Equity and Growth Revisited: A Supply-Side Approach to Social Development

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Does combining several arguments on the relationship between equity and growth yield new insight? Redistribution with growth, prominent in the 1970s, is currently being revisited. East Asian experiences can also be considered with a view to equity. Human development makes a strong case for combining equity and growth along the lines of human capital, but leaves the social dimension unexplored. Studies of welfare states add finesse to equity-growth arguments. Sociology of economics addresses questions of embeddedness, social capital, networks and trust, which are rarely considered in this context. By adding novel elements, this exercise seeks to arrive at a new overall perspective on social development.

On the occasion of the World Summit for Social Development in Copenhagen in 1995 such benevolent statements as 'broadly effective social progress is not possible without a socially oriented economic and finance policy' were made about the relationship between growth and equity (Development & Co-operation, Vol.1, 1995, p.12). Here an attempt is made to probe these rhetorical statements to find a core of policy relevant thinking.

'Social orientation' can have many meanings. In the framework of Copenhagen the dominant tendency has been to relegate questions of social development to poverty alleviation. It may be necessary, however, to challenge the 'Washington consensus' in development not merely in policy terms, resulting in an adjustment (but not a structural adjustment) of structural adjustment, but in intellectual terms. Revisiting Keynesian management strategies [*Singer, 1996*] may be important but one wonders whether they are a viable option in the context of accelerated globalisation. Here I explore the equity-growth argument.

First let me briefly refer to two alternative positions: *rejecting growth* or, alternatively, pursuing *equity without growth.* A prominent set of positions rejects growth for various reasons, such as ecological views, according to

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which more is not better, and alternative development views which hold that what matters is not growth but development that is equitable, sustainable and participatory. In many instances this view is accompanied by a repudiation of growth per se. A further position is anti-development or post-development, which repudiates not only growth but also development as such. A general problem with these positions (discussed in more detail in Nederveen Pieterse [*1996*]) is that the target is too wide: arguably what should be at issue is not growth as such but the *quality* of growth. Exploring this is the point of juxtaposing growth and social development. Clearly 'growth' is a deeply problematic category. The mere question of how growth is defined and measured raises numerous problems. On the other hand, simply rejecting growth may leave us with too narrow a position and too narrow a political coalition to implement whatever policies seem desirable.

On a general level it might be argued that what many people desire is not growth but change, qualitative transformation. Marshall Berman [*1988: 47*] refers to 'the desire for development'. It seems that the point is not to go against this desire, or complex of desires, not to adopt a confrontational approach, a politics of purity or abstinence, which would invoke many resistances, but to transform and channel desire. In other words, and at risk of sounding patronising, to educate rather than suppress desire. The market place represents powerful and dynamic forces in society, which resonate with deep-seated drives, not merely to 'accumulate, accumulate' but also to 'change, change' and 'improve, improve'. Market forces as such alienate and marginalise many in society, but is the appropriate response to marginalise, alienate or ignore market forces in return? A wiser course may be to explore what common ground there may be between the market and social development, or the scope for a social market approach. Put in other words, the target is not the market but the *unregulated* market.

A different option is to pursue equity *without* growth. This kind of approach has been referred to as 'support-mediated security' [*Drèze and Sen, 1989*].[1] This may give us the 'Kerala model' – a constellation of advanced social policies and comparatively high levels of education, health and female empowerment. From the mid-1970s, as Kerala was acquiring international model status, it was slipping into a major crisis, including 'severe stagnation in the spheres of material production, soaring unemployment, acute fiscal crisis and erosion of sustainability of the social welfare expenditures' [*Isaac and Tharakan, 1995: 1995*].[2] Growing unemployment may be due to the fact that investors shun a state where the unions, with the backing of state government, are too strong, which is the position taken by the local right-wing backlash and by international press comments [e.g., *van Straaten, 1996*]. This refers us to the familiar chronicles of Western welfare states in the era of post-Fordism and globalisation and the question of 'social dumping'. Aside from the deeply politicised question of how to account for the Kerala crisis, a recent analysis concludes that 'in the absence of economic growth it is difficult to sustain, much less expand, welfare gains' [*Isaac and Tharakan, 1995: 1993*].

Thus we turn to equity with growth, summed up under the heading of social development. The point here is not to make a case for social development in *moral* terms, in the name of solidarity, compassion or decency. Thus Galbraith [*1996*] argues that, '[i]n the good society there must not be a deprived and excluded underclass'. It is not that such moral considerations are irrelevant but they are of limited purchase. Moral economies and discourses are unevenly distributed so that achieving a political consensus purely on moral grounds is unlikely. Moral arguments invite trade-offs – the appeal of moral policy may be outweighed by the importance of economic growth. Since in conventional views growth is supposed to trickle down, in time growth policies will generate moral outcomes. Hence moral considerations tend to be practically outflanked and too easily neutralised by growth policies.

Neither is the point to make a *political* case for social development. Social and welfare policies enhance political stability and legitimacy but they also invite trade-offs – between political legitimacy and political efficacy or state autonomy. Thus, a classic position is that collective demands are to be restrained so that collective interests will not crowd out state autonomy and state capacity to implement reform measures. The absence of social development may prompt uncontrolled informalisation, including ethnic and religious mobilisation and a growing underground economy. These are important considerations but they are not the main line of argument followed here.

