

Dräger Foundation



Richard Kohl

Changing Skill Demand, and Inequality in Education: Implications for Poverty and Employment in Middle-Income Countries

I manage a project at the OECD Development Centre on the impact of globalization on poverty and inequality in developing countries. My focus today will be on two questions. First, what determines the effects of globalization on inequality in middle-income countries? Second, what can we do to improve these effects?

The answer to the first question is complex, but today I want to present a simple answer: The two primary determinants, though not the only ones, of how globalization affects inequality are a country's distribution of human capital, i.e. its distribution of education and skills, and its labor market system. The more unequal the distribution of skills and the more rigid the labor market, the more likely it is that effects of globalization will be to increase wage and income inequality. The policy response is actually very simple. We've known what good policy is, in terms of building human capital, what good education and training policy is, for thirty years. Globalization doesn't change what those policies are, though it may make it more urgent; universalize education sequentially, starting with primary first, and then secondary and tertiary. The problem is not a policy problem, a lack of research, or ignorance of the right policies, but fundamentally a political one - of implementing and sustaining the right set of policies. The real question is a political one: How do we generate a politics that gives us egalitarian policies, that results in governments in middle-income countries implementing education and labor market policies that produce lower inequality?

A major reason that these policies have not been applied is that the overall approach to development and to reducing inequality that we've been using over the last 30 years has been the Anglo-American one. Based on that approach, the strategy has been to use greater integration into the world economy to achieve higher growth rates. The specific means to do this have been to maximize the role of domestic and external market forces through liberalization, with the government providing proper "framework" conditions. Versions of this strategy have worked in several countries to promote rapid growth, greater employment, and in some cases lowered poverty. Without getting into a debate over what exactly is the Washington consensus or whether the East Asian "miracle" is or is not an example of the successful application of this strategy, the fact is that widespread attempts to apply it throughout the developing world have largely failed to lower inequality. This is because this approach, and the strategies it implies, tend to ignore distributional questions or treat them as separable issues, as afterthoughts. The argument that unsuccessful cases usually mean that the strategy wasn't really tried begs the real question, how do you get and sustain good policies? This strategy ignores that question, it denies the political question itself. Relying on market forces means (or presumes) technocrats can implement policy, independent of a social or political base or consensus, let alone any accountability to the poor. The Anglo-American strategy, and the technocratic politics that are implicit in it, has failed to improve pre-existing social problems in most places either because its approach to social issues is flawed, because it has ignored the politics necessary for good policies, or both. In fact, in many cases it has made inequality and exclusion even worse.

Today I want to suggest to you that there are other models, particularly that of European social democracies, which offer an alternative and, at least in Northern Europe, have produced much more egalitarian outcomes. Moreover, as Dani Rodrik has argued in several of his writings, there is a strong correlation among developed countries between social welfare states and trade openness; the most open OECD countries are also those that have the most advanced social policies with general benefits and active labor market and education policies to catch the victims of openness and retrain them for competitive tasks. Not only does this model show us the kinds of policies that result in better social outcomes in globally-integrated economies, but, more importantly, it gives us an example of the type of politics that allows for egalitarian policies to be designed and implemented. That is the major point I want to emphasize: if we are really concerned about improving inequality and exclusion in middle-income countries, then we have to focus more on helping these countries create the political basis for egalitarian policies. We have placed too much emphasis on policy design, and not enough on the politics. Then we bemoan the

fact that these wonderful policies, especially those that address poverty and distributional questions, are not implemented, resorting to explanations like lack of political will. I invite you to consider that we have had it backwards; if we can help countries get the politics right, then they will implement good policies.

Getting national politics, and therefore national policies right, is the right strategy, but in an era of globalization it is no longer sufficient. Economic relationships today no longer correspond to the political boundaries of nation states - they never did, but over the last thirty years globalization has radically increased the extent to which domestic economic outcomes are affected by international factors. That's why there are so many NGOs today, why so many groups are out there demonstrating not only at international meetings but within the developing world; even where national political systems are democratic and inclusive, they are no longer capable of being responsive to all the economic issues necessary to achieve good social outcomes. I would like to suggest that we need to go beyond encouraging formal and substantive democracy at the national level, as vital and essential as that is, and work to create new forms of global political participation and inclusion that take into account globalization and the growing economic interdependence that comes with it.

