomass to solar lanterns, celebrated every year by the Ashden Awards scheme.[160]

LARGE FIRMS

Large companies, whether under national or foreign ownership, also play a crucial role in economic development and in the lives of poor people. Although they tend to be more capital-intensive than SMEs, and so create relatively fewer jobs, they have a wider role in that they control complex production and distribution chains, and introduce technology that is then picked up by smaller firms

Oxfam's analysis of Unilever's 'poverty footprint' in Indonesia showed that, overall, the firm's operations generate about 300,000 full-time equivalent (FTE) jobs. Strikingly, more than half of these jobs are in Unilever's 'downstream' distribution and retail chain, with only about one-third 'upstream' in the part that makes inputs for the company's products. The value added within the value chain is even more dispersed than the benefits of employment within the chain, with Unilever itself accounting for only $212m of the estimated total of $633m in added value from its operations.[161]

Large firms are typically better connected with decision-makers, and use that influence to ensure that state policies serve their interests by giving them tax breaks and other incentives, guaranteeing them high profits, minimising competition, or ensuring privileged access to state spending.

In recent years, global companies have entered low-income consumer markets, epitomised by banks selling microfinance services or companies selling shampoo and other goods in individual sachets rather than by the bottle. Deploying vast advertising and sales campaigns to promote their brands, such TNCs have displaced large local producers and SMEs. Brands are a crucial asset for major corporations in their quest for consumer allegiance, and represent a serious new obstacle for smaller businesses obliged to compete with the bigger players. Size provides other advantages, such as the ability to build cartels of either buyers or sellers that can effectively exclude smaller players from the most profitable sections of the market.

While large foreign companies account for a minority of overall investment and employment, their clout is increasing, both in terms of investment volume and the introduction of new technology or management practices that domestically owned companies then follow. Driven by waves of privatisation, deregulation, and the growth of global production chains, the past 15 years have seen levels of foreign direct investment (FDI) to developing countries increase rapidly – from $35bn in 1990 to $574bn in 2010 (down from a pre-crisis $658bn in 2008).[162]

Although it is often pointed out that FDI has flowed mainly to the big economies, this largely reflects their greater economic power and larger populations. Five countries – Brazil, China, India, Mexico, and the Russian Federation – received 42 per cent of FDI inflows to developing countries in 2010, but at the same time they had a 52 per cent share of less-developed regions' population and 61 per cent of their GDP.[163]

South–South investment is rising faster than North–South flows, as firms in China, India, South Africa, and the East Asian tigers go multinational. Developing and transition economies accounted for a quarter of global FDI in 2010.[164] Compared with their developed country counterparts, Southern TNCs are more likely to be state-owned and many are based in the primary sector (oil, gas, mining) or resource-based manufacturing such as iron, steel, and cement.[165] Malaysian and South African investors contributed almost a third of the foreign exchange raised by privatisation efforts in the poorest countries between 1989 and 1998. All the major players in the African telecommunications sector are from other developing countries; these companies have been able to use their operating experience in their home markets to cope with the particular risks of doing business in poor countries.[166]

A final and growing feature of international FDI is investment by major Southern TNCs in Northern economies. In the UK, India's Tata Steel now owns Corus while Tata Motors owns Jaguar; Brazil's Vale mining conglomerate

bought Canada's second largest mining company, Inco, for $19bn in 2006; Mexico's dynamic Cemex cement company has built a global network through mergers and acquisitions. Chinese companies' attempts to buy US firms have provoked a nationalist backlash on several occasions.

While China's growing investment in Africa (and its less publicised surge in South-East Asia and Latin America) is best known in the extractive industries, where it has been portrayed as leading a new 'scramble for Africa', in fact Chinese firms are taking on a significant number of construction and infrastructure projects that have been avoided as too risky by European or US firms.[167] In Sierra Leone in 2005, within two years of the end of a bloody civil war, China was already investing $270m in hotel construction and tourism.[168]

Southern-based companies have good experience in producing and marketing low-cost products, giving them an advantage in accessing low-income consumer markets. Chinese electronics companies such as TCL make $50 colour television sets in India and Viet Nam.[169] In Tanzania, the Swahili name for the recent influx of cheap motor bike rickshaws is 'bajaji', a corruption of Bajaj – the Indian firm that makes them. When India's Tata Motors launched its 'people's car' in 2008 it followed in the footsteps of the Volkswagen Beetle or the Model T Ford, promising to bring cars to new generations of consumers by exporting $2,500 Nanos to the rest of the developing world.[170]

TABLE 3.1: SOUTHERN TNCS. COUNTRIES WITH THE MOST COMPANIES IN THE TOP 50 NON-FINANCIAL TNCS FROM DEVELOPING AND TRANSITION ECONOMIES, RANKED BY FOREIGN ASSETS, 2009

COUNTRY OF ORIGIN	NUMBER OF FIRMS IN THE TOP 50
Hong Kong	8
China	5
India	4
Korea	4
Russia	4
Singapore	4
Taiwan	4
Brazil	3
Malaysia	3

Source: UNCTAD, Erasmus University Database, http://www.unctad.org/sections/dite_dir/docs/WIR11_web%20tab%2029.pdf

TABLE 3.2: THE TOP 10 NON-FINANCIAL TNCS FROM DEVELOPING AND TRANSITION ECONOMIES, RANKED BY FOREIGN ASSETS (2009)