Rather, the point is to consider the case for social development on *economic* grounds, in relation to growth itself. In other words, to examine whether, how, to what extent and under which circumstances social development is good for growth and beneficial to business. Phrasing it in contemporary language, the point is to explore the scope for a market-friendly social development. This line of thinking involves classic debates on the welfare state, on the 'big trade-off' between equality and efficiency [*Okun, 1975*], and on modernisation and equality. Here this question is revisited by considering several lines of research and bodies of literature, to review the existing scope of social development arguments and whether their combination yields new insight. This may be worth doing considering that 'there is no very strong tradition of doing macroeconomics as if poor people and social processes mattered' [*Taylor and Pieper, 1996: 93*].

Relevant lines of research include the following. (1) Redistribution with growth. Prominent in the 1970s, these views are currently being revisited. (2) Lessons from East Asia. Usually discussed in relation to the role of state intervention, they can also be considered with a view to equality and equity.

(3) Human development. This approach makes a strong case for combining equity and growth along the lines of human capital, but the social dimension and the question of social capital is left unexplored. (4) Lessons from welfare states. (5) New institutional economics provides institutional analyses and sociology of economics addresses questions of embeddedness, social capital, networks and trust. Other bodies of literature are relevant to social development – such as comparative studies of social security, the regulation school, post-Fordism, associational democracy – but fall outside this treatment. The point of this exercise is to find out what emerges when various arguments on equity and growth are grouped together and to arrive at a new overall perspective by adding novel elements which are not usually combined with social development.

SOCIAL DEVELOPMENT

It is appropriate first to delineate in what sense social development is used here. A first and narrow meaning of social development is public welfare policies of health, education and housing. This approach, as Midgley [*1995*] points out, suffers from compartmentalisation, in particular the separation of social policies from development policies. The Copenhagen summit was not free of this tendency: social development mostly referred to or ended up in the basket of poverty alleviation [*UNRISD, 1995*]. For the same reason, the present argument is not concerned with the social economy, progressive market or socially responsible business, cooperatives or fair trade [*Ekins, 1992*]. Not because they are unimportant, but because they represent a compartmentalised or at least a partial approach. The focus is on the overall economy rather than on particular segments. Second, social development may be used in a disciplinary sense to distinguish it in particular from economic development [*Booth, 1994*]. The third option, which is followed here, is to view social development in a substantive and comprehensive manner with equal emphasis both on 'social' and on 'development', in other words as an integrated approach to social concerns and growth strategies.

A definition of social development offered by Midgley [*1995: 25*] is 'a process of planned social change designed to promote the well-being of the population as a whole in conjunction with a dynamic process of economic development'. Here the notion of planning carries *dirigiste* overtones (while in effect Midgley argues for 'managed pluralism'), which raises the question of the agency of social development.

The dominant discourse of social development as used by governments, international institutions and many NGOs is as a terrain of *social policy*. In other words, social development as a matter of social engineering, a managerial approach. This is apparent if we leaf through the various reports submitted to the World Summit for Social Development.[3] The bodies of literature reviewed here reflect this general tendency, except for sociology of economics, which follows a different track. Sociology of economics looks at the social from the ground up. We might term this a society-centred approach to social development or, possibly, social development from below. Actual social security concerns much more than state social policy, such as family and local networks [*Hirtz, 1995; DSE, 1994*]. As Ann Davis [*1991: 84*] remarks, 'Of course, social work agencies are only one way of replenishing family and friendship networks'. When social security falls outside conventional social policy, how could a conventional approach to social development be adequate? Accordingly, implicit in 'social development' are multiple layers of difference implicit in 'development': compartmentalised, or holistic; managerial, from above, or society-centred, from below; from outside and from within.

REDISTRIBUTION WITH GROWTH

In the growth and redistribution literature of the 1970s several currents of thought came together. Adelman and Morris [*1967*] developed an approach to social development influenced by modernisation theory; their social development index may be read as a modernisation index.[4] At a time when Keynesian demand management played a prominent part, Gunnar Myrdal adopted a productivist or supply-side approach. According to Myrdal, 'welfare reforms, rather than being costly for society, actually lay the basis for more steady and rapid economic growth' (quoted in Esping-Andersen [*1994: 723*]; Myrdal [*1968*]). In presenting redistribution as a *precondition* to growth, Myrdal followed a Swedish tradition.

> The unique contribution of Swedish socialism was its idea of 'productivist' social policy. Its leading theoreticians stood liberalism on its head, arguing that social policy and equality were necessary preconditions for economic efficiency, which, in turn, was a prerequisite for the democratic socialist society [*Esping-Andersen, 1994: 713*].

The Swedish concept of a 'productivist social justice' in which 'the welfare state invests in optimising people's capacity to be productive citizens' contrasts with 'the strong Catholic influence in Continental European welfare states [which] has resulted in a policy regime that encourages women to remain within the family' [*ibid.: 722*]. The productivist approach to social justice addresses the standard criticism of Keynesian policies that they only address demand and ignore supply factors. We find echoes of productivist arguments in human development (below) and the regulation school.

In a well-known World Bank-sponsored study, Hollis Chenery and associates [*1974*] argued that egalitarian and developmental objectives are complementary. This position favoured redistribution of income and assets to the poorest groups [*Midgley, 1995: 59, 130*]. If we now reread *Redistribution with Growth,* and sequel studies such as Adelman and Robinson [*1978*], they are inspired by dissatisfaction with the mainstream course followed during the first development decade. This egalitarian alternative proposal has since been outflanked and clipped by the rise of monetarism, supply-side economics and neo-conservativism in the 1980s. Hence it makes sense to revisit these arguments, taking into account subsequent trends and addressing the misgivings about *dirigisme*, rents and rent-seeking, welfarism and dependency.