Let's start with globalization. Globalization has created a shift in the way most middle-income countries are integrated into the world economy. They used to export natural resources, now they export manufactured goods. These new exports are often intermediate goods and more and more are occurring within the context of global production networks organized by multinational enterprises (MNEs) in sectors like autos and electronics. The shift to manufacturing exports has been accompanied by growing foreign direct investment (FDI) and trade in services. Together these have increased the demand for skills, i.e. for skilled labor.

Lets us look at the case of South-East Asia, and by that I mean the middle-income countries of Indonesia, Malaysia, the Philippines and Thailand (and not Cambodia, Laos, Myanmar or Vietnam.) South-East Asian countries relaxed restrictions on FDI in the mid-1980s and successfully attracted a lot of investment in areas like electronic components and computers, as well as financial and business services. The shift into these sectors and out of products like textiles, toys and lumber increased the demand for skills. At the same time, globalization has been bringing more low-skilled, low wage countries into the world economy, like the People's Republic of China; so these countries faced increasing competition from low-income countries. This twin dynamic has increased demand for skills and the competition facing those without skill - creating pressures for wage differentials between the skilled and unskilled workers to rise.

But just because globalization is creating those pressures does not necessarily mean that inequality has to rise; instead skill supply could increase -- unskilled workers could acquire more skills. In this case, workers and the country as a whole simply becomes richer. However, it appears that this hypothetical possibility is not in fact being realized in most middle-income countries, instead wage and income inequality are increasing in many and remaining at unacceptably high levels in others. So the first question is: Under what circumstances do the pressures caused by globalization, particularly those which increase the demand for skills, lead to rising inequality?

It used to be that inequality in the distribution of land, agricultural land, was the primary determinant of inequality in developing countries. For middle-income countries that remains a factor, but according to the results of a series of country case studies commissioned by the Development Centre, the primary determinant of the effects of globalization on inequality is the distribution of skills, i.e. education policy, and, second, labor market regulation. Inequality in the underlying distribution of skills, or a mismatch between changes in skill demand caused by globalization and domestic supply -- both generally result of skewed educational policies -- leads to higher wage inequality.

Let us look at how globalization, skills and education have played out in South East Asia. As of the 1970s, these countries grew by exporting goods like textiles, toys, and processed natural resources. The skill demands implied were matched by nearly universal primary education, so that inequality and poverty fell between the 1960s and 1970s in most countries. As noted earlier, when a globalization-oriented growth policy was adopted, the resulting sectorial shift into sectors like electronics and finance increased the demand for skills, i.e. for secondary and tertiary education. The effect on inequality varied across the region, depending on the educational response. As can be seen in the graphs below, in Malaysia and the Philippines there was a substantial increase in the supply of secondary and subsequently tertiary education; in those countries, inequality fell. In Indonesia there was almost no change in the level of secondary education, while in Thailand there was a change but it came later. In those two countries education did not keep up with globalization and inequality rose.

There are similar stories about education, skill supply and demand, and inequality for Central Europe, and especially Latin America. In Latin America, levels of income inequality are amongst the highest in the world; caused by a highly unequal distribution of land which was the legacy of Spanish colonialism; but it has been perpetuated and in some cases

increased by inequalities in education interacting with globalization.

The policy recommendations we derive from this are actually pretty simple, and there's probably nothing new about them. We've known for 30 years what kind of policies are necessary for reducing inequality and poverty, and the key importance of appropriate education policy in achieving those goals. Appropriate education and training policy has two specific aspects. First, you've got to build from the bottom up; universalizing education sequentially beginning with primary education, then secondary, and finally tertiary. Second, countries have to match the types of skills being produced by the educational system with roughly the current level of development and the mix of skill demand that is implied by that level. Certainly improving the average skill level of the labor force can be an effective way to develop and move up and out of an existing niche in the world economy, but a country can't get too far ahead of its existing demand for skills. Higher education is wonderful and has an important role in development, but too often higher education has been emphasized at the expense of neglecting universal primary and secondary education first; the very opposite of building from the bottom up. The assumption has been that if we can create an elite educated group, we don't have to worry about the rest. This has created a gap between the educated and uneducated; and that gap has tended to become entrenched and even widen, on the one hand because of learning by doing and, on the other hand, because of government regulations and financial support for "strategic" sectors where the highly skilled work. For reducing inequality, at least historically, this "leapfrog" approach has not worked.