CORPORATION	INDUSTRY	FOREIGN ASSETS ($M)	HOME ECONOMY
Hutchison Whampoa Limited	Diversified	72 047	Hong Kong, China
CITIC Group	Diversified	43 814	China
Cemex S.A.B. de C.V.	Non-metallic mineral products	39 225	Mexico
Vale SA	Mining & quarrying	38 848	Brazil
Samsung Electronics Co., Ltd.	Electrical & electronic equipment	34 795	Korea, Republic of
Petronas - Petroliam Nasional Bhd	Petroleum expl./ref./distr.	33 599	Malaysia
China Ocean Shipping (Group) Company	Transport and storage	28 092	China
Hyundai Motor Company	Motor vehicles	27 627	Korea, Republic of
LG Corp	Electrical & electronic equipment	25 400	Korea, Republic of
Lukoil OAO	Petroleum and natural gas	23 992	Russian Federation

Source: UNCTAD, World Investment Report 2011, http://www.unctad.org/sections/dite_dir/docs/WIR11_web%20tab%2030.pdf

Developing country TNCs are more likely to use 'intermediate' technologies that are more labour-intensive, and so create more jobs.[171] However, the poor performance of some southern TNCs regarding social and environmental responsibility is a cause for concern, and may be due to the absence of strong government or civil society scrutiny at home. There are plenty of exceptions – South Africa's SABMiller and India's Tata family have long track records of corporate responsibility.

Developing country governments face dilemmas in balancing support for FDI and for home-grown firms. If foreign investment were identical to the domestic variety in its economic, social, and environmental impacts, there would be no reason for governments to prefer one over the other, but in fact they behave very differently. Each has its merits. Domestic investors are 'stickier': less likely to leave the country, they reinvest more of their profits, and are more likely to keep their higher-value activities, such as R&D and design, at home. This means that there may be developmental reasons for

preferring domestic investment, even when a foreign investor's record on corporate responsibility is excellent. For their part, foreign companies can contribute cutting-edge technology, jobs, and tax revenue to a poor economy. They have better access to international markets and sources of credit, often have a better record on wages, labour rights, and the environment, and can influence how domestic companies operate.[172]

These differences may be becoming less significant with time – for example, as domestic businesses move more quickly into liberalised global financial markets, or as TNCs recognise the need to 'become indigenous' in order to understand their customers better and succeed with bottom-of-the-pyramid approaches.[173] But governments still have to weigh up the costs and benefits to determine what combination is most likely to lead to overall development.

Developing countries face five main challenges in harnessing foreign investment for development.

Linkages. Foreign companies tend to be less willing to buy inputs from local suppliers, often preferring to source from their own country or parent company (see the Zambia example in this section). Especially in the case of export industries, this can mean that TNCs' operations come to resemble enclave economies, providing few benefits to the rest of the economy beyond a limited number of jobs. Mexican-produced inputs to the *maquila* belt of 'last touch' assembly factories on the US border accounted for just 3.1 per cent of total value in 2000.[174] Without such linkages, high headline figures for exports are largely cancelled out by the high imports required: the difference, or value added, is much less impressive. The absence of linkages also extends to revenue: many transnational corporations have proved adept at avoiding taxes through tricks such as transfer pricing (see Part 5).

Technology transfer. Joint ventures with foreign companies have helped successful developing countries such as Taiwan to absorb and adapt technologies that would otherwise have taken them years to develop. In general, 'spillovers' of technology occur more often where companies have some degree of local ownership.[175] These days, however, proliferating trade and investment agreements restrict the ability of governments to insist on technology transfer, while stronger international patenting rules protect companies that insist on keeping cutting-edge technology to themselves. In light of global warming, encouraging such transfers will be particularly important in helping countries to move rapidly to a low-carbon growth model.

Profit remittances. Governments need to maximise investment, while corporations expect to be able to use their profits as they see fit. That may involve reinvestment locally, but often it means sending profits back to the home country. Profit remittances from developing countries rocketed ninefold from $37bn in 1995 to $343bn in 2010, nearly three times the global flow of aid.[176]

This represents a serious capital outflow, cutting into the potential developmental impact of FDI.

Employment. FDI tends to use capital-intensive technology that generates few jobs. According to the UN, in 2010 foreign affiliates of some 104,000 TNCs generated 68 million jobs around the world. But this represents just 2 per cent of the global labour force.[177,178]

Race to the bottom. As poorer countries such as China and Viet Nam have climbed aboard the globalisation bandwagon, the pressure on governments to introduce incentives to attract investment has intensified into a 'race to the bottom'. Governments desperate for foreign capital and technology are going to enormous lengths to outbid their rivals. This includes privatisation of state-owned companies, perks such as tax exemptions for incoming investors, the easing of restrictions on profit remittances, and the establishment of special export processing zones where trade unions are banned. Such competition deprives governments of tax income and risks undermining labour rights in those countries that have already made some progress. Larger, more powerful players like China, Russia and Brazil have been more successful in resisting such pressures, coming to exemplify a new form of state capitalism.[179]

Global agreements on a universal floor for corporate taxation, and greater efforts to ensure global recognition of the core labour standards of the ILO, could help to reverse the race to the bottom. In the end, however, the main responsibility lies with individual states. Governments in China, Taiwan, Malaysia, Singapore, and Botswana have proved highly effective in getting a good deal out of foreign investment. In the initial stages of its take-off, Taiwan insisted on foreign investors undertaking joint ventures with local businesses in order to accelerate the rate of technology transfer; Botswana negotiated favourable deals for its diamonds with South Africa's De Beers; while all the East Asian countries improved their bargaining power with investors by spending on infrastructure and on health care and education in order to guarantee a skilled, healthy workforce.