In the 1990s the idea of redistribution with (or for) growth is regaining ground in mainstream development policy, with some new inflections: a general concern with social indicators in measuring development, to the point of redefining development itself; an emphasis on human capital; and a growing critique of trickle down. A World Bank report presented at the Copenhagen summit, *Advancing Social Development,* notes: 'How growth affects poverty depends greatly on the initial distribution of income. The more equal the distribution of income to start with, the more likely it is that poverty will be reduced for a given increase in average income' [*World Bank, 1995: 4–5*]. Hence the World Bank recognition of the importance of safety nets for the poor when implementing policy reforms of deficit reduction [*ibid.: 23*]. The World Bank package presently includes 'promoting labor-demanding growth, investing in people, providing safety nets, and improving governance' [*ibid.: 48*]. In this fashion social development is assimilated as part of structural reform – as a supplementary safety net, as structural adjustment with a human face, or as 'stage two' of structural reform, as the political stabilisation of reform policies.

In view of the recognised importance of the initial distribution of income and its effect on poverty alleviation, is merely installing safety nets logical or adequate? To achieve these effects more far-reaching measures appear to be called for. In addition, what is at issue are structural reform policies themselves and their underlying economic rationale. The real challenge is to examine the nexus not merely between income distribution and poverty alleviation but between equity (or equality) and growth. Redistribution with growth, in a mix of productivist and demand management elements, now also informs South Africa's Reconstruction and Development Programme [*Moll, Nattrass and Loots, 1991*].

LESSONS OF EAST ASIA

Equitable development policies are widely recognised as a crucial factor in East Asian development. Thus, 'there is substantial evidence to suggest that equity in income distribution and decent welfare systems are friends not enemies of growth, a pattern strikingly clear for Japan, Taiwan, Hong Kong, Korea and Singapore where equity and growth have gone hand in hand' [*Weiss, 1996: 195*]. World Bank studies acknowledge that one of the initial conditions for rapid growth in East Asia

> was the relative *equality of income* in the first generation NIEs. This factor was more of a change brought about by policy than an inheritance. Most other low- and middle-income countries were not able to achieve similar equality of income or assets. Large land reform schemes in both Korea and Taiwan, China, did away with the landholding classes and made wage income the main source of advancement. Public housing investments in Singapore and Hong Kong were early priorities of governments bent on maintaining a national consensus on development policies [*Leipziger and Thomas, 1995: 7*].

This is often noted: 'some of the advantages of the rapidly growing East Asian countries were their unusually low initial income inequality in 1960 and their labor-demanding pattern of growth, which tended to reduce income inequality over time' [*World Bank, 1995: 5*].

Education policies are part of this equation. The World Bank study on *The East Asian Miracle*

> shows that the single most important factor in launching the miracle countries on a path of rapid, sustained economic growth was universal or near-universal primary school enrolment. In 1960 Pakistan and Korea had similar levels of income, but by 1985 Korea's GDP per capita was nearly three times Pakistan's. In 1960 fewer than a third of the children of primary school age were enroled in Pakistan while nearly all were enroled in Korea [*ibid.: 34*].

Such evidence is less conclusive in relation to the late NICs in Southeast Asia. In Malaysia between 1970 and 1990 the New Economic Policy established an inter-ethnic trade-off between Bumiputras and Chinese – economic gains for the Malays and political citizenship rights for the Chinese, without infringing their economic position. This was made possible by rapid growth rates and foreign investment by MNCs, and resulted in equity among Malays and Chinese (but excluding inhabitants of Sabah and Sarawak, the indigenous Orang Asli, and Indians) [*Gomez, 1994; Jomo, 1995*]. Policies pursuing equity and growth are less evident in Thailand, play a minor part in Indonesia and are absent in the Philippines.

While the elements of equity in the growth path of East Asian NIEs are noted in World Bank and other studies, they are not often highlighted. In Leipziger and Thomas' [*1995: 2*] *Lessons of East Asia* they figure in the text but not in the 'Development Checklist', which features items such as selective industrial policies and directed credit. Debates on the East Asian NICs have concentrated on the question of the efficacy of government interventions – as the primary challenge to neoclassical economics and its emphasis on trade liberalisation as forming the clue to Asian economic success. The question of the 'governed market' [*Wade, 1990*] or 'governed interdependence' [*Weiss, 1996*] and the enduring debate on state or market [*Wade, 1996*] has tended to overshadow issues such as equity and growth. In an Asian perspective on the 'East Asian Miracle' study, equity and growth, or 'shared growth', is mentioned in passing while the emphasis is on the institutional capacities of government [*Ohno, 1996: 20*; cf. *Iwasaki et al., 1992*].