The experiences of East Asia and Latin America are examples of the different approaches. Many Latin American countries tried to emphasize tertiary education, providing free university education for the children of urban elites and the middle classes, while de-emphasizing primary and particularly secondary education, especially in poor, rural areas. The result has been the perpetuation of, and even an increase in, the highest levels of inequality in the world. By contrast, the experience of East Asia - Southeast Asian countries referred to above, plus the Four Tigers of Hong Kong, Korea, Singapore, and Taiwan, is more mixed. Korea universalized education sequentially, often slightly ahead of demand, resulting in a steady decline in inequality which occurred in parallel of moving up the value-added ladder in the production chain. Hong Kong and Taiwan were much less aggressive in their education policies, and as the impact on industrial structure and skill demand of the second wave of globalization occurred in those countries, inequality rose. The divergent impact on inequality of the two approaches in Southeast Asia - Malaysia and the Philippines versus Thailand and Indonesia - mentioned above shows the same results.

Lowering educational inequality means not just across income but across regions and social groups - minorities, indigenous peoples and, particularly women. Women are the backbone of the labor force in many middle-income: they are the small entrepreneurs. At the same, girls tend to have much more limited access to education than boys. If we don't equalize education in terms of gender, then we're not going to get very far in reducing inequality.

The need to equalize educational attainment across urban-rural divides, across regions is particularly relevant in the context of enlarging the European Union to include Central Europe. Enlargement will substantially increase current pressures to transfer people in middle-income Central and Eastern European countries out of agriculture and into other activities. Moving out of agriculture does not necessarily mean moving out of rural areas. It does mean moving into non-farm activities. If we want to see this happen without an even greater increase in inequality than has already occurred, then agricultural workers and their children will need the kind of education that allows them to work in the types of services where jobs are being created. This means making available to them the same kind of education available to students in urban areas and particularly capital cities.

To recapitulate, the primary determinant of whether or not globalization increases inequality in middle-income countries is the distribution of human capital or skills, which in turn is largely an outcome of education and training policy. The second most important determinant is labor market flexibility. It's not the flexibility that one tends to think of: utting minimum wages and social benefits to remove disincentives to working, or avoiding other poverty traps, as in the Anglo-American model. Many Latin American countries tried this approach to increasing labor market flexibility by pursuing these kinds of measures, and it is this aspect of "globalization" - using the broadest definition of the term to include all pro-market (external and domestic) reforms - that the evidence shows has most often led to increased inequality. In contrast to this approach, the type of labor market rigidity which needs to be reduced is lack of competition. This occurs where "insiders" - employees in highly unionized, strategic sectors, the state, or state-owned sectors and parastatals - are able to use their own bargaining power, or the power derived from protective government regulations, to extract and maintain wages and other benefits which are not available to most other workers. This skews the wage distribution and inhibits employment creation. It tends to create a class of "outsiders" who either have to settle second-rate jobs, remain unemployed, or at best receive social welfare benefits if they are lucky enough to live in countries where these are available. This so-called "insider-outsider" problem is the type of labor market rigidity which increases inequality, not the strength of the social safety net, worker protection or decent minimum wages. Increasing labor market competition is the

solution, not dismantling social welfare programs or cutting minimum wages.

These two areas - education and training, and labor markets - are where changes in policy are necessary if we are to reduce inequality in middle-income countries in the face of globalization. The problem is how do you get policy makers to implement them? How do you create a political coalition to support and PAY FOR those policies? How do you get the middle class to pay for the education of the poor? Or, if consensus is not possible given the current political landscape and distribution of power, then how do you redistribute political power to allow for economic redistribution? What powerful interests want to give up their power?