As major actors whose activities affect the lives of poor people, transnational corporations have a duty to behave responsibly. What is known as corporate social responsibility (CSR) has many facets, from allocating a small portion of the profits to charity, to producing products that are of particular benefit to poor people (such as Grameenphone's achievements in finding 32 million subscribers in Bangladesh by focusing on poor rural communities[180]), to taking into account the social and environmental impact of a company's core business model (which is what really counts in determining its development impact[181]). CSR is examined at greater length in the section 'The international trading system'.

A number of factors are pushing TNCs in the direction of social responsibility. The increasing focus of many corporations on domestic markets in

emerging economies such as China and India should encourage them to take a more long-term view, since social and political stability and prosperity hold the key to their future profitability. The growing importance of brand and reputation, both to customers and their ability to employ and retain the best recruits, means that corporate leaders are placing more attention on 'non-financial risk', including public criticism of their social and environmental impacts. The concerns of their main shareholders, such as large pension funds, about the long-term impact of corporate misbehaviour on share value and the wider economy are another motivating factor. In developing countries, an increasingly independent media, together with vocal citizens' groups, means that companies' 'licence to operate' is no longer merely a question of bribing a few government officials.

However, firms are not merely passive followers of external signals. Within any given industry, different firms can chose to follow different strategies, with dramatically different impacts on people living in poverty. Following a financial crisis and devaluation in Indonesia in 1998, Unilever reacted to higher import prices by switching to sourcing locally, whereas other foreign companies in the same consumer goods sector closed down altogether.[182] As a result, Unilever's business decision increased its local linkages, while exiting companies added to rising unemployment levels.

Corporate leadership can be crucial at such 'fork in the road' moments of decision, but important roles are also played by active citizens and local communities where TNCs operate. In eastern Zambia, the arrival of the South African supermarket chain Shoprite spelled disaster for local farmers. Not only did the supermarket take away many of their customers, it would not buy the farmers' produce, preferring to import higher-quality goods from South Africa. Unrest became widespread as rural incomes plummeted and local businesses saw Shoprite scoop up the best premises in town. Even those employed by the company resented the way that all its senior managers were brought in from South Africa.

Local NGOs and academics got involved, alerting 'Mr Fritz', Shoprite's 'big boss' in the capital, Lusaka, that the local community was threatening to burn down the store unless the company changed its ways. A university professor helped win over the company by setting out a plausible business case for local sourcing, given the unreliability of road transport links to South Africa. Thanks to a series of partnerships backed by Shoprite, farmers were able to raise their standards of production, and the supermarket switched to local suppliers without significant reductions in quality or damage to its profitability. Shoprite is now expanding the scheme to its other stores in Zambia.[183]

A healthy private sector is essential in the fight against poverty and inequality. Private firms, large and small, must be able to turn a profit, but should do so in ways that strengthen national development and benefit poor women and men. Companies can choose to adopt strategies that aim to profit

by investing in, rather than by exploiting, their workforce, the environment, or the community.

In the Shoprite example, active citizens used broad mobilisation (backed, admittedly, by the threat of violence) to successfully change corporate policies and practices. Parallel to popular action, effective states must ensure that good companies are not undermined by bad, because in too many situations business pressures undermine good intentions. In developing countries, states can help harness the private sector for development by setting minimum standards for all, and shifting the centre of gravity from 'exploit for profit' to 'invest for profit'. Measures include properly funding labour inspectorates and guaranteeing an enabling environment for businesses, particularly SMEs, through improved access to credit and technology. In the North, governments can use regulation to improve the development impact of TNCs, an issue discussed in Part 5.

GOING FOR GROWTH

Fifty years ago, Korea was poorer than the Sudan. Its main export was wigs made from human hair. Today it is an industrial leader with a GDP per capita more than 14 times greater than that of Sudan.[184] In terms of health, wealth, education, and expectations, the lives of Koreans today bear little resemblance to those of their grandparents. Elsewhere, Taiwan and Viet Nam have achieved the rare feat of combining high-speed growth with one of the fairest distributions of income in the world. China's rise since the late 1980s has delivered the greatest reduction in poverty ever recorded.[185] These extraordinary success stories are historically unprecedented features of the modern era: all twelve cases of countries growing by more than 7 per cent a year over a 25-year period have occurred since World War II.[186]

The extent and nature of economic growth is central to development and to the lives of poor people.[187] Put simply, countries that have reduced poverty have invariably had to grow to do so. Properly managed, growth in the market economy creates jobs, increases incomes, and generates tax revenues that effective states can invest in infrastructure, schools, and hospitals. Creating wealth is an inseparable part of reducing poverty.

Inequality determines how far growth benefits poor people: a 1 per cent increase in per capita GDP can reduce income poverty by as much as 4 per cent or as little as 1 per cent.[188] Redistribution of wealth by means of land reform or progressive taxation can leave poor people better off even in a shrinking economy, but in practice redistribution alone has never reduced poverty for more than brief interludes. The substantial reduction in poverty in most OECD countries during the twentieth century came through a combination of long-term economic growth and modest redistribution.[189]

According to the Commission on Growth and Development, in very poor countries growth is the main route to poverty reduction, but as a country develops redistribution becomes more important as a way to reduce poverty.[190] As economies grow worldwide, redistribution therefore should become an increasingly important feature of government policy.[191]

Economic growth is a measure of the increase in the output of goods and services in the monetised part of the economy. Growth may result from an increase in the number of workers or an increase in their productivity (producing more goods and services per worker). The latter can be achieved through better technology, through improving the health and skills of the workforce, discovering and developing new natural resources, and through greater efficiency via 'economies of scale'. Upgrading in this way often

requires painful structural change, such as moving out of agriculture into manufacturing or higher-tech companies squeezing out lower-tech ones, a process memorably described by the economist Joseph Schumpeter as the 'creative destruction' at the heart of capitalism.[192]

For neoclassical economists and for many policy-makers, growth in the market economy is so important that they often lose sight of the fact that growth is a means to promote human welfare, not an end in itself. But growth is inherently disequalising, since richer people generally find it easier than those living in poverty to take advantage of new opportunities and to protect themselves from shocks. Effective states are essential to containing and reversing this disruption, for example through taxation, spending, credit, and regional policies and investment decisions.