The emphasis on the authoritarian character of Asian regimes (itself a variant of the well-worn Orientalist theme of 'Oriental despotism') biases the discussion. References to Confucianism and 'Asian values' are not particularly helpful either. The first distinctive feature of East Asian authoritarian government is that it has been *developmental* – unlike, say, Somoza's authoritarianism or that of predatory states. The second is that in significant respects it has been *cooperative* in relation to market and society – unlike Pinochet's authoritarianism in Chile. A third distinctive element is that it has not only disciplined labour but also *capital*. What has been overlooked or downplayed is the coordinating character of government intervention in East Asia and the ingenious political and social arrangements which have been devised in order to effect social policies in a market-friendly fashion, or vice versa, to effect market support strategies in a society-friendly fashion [*Weiss, 1996; Ohno, 1996*]. Specific examples include state support for small and medium sise businesses in Taiwan [*Hamilton and Woolsey Biggart, 1994*], Singapore's housing policy [*Rodan, 1989; Hill and Kwen Fee, 1996*] and Malaysia's new economic policy. In addition, China's experiences in combining the market economy and social development are worth examining [*Gao, 1995*].

HUMAN DEVELOPMENT

'Empowerment is not only democratic, it is efficient'
(Griffin and McKinley, 1994).

The human development (HD) perspective takes a further step in making a general case for the nexus between equity and growth. According to Keith Griffin [*1996: 15*], 'under some circumstances, the greater is the degree of equality, the faster is likely to be the rate of growth'. His considerations include the cost of the perpetuation of inequality and that inequality undermines political legitimacy while 'modern technology has destroyed the monopoly of the state over the means of violence'. Furthermore, 'measures to reduce inequality can simultaneously contribute to faster growth'.

> ... there is much evidence that small farms are more efficient than either large collective farms of the Soviet type or the capitalist latifundia one finds in Latin America and elsewhere. A redistributive land reform and the creation of a small peasant farming system can produce performances as good if not better than those of other agricultural systems. The experience of such places as China and Korea is instructive ... what is true of small farms is equally true of small and medium industrial and commercial enterprises. An egalitarian industrial structure, as Taiwan vividly demonstrates, can conquer world markets [*Griffin, 1996: 17*; cf. *Fei, Ranis and Kuo, 1979*].

Further elements mentioned by Griffin [*ibid.: 17*] are investment in education ('There is probably no easier way to combine equality and rapid growth. The whole of East Asia is testimony to the veracity of this proposition') and the liberation of women. 'A final example of the falsity of the great trade-off is the liberation of women. Equal treatment of women would release the talent, energy, creativity and imagination of half the population' [*ibid.: 17*; cf. *Buvini, Gwyn and Bates, 1996*].

A broadly similar case is made by ul Haq [*1995: 21–2*], who mentions 'four ways to create desirable links between economic growth and human development': investment in education, health and skills; more equitable distribution of income; government social spending; and empowerment of people, especially women. Ul Haq proposes an HD paradigm of equity, sustainability, productivity, and empowerment [*1995: 16*]. It is the element of *productivity* which sets this paradigm apart from the alternative development paradigm. This refers to the supply-side factor as the nexus between equity and growth.

This position is not necessarily controversial from the point of view of neoclassical economics. HD owes its definition to the emphasis on the investment in human resources, human capital, which is prominent in the East Asian model and Japanese perspectives on development and is now a mainstream development position. The argument that investment in human capital fosters growth is reinforced by the growing knowledge intensity of economic growth, as in innovation-driven growth and the emphasis on R&D and technopoles. ul Haq rejects the idea that adjustment and HD are antithetical, either conceptually or in policy.

> Far from being antithetical, adjustment and growth with human development offer an intellectual and policy challenge in designing suitable programmes and policies ... The challenge of combining these two concerns is like that of combining the conflicting viewpoints of the

> growth school and the distribution school in the 1970s [*ul Haq, 1995: 7–8*].

The same reasoning has informed 'structural adjustment with a human face' [*Jolly, 1986*].

It is not difficult to find confirmation for human capital arguments in neo-classical economics:

> welfare economics and human capital theory provide important market-conforming justifications for a range of social policies, most notably for public health and education ... neoclassical economics is inherently theoretically elastic. The theory of market failure may, in fact, justify a 'residual' welfare state, while information failure theory can be applied to argue for a fully fledged, comprehensive welfare state [*Esping-Andersen, 1994: 712*].

Nevertheless, the author continues, neoclassical economics emphasises the efficiency trade-offs associated with welfare policies, specifically negative effects on savings (and hence investments), work incentives, and institutional rigidities (such as labour mobility). In other words, neo-classical economics can both acknowledge and deflect welfare arguments by treating them as subsidiary to growth as the primary objective, so that in the end welfare policies end up on the backburner. The key question is, rather, to zero in on those elements in the equity–growth debate which are controversial or which open up the framework of neo-classical economics.

The HD approach skirts rather than confronts this issue. This follows from the fact that HD follows the *human capital* argument which is part of the paradigm of neo-classical economics. In addition, in assuming the *individual* as the unit of human development HD shows that its intellectual roots are in liberalism.[5] HD may also be interpreted as the lessons of East Asia translated into general policy. As such one way of reading it is as a meeting point between the authoritarian state and the neo-liberal market, with the state acting as the supplier of human skills to the market, through human resource development programmes, packaged to achieve effective global competition. Merging social concerns and market concerns is excellent, but the question is, on which terms? According to ul Haq there is no contradiction in principle between structural reform and HD, it is only a matter of designing the right policy mix. This means that HD may be institutionally and ideologically acceptable to all sides. Since HD does not challenge but goes along with market logic, it does not address the problem of the unregulated market in a principled way.