To answer these questions, let us go back to the labor market for a minute, because it is instructive in terms of how to get the POLITICS right. Gösta Esping-Anderson, a leading Swedish sociologist, defined an important typology for OECD countries in which he separated their labor markets, or more accurately the broader social welfare systems in which their labor markets are embedded and are a key defining characteristic, into three basic types: social-democracy, corporatism and Anglo-American (or liberal in the European sense of the term). The Anglo-American type is characterized by flexible labor markets with few regulations and weak social welfare systems. The social policies which do exist tend to be targeted and means-tested. This, we are led to believe, is very efficient - targeted programs avoid wasting money on anyone who doesn't really need it. Of course, one of the problems with this approach is that it tends to favor what economists call Type II errors; it would rather that people who need help don't get it, than mistakenly give support to those who don't need it (a Type I error).

The next type is the social democratic model, exemplified by the Nordic countries. In this model there is a comprehensive, social welfare system paid for and largely provided directly by the state, resulting in substantial income redistribution as well as what occurs through a progressive income tax system. Welfare services are for the most part UNIVERSAL, i.e. they benefit the entire population. Wages and benefits tend to be determined by national tri-partite bargaining between the state, employer's federations, and a single national union confederation. The politics are characterized by consultation, co-operation and consensus. The most successful example of this system, as Professor Sassen mentioned in her remarks, is the Netherlands, which has very egalitarian policies and outcomes. The Netherlands' process of consultation is an example of this kind of politics, and has resulted in policies that have permitted a substantial increase in labor market flexibility, allowing more workers to pursue part-time and flexible work, while retaining social welfare benefits.

The last type is the corporatist model, with France and Belgium being examples. The countries of this type are also social market economies with substantial social welfare states and largely universal benefits. Similar in many ways to the social democratic model, these countries tend to be more statist, allow a smaller role for market forces in general and in social welfare provision, and have labor market structures characterized by the "insider-outsider" model described earlier. They are social market economies in which some people are more equal than others; some have more privileges. If you work for the state or a parastatal, or in a key sector, you are protected from competition, and have benefits like subsidized housing or the ability to retire at 50. This translates into labor market rigidity, resulting in social exclusion and high unemployment. It is left to the reader as an exercise to determine which of these types best describes Germany.

So, what are the outcomes of these three models that are relevant for reducing inequality? The Anglo-American (A-A) model creates a lot of jobs so that growth tends to be employment-intensive, with high employment levels for the low-skilled. This is because of looser labor regulations which permit larger wage differentials for different skill levels, but also has the effect of creating wider wage and therefore income inequality, and high levels of relative poverty. The United States and the United Kingdom have higher shares of people living below their respective poverty lines than is the case in most Southeast Asian countries. In the corporatist or "insiders and outsiders" model growth tends to be less employment intensive. Because of the rigidities of the labor market, you often get high unemployment, especially long-term structural unemployment of the unskilled. Inequality can be high, though lower than the A-A model, but the social welfare system substantially offsets that, so that inequality net of taxes and transfers is fairly low. However, high unemployment translates into social exclusion. It may not be poverty, but it's not a desirable outcome.

As Carl Thame of the Palme Institute and others have observed, in Northern European social democracies wealth and income have been more evenly distributed than perhaps anywhere else, and this applies to equality between men and women, socio-economic classes and geographical regions. This was achieved by establishing a universal model of social protection, with benefits based on residence, combined with social insurance programs. It has been a successful strategy in terms of combating poverty and social inequalities, and especially for promoting employment and participation, particularly among women, and avoiding social exclusion. Slow growth, the emergence of mass unemployment and accompanying fiscal problems in the 1980s showed that this model needed some reform to adapt to the era of globalization; but many of these problems have

been resolved by permitting some wider wage differentials and greater labor market flexibility while retaining the strong education and training systems and most of the comprehensive welfare programs which led to these outcomes. Job flexibility is growing, particularly in the Netherlands, where roughly forty percent of the working population is working in part-time jobs by choice. Among other benefits, this allows people to spend time with caring for families members - it's a very pro-gender policy. Contrary to popular myth, long-term growth rates are similar in all three models.