At a global level, growth is an increasingly blunt instrument for reducing poverty. Between 1981 and 2001, world GDP increased by $18,691bn. Of this, only $278bn, or 1.5 per cent, accrued to people living below the $1-a-day poverty line, even though they constituted one in three of the world's population at the start of the period. Worse still, global growth is becoming less effective at reducing poverty. In the 1990s it took $166 of global economic growth, with all the associated environmental costs, to achieve just $1 of progress in reducing poverty, while in the 1980s this figure was $45.[193] Moreover, by exacerbating climate change and other environmental problems, the $165 that poor people do *not* receive imposes a significant toll on their prospects. This cloud has a silver lining, however, as it shows that even minor improvements in the poverty-reducing efficiency of growth would have a massive impact on the lives of the poorest people.

Again, the effects of growth on reducing poverty are a function partly of the rate of growth, but more importantly of how the government actually spends its money or the environment it creates for money to be spent. Nigeria and Indonesia provide an informative contrast – two OPEC countries that have achieved very different things with their oil revenues. In 1980, Nigeria had a per capita income nearly twice that of Indonesia's. Today, Indonesia's is 2.5 times that of Nigeria.[194] This divergence took place in spite of the great corruption of the latter part of the Suharto regime, in part because Indonesia invested heavily throughout the period in agriculture, health, education, transportation, power, and communications. What the government spends its money on is vitally important, and the need for a government to have a basic social contract with its populace that places a value on developmental investments from the state is part of the package.

The links between growth and well-being (rather than income poverty) are not straightforward. Comparisons between regions of the world based on public surveys show a fascinating break point.[195] Below a GDP of about $20,000 per head (roughly the level of Portugal or South Korea), people's estimates of their own life satisfaction rise steadily with income. Above that

amount, the graph flatlines: higher national income does not make people feel any happier.[196] In fact, subjective well-being on average has not risen in the US, Europe, or Japan in the past 40 years, despite sustained growth.[197] In seeking to enhance well-being, there is a powerful argument for redistributing wealth from countries with average incomes above the $20,000 'sufficiency line' to those below it.

HISTORY CHALLENGES RECEIVED WISDOM

For most developing countries, post-1980 efforts to generate sustained growth have relied on the dramatic shock therapy known as 'the Washington Consensus'. Recommended by the World Bank, the IMF, and others, this called for rapid liberalisation, deregulation, and privatisation of developing country economies. Any proponent of the Washington Consensus visiting Latin America and China in the mid-1980s would reasonably have concluded that Latin America was bound for prosperity, whereas China was doomed. Latin America at that time was moving into a liberalising overdrive, privatising state firms and opening up to trade. In China, meanwhile, tariffs and non-tariff barriers remained high, and the government showed little appetite for ending its deep involvement in crucial areas of economic management such as the banking system.

Twenty years on, China's take-off is mesmerising policy-makers everywhere, and its boom has pushed up commodity prices, providing Latin America with a decade of boom that at least for the moment has ended its centuries-old cycle of boom and bust. Sustained growth has reduced the number of Chinese living in poverty from 60 per cent in 1990 to 16 per cent in 2005.[198] By contrast, after Latin America embarked on a massive trade drive, increasing its exports from $96bn in 1981 to $752bn in 2007, the number of poor people (defined as those living on less than $2 a day) actually rose from 136 million to 209 million between 1980 and 2005.[199] Shock therapy turned out to be all shock and precious little therapy.

Advocates of rapid trade liberalisation rely heavily on the 'big numbers' generated by computer models seeking to quantify the benefits accruing from tariff and subsidy reductions, but such models often assume away the problems that dog markets in most developing countries.[200] An increasing number of analysts are turning for evidence and guidance to a different discipline – history, in particular that of economies that have successfully 'taken off' in recent decades.

Harvard economist Dani Rodrik has identified 83 episodes of growth 'take-off' in developing countries since 1950, spread throughout the world.[201] On average, such episodes increased economic output by almost 40 per cent within a few years. Even more significant than the general sense of possibility that such surveys awaken are their radical implications for development policy.

Rodrik found that 'the vast majority of growth take-offs are not produced by significant economic reforms, and the vast majority of significant economic reforms do not produce growth take-offs'. Instead, the triggers have often been small reforms aimed at freeing bottlenecks in the economy, defying economic orthodoxy but going with the grain of existing institutions.

In India, for example, following his landslide election victory in 1984, Rajiv Gandhi relaxed industrial regulations and rationalised the tax system, and the economy surged.[202] China reformed its rigidly planned economy incrementally (rather than abandoning planning altogether), underplayed private property rights (relying instead on a mix of state ownership, collective local enterprises, and private ownership), and opened up to the world in a carefully monitored and gradual way (complementing its highly protectionist trade regime with special economic zones). Viet Nam, a fellow socialist country, has followed many of the same principles since the second half of the 1980s (see Box 3.8).