HD has been inspired by Amartya Sen's [e.g. *1985*] work on development as human capacitation. An obvious question here is, if following Sen's reasoning capacitation becomes the objective and measure of development, then who defines capacity, ability, or human resources? What about the disabled, single mothers, the aged? What about human traits that can*not* be translated into economic inputs, resources?[6] Besides, if capacitation and the enlargement of people's choices are the yardstick of development, as HD would have it, should we also consider, say, the Medellín Cartel as a form of capacitation and enlargement of people's choices? As Gasper [*forthcoming*] argues there is no moral dimension to Sen's approach to capacitation.

To the extent, then, that HD does not challenge neo-liberalism and the principle of competitiveness but endorses and feeds it, HD may enable development business-as-usual to carry on more competitively under a general 'humane' aura. Accordingly, social development, if sharpened, redefined and renewed in a wider framework, might be a more inclusive and enabling perspective than HD.

LESSONS OF WELFARE STATES

Looking at social development side by side with the welfare state serves two purposes. It bridges the increasingly artificial divide between developed and developing countries and it helps to clear the path from economic generalisations to institutional and political questions. However, it might also confuse issues: equity-growth policies do not necessarily have to take the form of welfare states, which are a specific institutional arrangement.

It is not difficult to find econometric confirmation for the general positive correlation between equity or equality and growth: 'virtually every single statistical study concludes growth is positively related to equality' [*Esping-Andersen, 1994: 723*]; 'most econometric studies conclude that inequality is harmful to growth' [*1994: 72*]. However, aside from methodological limitations, a fundamental theoretical fallacy is implicit in this approach. Ironically, this echoes the fallacy inherent in neoclassical economics, namely the tendency to *abstract* economic factors from institutional and political dynamics. According to Esping-Andersen, 'the narrowly economic framework of the neoclassical model' is the reason for 'the curious gap between theoretical claims and empirical findings ... The model is consistent only when it leaves out political and social variables; studies that incorporate them invariably produce contradictory results' [*ibid.: 724*].

The welfare state may also be thought of as a particular way in which the economy is embedded in society.

> The welfare state is not something opposed to or in some way related to the economy; it is an integral element in the organic linkage of production, reproduction and consumption ... what we think of as the

> postwar welfare state is but one crucial regulatory element in the Fordist system of mass production [*Esping-Andersen, 1994: 716–17*].

The failure of welfare states lies not so much in fiscal strain but can rather be seen as a 'manifestation of a mounting incompatibility between a fossilised welfare state, on one hand, and a rapidly changing organisation of production and reproduction, on the other hand' [*ibid.: 717*]. This refers to a series of shifts – towards service production, of industrial production to NICs, from standardisation to flexibility, and from the Fordist family to women's economic independence, dual-earner households and non-linear life patterns; and towards the Schumpeterian workfare state [*Jessop, 1994*] and towards welfare pluralism [*Mishra, 1996*].

The reorganisation of production is a function of new technologies and changing consumer demand (flexible accumulation) as well as globalisation and the rise of the NICs. The crisis of welfare states, then, is in part, the other side of the coin of East Asian economic success. For instance, 'the redistributive Keynesian demand-stimulus policy, which served very well to assure adequate demand for domestically produced mass-consumption goods ... became increasingly counterproductive when such goods originated in Taiwan and Korea' [*Esping-Andersen, 1994: 717*] This suggests that the framework in which equity and growth is conventionally considered – the society or nation state – needs to be opened up, eventually to a global scope.[7]

Studies of welfare states highlight their diversity. This includes distinguishing between residual welfare states (USA), lean welfare states (Switzerland, Japan), productivist welfare states (Scandinavia), and the Rhineland welfare states which tend to uphold status differences rather than strive for equality. These distinctions may be merged with dynamic, curvilinear arguments on the relationship between equity and growth.

Arguments on the relationship between equity and growth coined in general terms are superseded by 'more complex, interactive models that posit curvilinear relationships between welfare states and economic performance' [*Esping-Andersen, 1994: 723*]. Such arguments suggest, for instance, that up to a certain point the welfare state will have a positive influence on economic growth after which it turns increasingly negative. Another curvilinear model suggests that 'full employment is best secured in countries where collective institutions (and the Left) are either very weak or very strong ... In the former case, labor market clearing is largely left to naked market forces; in the latter, to political management' [*ibid.: 724*]. Accordingly,

> the effect of a welfare state cannot be understood in isolation from the political-institutional framework in which it is embedded ... there may exist a trade-off between equality and efficiency in countries where the welfare state is large and very redistributive but in which the collective

> bargaining system is incapable of assuring wage moderation and stable, nonconflictual industrial relations. Thus, in concrete terms, a Swedish, Norwegian, or Austrian welfare state will not harm growth, while a British one will (even if it is smaller) ... if we turn to a dynamic interpretation, the evidence suggests that as long as a large and redistributive welfare state is matched by neocorporatist-style political exchange mechanisms, equality and efficiency are compatible; when the capacity for harmonious political bargains ceases to function, the same welfare state may threaten economic performance [*Esping-Andersen, 1994: 725–6*].

One line of argument is that after a certain level growth yields diminishing returns in terms of welfare and well-being [*Daly and Cobb, 1994*]. This calls to mind an earlier argument of Keynes on diminishing returns of the pursuit of surplus [*Singer, 1989*].