What are the politics associated with each of these outcomes? In a certain sense, there are no politics in the Anglo-American model, which is one of the principal sources of its appeal as a model for developing countries. Technocrats can implement it, because they don't have to be responsive to anyone - their job is to reduce the role of the state to the minimum, and let the markets do what they will. It does have its contradictions. Political support for the social programs which do exist is always tenuous. Such programs tend to target and serve an insurance function, which means in practice that they are designed to be temporary sources of assistance. For income support and other more general benefits targeted to the poor, since middle class people generally don't benefit, there is no mass support for these programs. Who wants to pay for programs that don't benefit me? They are always susceptible to being attacked as plagued by cheating or as creating disincentives to work and therefore to being cut. Thus, even on its own terms, this model is not politically sustainable.

The politics of the corporatist model are consultative, sometimes, but often confrontational: strike now, discuss later. More importantly, the excluded don't have a seat at the table, a voice. Thus, the outcome - social exclusion - reflects the underlying politics - political exclusion and confrontation. Since we are most interested in how to reduce poverty and inequality, it is the politics of the social democratic model which are the most interesting, the politics of consultation and consensus.

Historically, over the last ten years, the Anglo-American (A-A) model has been the dominant one upon which development policy has been based. Given that even in OECD countries it rarely reduces inequality, and usually increases it, why has it been the dominant policy option in the 1980s and for much of the 1990s? It is common to argue that you don't have to worry about reducing inequality, only poverty; that the most direct way to reduce poverty is high growth; and the best way to achieve growth is to allow the market to work its magic, i.e. the A-A model. There is increasing evidence that this is not true, that growth is not sufficient, and growing debate about whether the A-A model even leads to higher growth; it hasn't within the OECD. Moreover, interviews with poor people show that relative poverty i.e. inequality, is at least as important to them as absolute poverty.

From a policymaker's point of view, the great thing about the A-A model has been that you don't need politics at all. That is what has made it so appealing to apply in middle-income countries, either for indigenous technocratic elites, at the behest of the Bretton Woods institutions as part of structural adjustment programs, or both. The politics are simple, and the demands on the state are supposedly minimal; in fact, running effective, targeted programs is quite demanding in terms of the quality of institutions and of civil servants. Of course, the problem with it is that in terms of lowering inequality the social welfare system is minimal; what does exist doesn't effect much income redistribution and is politically vulnerable.

As such, the A-A approach is the perfect example of economic policy which has been designed without taking into account the politics, ignoring the need to create political structures and systems to support reducing inequality. The A-A approach may work in a few places, and where it does, that's great. If this approach, when applied in middle-income countries, generates sufficiently high levels of growth which is also re-distributive, so as to reduce both absolute and relative poverty to acceptable levels, that's great. If targeted social policies are all that is necessary, even better. My review of the evidence is that the growth and targeted social policies of this approach are usually inadequate to the task, and often have made things worse.

By contrast, we do have an example of an approach to politics that does generate the kinds of policies and outcomes that we want to see in middle-income countries - the consensus politics of European social democracies. This model is part of Western Europe's heritage. This model, this experience is incredibly valuable and it's being ignored, neglected and wasted by the international community. I want to really emphasize this, especially as an American. The consultative politics of social democracies have enormous potential for application in middle-income countries.

The European social democratic approach can deliver something different; different politics, policies and results. The individual European countries and the European community have already made substantial efforts to make available to developing and especially middle-income countries Europe's economic policy experience. This has been important and had very positive effects. The case of Central Europe particularly stands out; as a result of technical and financial assistance, those countries have now reached a level of institutional and economic development so as to be ready for membership in the European Union (EU). But these kinds of intensive efforts need to extend beyond Europe

to a greater number of countries. They need to go further than transferring economic policy, even beyond transferring social market institutions; to transferring the politics which have created these institutions.