Success has required a combination of effective states and political leadership. From the historical record, it appears that there are no short cuts: the private sector on its own has never achieved growth with equity. Furthermore, effective state intervention appears to be crucial for the development of the private sector itself. All take-off countries gave priority to general economic goals such as macroeconomic stability, integration into the world economy, high levels of savings and public and private investment, and rapid diversification, while at the same time striving to maintain social cohesion, solidarity, and political stability.[203]

Successful governments have invested in roads, power supplies, communications, and people. Agricultural take-off has generally been an essential first step on the ladder of economic growth, followed by a move into clothing production, then up the value chain into manufacturing and exporting more complex products such as electronics. When trying to achieve this shift, successful economies in South Korea, Taiwan, Viet Nam, and China developed key sectors behind protective tariff barriers, with a hands-on role for the state in guiding the take-off:

- Governments invested heavily in education and training, ensuring that they had skilled workforces able to produce ever more sophisticated goods.
- Governments led the way in encouraging industry to upgrade from low-tech manufacturing, such as garments, to higher-tech manufactures and high-skilled services.
- Governments forced industries to become competitive, not least by obliging them to compete in export markets. Protection, for example via tariffs, was used frequently but for limited time periods, so that industries knew how long they had to become competitive.

- Successful governments insisted on letting failures go out of business, whereas unsuccessful governments became 'captured' by industrial lobbies and accumulated white elephant industries dependent on continued state support for their survival.
- Governments decided relatively early on whether they would pursue industrialisation by setting up national leader companies (for example South Korea), or by encouraging foreign companies to import technology and operate directly (for example Malaysia), but in both cases successful governments pursued activist policies, rather than *laissez faire*.
- Successful governments pursued a technology policy that concentrated on developing niches in a narrow band of technologies and moving from simple technologies to more advanced ones as they gained experience and competence.
- The state used its regulatory powers over investment, access to capital (for example via subsidised loans to preferred industries), a panoply of tax breaks, and other incentives to manage industrial transformation.

As economies developed and became more complex, and industries achieved international competitiveness, the costs and benefits of state intervention in both agriculture and industry shifted, and governments started to reduce their role and to open up the economy – exactly the sequence that rich countries pursued at an earlier stage of their development.[204] Deregulation and liberalisation are thus better seen as the outcomes of successful development, rather than as initial conditions.

A developing country's success or failure at achieving growth is increasingly linked to its ability to participate in international trade. Global trade is booming, growing much faster than the world economy as a whole. Global exports of manufactured and agricultural products increased by 19 per cent in 2010, to a value of $11.3 trillion. Trade in commercial services such as banking and tourism rose by 9 per cent, reaching $3.7 trillion.[205]

Not surprisingly, trade is heavily skewed towards the rich and middle-income countries (including better-off developing countries). Today, for every $100 generated by world exports, $99.44 goes to the high- and middle-income countries, and only $0.56 goes to low-income countries, even though they contain 12 per cent of the world's people.[206] Under the aegis of structural adjustment programme agreements with aid donors or bilateral and regional trade agreements, many developing countries have sought to improve their trade balance and attract investment by reducing border tariffs and import and export quotas and, more widely, by reducing state regulation of trade. Trade liberalisation also includes cutting subsidies or restricting the ability of governments to impose rules on investment, and can cause surges of cheap imports against which small farmers or local labour-intensive manufacturers

BOX 3.7
A TALE OF TWO TIGERS

The People's Republic of China and Viet Nam have been two outstanding success stories of East Asian development over the past two decades. Both have achieved rapid economic growth and spectacular reductions in poverty, and both are Communist systems in transition, moving from centralised state planning to more market-based structures.[207] But China has seen enormous increases in inequality, while Viet Nam has grown much more equitably. Why?

First, the two countries de-collectivised agriculture in very different ways. During the 1990s Chinese farmers saw a 30 per cent fall in the price of grains and a tripling of agricultural taxes, which left poorer regions in the centre and west of the country to stagnate and stimulated a vast out-migration to urban areas. In Viet Nam, by contrast, the *doi moi* reforms launched in 1986 involved a widespread and largely equitable redistribution of land to private farmers, backed up by significant state support for irrigation schemes, seeds, technological upgrading, and price stabilisation. As a result, Vietnamese agriculture has been an important pillar of the country's take-off.

Second, Viet Nam has been far more successful in redistributing resources to poorer regions and maintaining high levels of public spending in education, health, water, and sanitation. In contrast, China opted for 'fiscal decentralisation', limiting central government transfers to poorer provinces, leading to a widening gulf between dynamic coastal regions with their booming export industries and a largely neglected interior. (This is something the Chinese government has sought to correct through its 'Go West' programme of encouraging investment in infrastructure away from the coast.)

Third, Viet Nam's recent history of war and national threat reinforces a strong collective sense of 'national mission', imbuing the country's Communist Party with a sense of national legitimacy and a developmental social contract with the populace.

Enormous challenges await both countries as they seek to build on their achievements. Viet Nam's accession to the WTO in 2006 will constrain the government's ability to use subsidies and other elements of industrial policy to guide the economy and redistribute wealth. The country must also deal with increasing inequality between its ethnic minorities and the Kinh majority, rampant corruption, and the increasing need for political participation. If anything, China faces even more extreme versions of these challenges, and on a grander scale.

Source: P. Chaudhry (2007) 'Why Has Viet Nam Achieved Growth with Relative Equity, and China Hasn't?', internal paper for Oxfam International; Le Quang Binh, (2006) 'What Has Made Viet Nam a Poverty-Reduction Success Story?' background paper for Oxfam International.

are unable to compete.[208] As firms have sought to modernise production and recruit more skilled workers, the difference between skilled and unskilled wages has risen.