Similar dynamic and curvilinear arguments have been made in relation to 'social capability': 'a country's potential for rapid growth is strong not when it is backward without qualification, but rather when it is technologically backward but socially advanced' [*Temple and Johnson, 1996: 2*]. How to define and measure 'social capability'? Putnam [*1993*] looks at associational membership and survey measures; Myrdal considered levels of mobility, communication and education. Temple and Johnson [*1996: 1*] are concerned with the 'social factors that play a role in the speed of catching up' and they define social capacity narrowly as 'the capacity of social institutions to assist in the adoption of foreign technology' [*1996: 3*]. They follow the Adelman and Morris index of social development and conclude from their findings that the 'relative importance of investments in physical capital and schooling appears to vary with the extent of social development' [*1996: 41*].

SOCIAL CAPITAL

This brings us to the wider question of the institutional embeddedness of social policies. At the end of the day arguments about equity and growth cannot be made in generic terms. They are political questions or, more precisely, for their economic rationale to be operative they depend on institutional arrangements and political settlements. New institutional economics focuses on the institutional requirements for economic growth such as legal frameworks and structures of rights, while the growing body of work on the sociology of economics examines the embeddedness of economic behaviour. The standard literature on social development is, as mentioned before, dominated by questions of social policy. The literature on economic performance increasingly turns towards social issues [*Granovetter, 1992; Stewart, 1995*], but on an entirely different wavelength. Since the two fields hardly intersect, it is an interesting exercise to consider their possible intersections. They concern two dimensions of social development: social policy and the economic significance of social networks and relations of trust, often summed up under the heading of social capital. Social capital refers to a wide range of arguments, with various possible intersections with social development, depending on which angle on social capital one adopts.[8]

A key concern of Bourdieu [*1976*] is the relations among economic, social, cultural and symbolic capital, which he regards as cumulative and interchangeable. Current interest is more concerned with social capital as a clue to economic capital, an asset in the process of accumulation. Social capital in this sense may be appropriated in a rightwing perspective, in which civil society serves as a counter (rather than as a complement) to the state. According to Fukuyama [*1995: 103*], '[t]he character of civil society and its intermediate associations, rooted as it is in nonrational factors like culture, religion, tradition, and other premodern sources, will be key to the success of modern societies in a global economy'. Building intermediate associations may be an alternative to the role of government and to 'social engineering', which are seen to be a dead end. Left-wing perspectives on social capital make a similar case, but in this case addressed to market failure rather than state failure. In view of the success of corporatist strategies in East Asia and continental Europe, various forms of 'concertation' may be recommended as a redress for market failure. Along these lines, Etzioni's communitarianism emphasises building community and civic virtue. In Britain, rethinking social democracy combines ideas about rebuilding community, the social market or social economy [*Sheffield Group, 1989*] and 'stakeholder capitalism' [*Hutton, 1995*] with the renewal of democracy, as in associative democracy [*Hirst, 1993; Amin, 1995*].

These concerns overlap with an extensive literature on industrial districts and local economic development, which goes beyond agglomeration economies and transaction cost arguments to incorporate relations of trust [*Harrison, 1992; Ottati, 1994*] and institutional densities [*Amin and Thrift, 1993*] as elements that go into the making of regional economic performance. Politics of place may also involve local culture as a dimension of economic performance [*Hanloe, Pickvance and Urry, 1990; Lash and Urry, 1994*]. Analyses of the 'Third Italy' from the point of view of associative economics also refer to local democracy as an economic asset. This may take the form of a New Left productivism, centred on 'the popular construction of cooperation through citisenship and authentic participation, in politics and the workplace' [*Amin, 1995: 13*]. In this context the informal economy may be viewed as a permanent arrangement, which may be further developed, for instance in the form of labour exchange networks (exchanging child care for gardening), in combination with an active and capacious state.

These right-wing and left-wing perspectives on social capital are both upbeat and optimistic in their view of social capital as an avenue either to outflank the state or to combine strong civil society, strong state, strong economy. Social capital has thus become a new terrain of rhetorical positioning and ideological contestation, which calls for greater analytic clarity.

Putnam's [*1993*] study of the course of administrative decentralisation in Italy since the 1970s has been quite influential in putting social capital on the map. According to Putnam, those regions in the North of Italy, which have a historical legacy of civic associations and participatory local government, have reacted well to administrative decentralisation in terms of regional government and economic performance; while the Mezzogiorno, which has historically been governed along centralised and vertical lines, shows high rates of failure both in terms of administration and economic achievement. His conclusions come down on the side of 'history as destiny' and carry a conservative bias. Putnam's work has been criticised for misconstruing 'path dependency', misreading Italian history and stereotyping the South [*Levi, 1996; Sabetti, 1996*]. In addition, this approach leaves no room for the possibility of nurturing or generating social capital. The record of several countries shows that the vicious circle can be broken. Notably in East Asia policy interventions have been able to create economically enabling political and institutional conditions within reasonably short time spans, even countries that had been used to vertical and centralised government. In other words, levels of trust are not simply historical givens but can be fostered through an appropriate policy mix. Policy performance can be a source of trust, not just a result.