In its 2006 *World Development Report* on equity, the World Bank concluded that opening up to trade has been associated with rising inequality in earnings in many countries over the past two decades. Trade liberalisation has also cut into one of the few easy ways for poor country governments to raise revenues.

In agriculture, the success of exporters such as Chile and Botswana gives some credence to the liberalising agenda. However, in countries such as Korea, Malaysia, and Indonesia, smallholder development strategies were underpinned by government use of tariffs to stabilise domestic prices (protecting

BOX 3.8
THE DISADVANTAGES OF COMPARATIVE ADVANTAGE

The World Bank and other advocates of trade liberalisation in developing countries draw heavily on economic theories of comparative advantage, which were first advanced in 1817 by David Ricardo in his book *The Principles of Political Economy and Taxation*. Many of today's fervent controversies about globalisation are debates with the ghost of this nineteenth-century English economist.

Using a simple numerical example, Ricardo demonstrated that two countries could arrive at a higher level of wealth by sticking to producing those goods that had a 'comparative advantage' over other alternatives (broadly, those goods that were relatively more efficient), then trading those goods with other countries, rather than trying to produce all goods for themselves. At a time when trade was widely viewed as a zero-sum game, Ricardo's was an idea with revolutionary implications.

Applied crudely, as often it is in current debates on trade liberalisation, the theory is of limited value. What Ricardo created was a static model that encouraged countries with a particular mix of skills and resources to focus on those. But skills and resources are not fixed in time. If they were, the USA would never have moved beyond its comparative advantage in land, and would have remained an agricultural economy. South Korea and Taiwan emerged as major industrial powers because they transformed their comparative advantage. Thirty-five years ago, they were protecting themselves from imports of US steel in order to build up a domestic industry. Today, it is the USA that seeks protection from East Asian exporters. The reason: government policies produced changes in comparative advantage.

floor prices for farmers as well as ceiling prices for consumers) and thereby encourage investment. Retaining tariff flexibility is particularly important because other instruments, such as quotas, were largely prohibited in the WTO's 1994 Uruguay Round agreements.[209]

In manufacturing, countries with successful growth records – such as South Korea, Taiwan, Viet Nam, China, and Mauritius – have developed core industries behind protective barriers. Trade barriers were gradually lowered once these sectors started to become internationally competitive. Rich countries are now demanding that developing countries cut tariffs significantly, even though they themselves once used high tariffs to protect their own fledgling industries. When they were at the same level of development as sub-Saharan Africa is today, the USA had an average tariff of 40 per cent, Japan 30 per cent, and EU members 20 per cent, far higher than the levels currently being contemplated in today's trade negotiations.[210]

The lesson of history is that trade liberalisation should be asymmetric: rich countries should liberalise more than poor ones, not as a 'concession' but in recognition of the fact that optimal trade regimes evolve along with national economies. The correct balance between liberalisation and protection will vary between countries, and evolves as a country develops. Effective states have been able to pursue a judicious combination of the two, a task that now however is being complicated by the nature of globalisation and the proliferation of international rules on trade and investment.

CHINA AND THE FUTURE OF OTHER DEVELOPING COUNTRIES

The much commented-upon rise of China since the late 1980s has precipitated a tectonic shift in the global economy. China is fast becoming the world's factory:

- The city of Shunde in the Pearl River Delta has a single giant factory that produces 40 per cent of the world's microwave ovens.
- Shenzhen makes 70 per cent of the world's photocopiers and 80 per cent of its artificial Christmas trees.
- Three out of every five buttons in the world are made in Qiaotou, a dusty, dirty town in Zhejiang province that also ships more than two million zips a day.

China's unique combination of massive scale, low wages, high literacy, highly developed infrastructure, relatively stable political environment and political control over labour enables it to out-compete most of its industrial rivals. China has driven down the prices of most manufactured goods, to the benefit of consumers the world over, but has undercut other developing country exporters in the process. The impact of China may also be refuting

the received wisdom that getting out of commodities into industry is the route to development. Booming Chinese demand has reversed the long-term decline in commodity prices and in what economists call the 'terms of trade' between raw materials and manufactured goods, sometimes presented as the number of bags of coffee (or barrels of oil) needed to buy a truck. For the moment, coffee and oil prices are high, and the price of trucks (and Nano cars) is falling. Opinions differ as to whether this is the start of an extended period of high prices that defies the normal rules of boom and bust and long-term terms of trade decline. The recovery in tropical commodities such as coffee has lagged well behind temperate crops such as wheat, and history suggests that the boom is unlikely to endure forever, as high prices encourage new entrants to the market or technology finds new, cheaper substitutes for existing commodities.

If the long-term decline in the terms of the trade goes into reverse, however (at least for commodities that are not easily substituted), then developing countries' growth strategies may come to look very different in future to the standard 'subsistence agriculture to export agriculture to garments and textiles to electronics' sequence followed in the past. The rewards from commodity production will be higher and from industrialisation lower; new technologies and globalisation will allow countries to capitalise on new forms of comparative advantage, such as services involving spoken English, or tourism, or culture; and countries may have to focus on domestic and regional markets, rather than trying to slug it out with China in global trade.

SUSTAINABLE GROWTH

Economic growth is an essential way to tackle poverty and inequality, as shown by some of the extraordinary success stories of the modern high-growth era, but the quality of that growth matters as much as the quantity. Figure 3.1 at the beginning of this section introduced a more holistic approach to economics. By applying the analytical elements of that approach, development strategists can seek to manage growth so that it maximises human welfare.