Notions such as social capital and the social market carry a double meaning. They refer both to the socialisation of the market and to the instrumentalisation or commodification of social relations. The notion of 'trust as a commodity' exemplifies this double move [*Dasgupta, 1988*]. Likewise there are different dimensions to embeddedness. At a general level the point is that the economy is embedded in society; further down the ladder of abstraction, any market relationship is embedded in a specific social configuration. A few considerations may clarify the range of applicability of social capital. (1) Social capital is particularistic. To networks there are boundaries and boundaries are exclusionary. 'Neighborhoods ... are a source of trust and neighborhoods are a source of distrust. They promote trust of those you know and distrust of those you do not, those not in the neighborhood or outside the networks' [*Levi, 1996: 51*]. The other side of embeddedness is exclusion; the other side of trust is risk. Accordingly, social capital may be a strategy of risk management. (2) Social exclusion and closure facilitate trust and co-operation by ensuring the predictability of relations and preventing the leakage of resources. (3) Concentrating social capital has long been a fundamental strategy of power, witness the circles of privilege of aristocracies, 'old boy' networks, clubs, inner circles, secret societies, lodges, sects, and crime networks. It has also been a strategy of subversion, insurgence, revolution, or conquest of state power, witness the Jacobins, Carbonari and the cells in international communism. Women's networks have cultivated sisterhood and autonomy. Common features include boundary-establishing rituals of initiation that serve to concentrate social capital, create bonds of obligation, establish a circle of trust and a common frame of understanding. (4) Co-operation can also be a competition strategy. Examples range from alliance policies, nonaggression pacts or peace treaties to firm mergers, all of which seek to reduce risk.

As Coleman [*1988: 118*] notes, 'most forms of social capital are created or destroyed as by-products of other activities'. The question is what difference policy can make, in other words, can social capital or civic participatory culture be nurtured, fostered, or harnessed as part of social development policies? In addition, to search for enabling features of social capital one must look not merely at internal relations within groups but at relations *among* groups. Under what conditions do widening circles of social capital arise?

On the premise that embeddedness involves inclusionary and exclusionary elements, the work on 'ethnic economies' may serve as an example [*Light and Karageorgis, 1994; Waldinger et al., 1990*]; the informal economy may also be a field of inquiry [*Portes, 1994*]. An interesting query would be not merely ethnic economies but *inter-ethnic economies*. In other words, the development or generation of trust *across* ethnic boundaries. For instance, the Chinese diaspora in the Pacific Rim countries involves not merely ethnic enclave economies but a wide range of collaboration with locals, such as joint ventures [*Seagrave, 1996*]. The attitude taken by governments in relation to these forms of cooperation can make a huge difference. By and large the New Order government of Suharto has utilised the Chinese business community as a classic 'trading minority', 'the Jews of the East', keeping them politically dependent, with limited political rights, while nurturing relations with a small coterie of tycoons [*Irwan, 1996*]; whereas the Malaysian government through its New Economic Policy (1970–90) has been able to strike an interethnic deal.

It follows that a policy of *democratisation*, rather than polarisation, of interethnic relations can contribute to economic achievement. This may be an instance with wider implications. Social development in this sense refers to policies promoting social trust *among* and *across* diverse communities – classes, status groups, minorities and so on. It may also refer to the creation of social infrastructure such as housing, schools, clinics, water supply; or asset development among low-income groups to encourage savings among the poor, which will foster social investments [*Midgley, 1995: 160*]. Government may play a facilitative role, in the form of managed pluralism. Synergies between regional, urban and local economic development are another relevant approach. The principle of co-operation also applies to relations among firms and between firms and subcontractors (see Dore [*1994*] on goodwill in Japan).

An extensive literature documents intersectoral co-operation and synergies in the context of community or local economic development (CED, LED); but this approach may also have international, macro-regional and global implications [*Thrift and Amin, 1995; Kuttner, 1991; Gerschenkron, 1992*]. Worth considering for instance is transnational social policy as an emerging theme [*de Swaan, 1994*]. A further proposition is that of a World Social Development Organisation to effect economic and social policy jointly on a world scale [*Petrella, 1995: 22*]. These propositions may be enriched by examining transnational social capital in the informal sector [*Portes, 1996*] and the formal sphere [*Strange, 1996*].

CONCLUSION

> 'Economic growth does not cause an increase in the quality of life, but increase in quality of life does lead to economic growth' (Misanur Rahman Shelley, Center for the Study of the Global South, 1994, p.62).

Structural adjustment programmes and social safety nets make up a convenient combination; so do the 'Washington consensus' and the Copenhagen summit. In this configuration, social development is a matter of tidying up after the market. A polarising mode of economic growth, followed up by social impact studies to assess its pauperising impact and poverty alleviation measures to compensate for the immiserisation effect. This is the repair or damage control mode of social development. Upon closer consideration it is not so much social development, but rather political risk management and social fixing. Along the way, however, social inequality entails not merely a moral cost and political consequences: 'there is a point at which social injustice undermines economic efficiency' [*Center for the Study of the Global South, 1994: 15*].

In development theory a distinction runs between development as planned change or engineering, and development as immanent change, a process from within [*Cowen and Shenton, 1996*]. Modernisation theory followed a logic of development from above and outside. Structural adjustment follows in the same footsteps. Modernisation policies in the past and the current application of liberal productivism to developing countries first *destroys* existing social capital for the sake of achieving economic growth, and then by means of social policy seeks to *rebuild* social tissue. En route there is obviously a lot of slippage, displacement, rearticulation, and realignment of power relations. Pursuing Darwinist economics and then sending in Florence Nightingale to tidy up the damage is a cumbersome and economically counterproductive approach to development.

The point of this study is to take social development beyond the poverty alleviation approach toward a substantive and pro-active approach. The second objective is to go beyond the human capital approach of human development. A productivist approach to social development involves not merely investing in education, health, housing – the standard fare of human capital approaches – but also accommodating or investing in social networking across communities and groups and designing enabling institutional environments; in other words, a social capital or participatory civic society approach. As a supply-side argument (that is, enhancing productivity and output, rather than promoting consumption), this addresses the criticism of Keynesian demand stimulus policies on the part of the supply-siders of the 1980s. What it does not address is the problem of technological change and jobless growth.

On several grounds and in multiple fashions – human capital, social capital, democratisation – social development can contribute to overall economic achievement. In the words of Amin and Thrift [*1995: 21*], 'the argument within socio-economics that there can be a close connection between democracy and economic success is to be welcomed in our market-driven age'. If the market dominates it might as well serve socially useful purposes.

The neo-classical trickle-down argument cannot be made in generic terms because outcomes vary according to political and social circumstances. For the same reason, neither can equity-growth nor *trickle-up* arguments be made in general terms, for as such they would have very limited purchase. A social productivist approach might require an interventionist, developmental state,[9] but this may be too heavy-handed an approach. A more modest approach is managed pluralism [*Midgley, 1995*]. Intersectoral synergies among local government, NGOs and people's organisations, and firms are another field of cooperation [*Brown and Ashman, 1996; Wignaraja, 1992*].

Managed pluralism involves political regulation. Merging social and market concerns also involves the development of collective bargaining systems. This may be difficult to achieve in segmented societies. Ethnic segmentation is a case in point; caste and class antagonism is another obstacle. A civic culture that strongly privileges individualism, as in North American free enterprise culture, may be more conducive to a casino mentality than to socially inclusive political settlements. Even so, one application of this kind of approach would be to review affirmative action policies in the United States and reservations policies in India [*Nederveen Pieterse, forthcoming*]. For these legacies need not to be taken as destinies. The point of a social development approach is not to provide a menu but to suggest a direction of analysis and policy. Social development, redefined in a wide sense, can serve as an orientation for a new social contract and as such become a new assembly point for development.

NOTES

1. In considering infant mortality rates, Drèze and Sen [*1989*] distinguish two patterns: growth-mediated security, in which the crucial factor in lowering infant mortality rates has been growth and in particular employment (for example, in Hong Kong, Singapore, South Korea) and support-led security in which infant mortality rates have come down although growth rates have been low (in Chile, Costa Rica, Jamaica, Cuba during the 1970s). The latter countries have since changed course or been overtaken by events: Chile embarked on a different course under the Pinochet regime; Costa Rica and Jamaica have implemented macroeconomic reforms since the 1980s; Cuba has a stagnant economy.
2. In view of the status of the Kerala model [*Robin, 1992*], a little more information may be in order. 'The open unemployment rate is around three times the national average. Kerala has earned the dubious distinction of being the only state in India whose real social expenditure has decreased during 1985–86/1991–92 period, compared to the decade 1974–75/1984–85' [*Isaac and Tharakan, 1995: 1996*].
3. For instance, Indonesia's report to the summit is entirely framed by the 'Presidential Instruction No. 5/1993 regarding the Intensification of Efforts to Alleviate Poverty', the so-called IDT Program (National Development Planning Agency and Ministry of Home Affairs, 1994). By contrast, the parallel meeting organised by NGOs followed different tracks. An example is the Philippine Rural Reconstruction Movement's (1994) 'The Way of Power: Development in the Hands of the People', which develops a civil society and grassroots-centred Sustainable Rural District Programme, in other words, a social action and participatory policy approach. Several submissions combine social action and policy approaches, from below and above, such as Møller and Rasmussen [*1995*]. UNRISD [*1995*] reviews several approaches, from poverty alleviation to participatory social policy and notions such as promoting global citizsenship.
4. The components of the Adelman-Morris index of social development are: sise of the traditional agricultural sector; extent of dualism; extent of urbanisation; character of basic social organisation; importance of indigenous middle class; extent of social mobility; extent of literacy; extent of mass communication; crude fertility rate; degree of modernisation of outlook [*Temple and Johnson, 1996: 10*].
5. Cultural bias may be another limitation to HD. Griffin and McKinley [*1994*] seek to accommodate this by making HD responsive to cultural difference and disaggregating HDI according to ethnic groups within a society. Griffin [*1996*] takes this argument a step further by considering cultural difference as an engine of economic growth.
6. Paul Streeten in ul Haq [*1995: xi*] mentions the conflict between human resource developers (who emphasise HD as a means to growth) and humanitarians (who view it as an end and who are also concerned with the unproductive and unemployable).
7. I will address this in another paper under the heading of 'the interaction of modernities'.
8. This occasion only allows a brief engagement. I have learned much from supervising two outstanding MA theses at the Institute of Social Studies in 1996: Melania Portilla Rodriguez, 'Social Capital in Developing Societies: Reconsidering the Links between Civil Agency Economy and the State in the Development Process' and Sergio Lenci, 'Social Capital? From Pizza Connection to Collective Action: An Inquiry into Power, Culture and Civil Society'.
9. Or, an 'intelligent' or educator state that is ahead of civil society, such as France and Singapore; a principle that is not part of the Anglo-American tradition which leans towards the minimal state.

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