Reducing income poverty. Growth does not always raise the incomes of poor people. Growth through technology-driven improvements in productivity has been termed 'jobless growth', because it fails to create more jobs than it destroys. The phenomenon is particularly worrying in that job creation is one of the main ways that growth reduces poverty. In developing countries with rapidly growing populations, new generations of youth are not being incorporated into the world of work. Even in China's booming economy, the rate of technological change is such that, despite astonishing gains in output, the number of formal sector manufacturing jobs fell from 98 million in 1995 to 83 million in 2002, even faster than the fall in 14 OECD countries (86 million to 79 million).[211]

Environmental sustainability. As pursued to date, growth has rarely respected the carrying capacity of the environment. The world consists of 11.9bn hectares of biologically productive space – grassland, cropland, forests, fisheries, and wetlands. There are approximately 7 billion people on the planet. So, on average, there are 1.8 hectares of 'environmental space' per person, but by 2007 the average human being required 50 per cent more than that (2.7 global hectares) – paid for, in environmental terms, by running down the earth's environmental capital.[212]

Equity. Global growth during the 1970s and 1980s did not result in increased inequality, according to a World Bank study, but in the decade that followed the richer members of society came to benefit disproportionately and inequality rose in tandem with economic growth.[213] Not only does inequality limit growth's potential to reduce poverty, it creates a 'highly toxic environment' for growth itself.[214] Recent years have seen a more complex pattern emerge within developing countries: inequality continues to rise in the majority of G20 countries (Brazil is an exception), but is falling in most countries in Latin America and Africa. A more detailed analysis by Chilean economist Gabriel Palma concluded that the middle classes generally get half of the economic pie in developing countries and are extremely successful about protecting their half. Politics is increasingly a fight for the remaining half between the richest 10 per cent and poorest 40 per cent, meaning the other half of the distribution is increasingly 'up for grabs' between the very rich and the very poor and who can win over the middle classes.[215]

Social sustainability. Growth has unpredictable repercussions on unpaid labour such as caring, household chores, or raising children. Growth has sparked the massive entry of women into the labour force over the past twenty years, but that has only enhanced women's welfare where it has been accompanied by changes in gender roles or matching state action to ease the burden of unpaid work. Where this has not occurred, women's welfare has been undermined.

Secure livelihoods. The disruption that accompanies growth can destabilise the livelihoods of poor people. Pro-growth policies recommended by the World Bank and the IMF often explicitly adopt a 'shock therapy' approach of radical change. Many political leaders put 'flexibility' and 'change' on a pedestal, but instability at the macro level (for example in financial markets) has inflicted a series of deep economic crises on developing countries. At the individual level, instability and shocks, such as losing jobs or assets, or sudden shifts in prices for farmers, can be very costly for people living in poverty. Pursuing well-being may therefore mean eschewing the more destabilising elements of the 'dash for growth'. Many poor people see huge advantages in stability and predictability.[216]

Rights and citizenship. Historically, growth generally strengthened active citizenship because greater economic security led to increased demand for

rights, often led by new middle classes. However, in recent years, measures to achieve growth have weakened the security of poor people and at times have explicitly undermined rights, for example by outlawing unions in export processing zones. Such measures limit the capacity of growth to reduce poverty and inequality. An active citizenry is essential to ensure that the benefits of growth are evenly spread.

Effective states. Pro-growth strategies in recent decades have viewed the state as part of the problem – an obstacle to the smooth functioning of markets. Because effective states are central both to enable growth to take place and to ensure a fair distribution of its benefits, measures to promote growth must strengthen rather than undermine state effectiveness, for example by increasing its tax take and enhancing governance and state institutions.

There is no single policy path for poor countries to achieve welfare-enhancing growth. Strategies initially driven by ideology, whether state-centric or market-centric, have shown some success, but only to the degree that ideology has taken a back seat to the pragmatic long-term task of building public institutions and citizens' rights. The way forward lies not in policy prescriptions, but in states that are ever more capable of experimenting and learning from their mistakes, and in citizens actively defending their interests. Effective states and active citizens offer the best guarantee that the market can deliver both wealth creation and improved human welfare.

HOW CHANGE HAPPENS: TWO AFRICAN SUCCESS STORIES (BOTSWANA AND MAURITIUS)

By normal criteria, Botswana ought to be a basket case: it has a small population, is arid and landlocked, and is largely dependent on natural resources (diamonds). At independence in 1966, it had just two secondary schools and 12km of paved road, and relied on the UK for half of its government revenues.

Instead, at least until the onset of the AIDS pandemic, Botswana has been Africa's most enduring success story. Its GDP per capita has risen a hundredfold since independence, making it the world's fastest-growing economy for three decades. All this time, it has been one of sub-Saharan Africa's few enduring non-racial democracies, despite being bordered (and occasionally invaded) by racist regimes in South Africa and the former Rhodesia.

A number of factors have contributed to Botswana's success.

Positive governance traditions. The traditional governance systems of the dominant Tswana tribes emerged largely unscathed from the colonial period. These emphasise broad consultation and consensus-building, a system described by the country's leading human rights activist as 'gentle authoritarianism'.

A hands-on role for the state. The government set up state-owned companies, nationalised all mineral rights, and has run the economy on the basis of six-year National Development Plans. 'We are a free market economy that does everything by planning', observes one local academic.

Lucky timing. Diamonds were not discovered for several years after independence, by which time institutions were in place to negotiate favourable contracts with diamond giant De Beers and to ensure exemplary management of the millions of dollars that began to flow.

Lack of a military. Botswana only acquired an army ten years after independence in response to cross-border raids from Rhodesia, so coups were not a temptation.

Good use of technical assistance. With only two secondary schools and 22 university graduates at independence, the government hired enthusiastic young expatriates on long-term contracts, avoiding the two-week 'cookie-cutter' variety that prevailed elsewhere. Many of them ended up taking citizenship and staying.

Leadership. The first two presidents, Seretse Khama and Quett Masire, built a sense of nationhood and an effective state bureaucracy.

Despite economic growth, however, the country still faces the problems of all resource-based economies that fail to diversify: unemployment, inequality, and persistent poverty. Twenty per cent of the population live on less than $1 a day. The government is banking on diversifying within natural resources (for example, sorting and polishing diamonds at home,

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rather than in London) and developing services such as tourism and finance, which should create more jobs. But with a single party in power for the 45 years since independence, some degree of erosion (public dissatisfaction, allegations of corruption) seems inevitable.

The success of Mauritius meanwhile has claimed some impressive academic scalps. In 1961 Nobel Prize-winning economist James Meade saw the economy of the Indian Ocean island as doomed to failure – dependent on a single crop, with a rapidly growing population susceptible to ethnic tensions. 'The outlook for peaceful development is poor', he concluded.

Yet since independence in 1968, Mauritius has become a highly competitive, inclusive democracy generating growth rates more common to East Asia than to Africa (5.9 per cent a year from 1973–99, compared with the African average of 2.4 per cent). Once reliant on sugarcane, it moved into textiles and garments in a classic process of labour-intensive industrialisation, largely led by local investors, and then diversified further into tourism and financial services.

Improvements in human development have been equally impressive. Not only have all the usual indicators improved – life expectancy, school enrolments, literacy, infant mortality – income inequality has actually fallen substantially since growth took off. Finally, all this has been achieved with rich country levels of social protection: active trade unions, price controls on socially sensitive items, and generous social security, particularly for elderly people and for civil servants.

The main reason for Mauritius' success was its intelligent use of trade as a motor of development. Rather than liberalising the whole economy, the government set up export processing zones in which duty-free access was granted to imported inputs, along with tax breaks for investors. While the workforce in these zones originally earned 40 per cent less than in the rest of the economy, the wage gap dwindled by the 1990s. Mauritius also benefited from preferential access to European and US markets for its sugar and textiles.

Policy success required an effective state, and Mauritius ranks well above the average African country in terms of its institutions, with less corruption, a tradition of transparency and public participation, and a well-paid and effective civil service. Other success factors include the very ethnic diversity that Meade identified as a curse: the Chinese population brokered the initial investments in garment factories from Hong Kong, while the Indian diaspora turned Mauritius into a major offshore financial centre.

Sources: author trip report (July 2007); J. Clark Leith, 'Why Botswana Prospered' (2005); M. Lockwood (2005) *The State They're In*, ITDG Publishing; Acemoglu, Johnson, and Robinson, 'Botswana, an African success story' and Subramanian and Roy, 'Who can explain the Mauritian miracle?' in D. Rodrik (2003) *In Search of Prosperity: Analytic Narratives on Economic Growth*, Princeton University Press.

SUSTAINABLE MARKETS

In using markets to tackle poverty and inequality, the priority is first to select the right tool, then start building. Up until now, the tool of choice for understanding and managing markets, a very crude version of neoclassical economics, has not been up to the job, offering only a very approximate understanding of the role of markets in human development. This has resulted in a period of unprecedented economic growth that has excluded large portions of humanity from its benefits, generating a world of burgeoning inequalities and stubborn and extreme poverty.

The urgency of finding a better toolkit springs not just from moral outrage at a system that squanders the chance to end so much needless suffering, but from the evidence that climate change and other environmental constraints may be changing the kind of growth that is possible, if the planet's ecosystem is to remain inhabitable by 7 billion people (and rising). The challenge now is to move from 'dirty growth' to 'smart growth', guided by a new economics for the twenty-first century that explicitly seeks the elusive goal of human well-being. We must seek both quantity and quality of growth, if the planet, along with its inhabitants, is to survive.

Many men and women living in poverty experience markets as a volatile and uncontrollable force that dictates the terms of their lives. By organising, citizens can gain some degree of influence and power over the market. When farmers can store grain and sell it in the lean season, or when workers can form a union and oblige an employer to pay decent wages, they increase their bargaining power, so that they are not only price-takers but, to some small degree, price-makers in the marketplace. With the support of effective states, such gains can become more frequent and sustained, as when the legal framework facilitates grassroots organisation, when subsidised credit helps farmers hold off on selling until prices rise, or when labour legislation sets a floor for decent wages and working conditions.

Sustainable growth starts with poor people, where they live, what they do to survive, and with developing policies and institutions that support their struggles. It means recognising that most poor people still live in rural areas, where they flourish or fail through a combination of small-scale agriculture, farm labour, fishing, and newer strategies such as migration or catering to tourists. Build the economy there, and poor people will benefit. It means understanding that a large part of human activity takes place outside the monetary economy, where government action has important impacts. It means acknowledging that the private sector and trade (whether internal

or international) are the ultimate drivers of the economy and supporting them with policies, investment, and institutions so that their dynamism will reduce poverty and inequality.

The dirty growth era that followed the end of colonialism in the mid-twentieth century delivered important progress in human development for a large portion of humanity. The critical task for this century is to devise a clean growth agenda to achieve sustainable progress for everyone. It will require a combination of effective, accountable states and active citizens, both in civil society and in the private sector, backed by a system of global governance that works for all, not just for a privileged few. The prize is a world without poverty and extreme inequality, living within its environmental means. The price of failure hardly bears thinking about.