When one makes this kind of statement, you immediately elicit two kinds of responses. The first response is something like: "You have to be careful about trying to transplant blindly institutions, or political systems, from one context to another, there are lots of other factors like culture which are necessary for such institutions to work". This is obviously true. The origins of social democracy are complex and are found in the social and cultural context of these countries, and emerged as an outcome of specific historical process. In brief, the emergence of strong trade union movements in parliamentary democracies, often in alliance with other classes that permitted a reformist approach to social change combined with the particular role of the Protestant Church and its tradition of voluntary social work, the temperance movement, and experimentation with popular and alternative approaches of education. Clearly, this context does not exist in most middle-income countries. Nonetheless, one rarely hears this criticism raised about transferring Western-style formal democracy, nor Anglo-American technocratic institutions, policies or politics. Why are the institutions of laissez-faire universal, but not those of social democracies? Why is formal democracy potentially universal, at least in some form, and consensus building and co-operation any less so? Moreover, this history shows the added importance that must be given to basic human rights such as labor rights - the right to organize, to strike, as well as formal democracy.

The second critique is based on a reluctance to interfere in the politics of other countries. This doesn't hold water either. The way that structural adjustment policies and other types of development policies have been approved and implemented is quite political and often a strong reaffirmation of the status quo. For years, everyone knew that corruption was a major obstacle to development, but no one would say that the emperor had no clothes. In the last decade, after the Cold War ended, it became politically possible to talk about this, and it has become a major policy issue, opening up the whole issue of governance in general. Yet to again refer to Carl Thume, an expert on social democracies and globalization: "The main problem in many developing countries, specifically in Africa, is the weak state, but [sic] that is mainly a result of a historical process - colonization, conflicts and war, failed nation building - much more than globalization." Thume is right, it is the weak state, weak politics that is the problem, and it is precisely in strengthening the state and the politics that the solution lies. Moreover, globalization did not cause the problem, but it is making that weakness worse.

It's time to take the next step, to talk about what political institutions generate good governance or good social policy. It means working to promote democracy - not just formal democracy, but inclusive, participatory democracy. It means sharing the political, institutional and organizational experience of social partners, particularly from social democratic countries which operate with co-operation and consensus. It means having social partners from these countries, the people and institutions who make co-operation and consensus operational, train and organize social partners in middle-income countries, adapted of course to local conditions. It is important that we go beyond working with the traditional social partners, particularly labor and labor unions, and become more inclusive, extending political participation to a wider representation of civil society. This means using NGOs and other civil society institutions to support people in agriculture, women, and more generally those who have been invisible and excluded, not just from formal democracy, but from informal consultation and discussions.

Twenty-five years ago this would have been the end of my talk, these proposals would have arguable been a starting point for creating the political basis for egalitarian policies in middle-income countries. Today, it is no longer enough. In an era of rapidly accelerating globalization these kinds of domestic politics are still necessary, but they are no longer sufficient.

We have seen that globalization has changed the emphasis in terms of the economic policies necessary to reduce inequality. What does globalization have to do with politics? Historically, especially in the period from 1930 to 1970, political boundaries corresponded to economic ones. Domestic policy was the most important determinant for domestic economies, though less so for smaller economies. True, it has always been the case that what happens in Germany affects what happens in Eastern Europe, and it has always been the case that what happens in the United States affects Latin America. In the last twenty years, however, thanks to globalization, there has been a qualitative shift; international considerations overwhelm domestic policy; the failure of French attempts at "socialism in one country" in the early 1980s may be a good point to mark this shift. Whenever it occurred, it now clearly exists for almost all countries, even for the United States, and especially for small middle-income countries.

At the same time the system of global political relationships hasn't evolved sufficiently to be able to address these cross-national economic effects adequately, to provide some form of political recourse for those who feel they are the losers. There is no political mechanism for addressing the distributive implications of globalization, its effects on inequality, poverty and exclusion. The institutions we have for this, such as the United Nations, are, at best,

grossly inadequate. That's why we've had this explosion in the number of national and international NGOs, their increasing role in world politics, and a growing "anti-globalization" movement.

The fact is not only that globalization has created this disjunction, but existing efforts to reform global governance are largely making this worse by emphasizing technocratic solutions. There has been a lot of research on how political recourse within NAFTA has worked - if it's worked at all, it too is at best inadequate. If you are creating a free trade union across North America you have to create inclusive, open, co-operative democratic political institutions that will allow for the distributive issues that are sure to arise to be aired and addressed politically. Instead, the arbitration panels for dispute settlements which have been put in place are an exact replica, transferred to global governance, of the technocratic, Anglo-American solution to poverty that has been tried (and largely failed) in social policy. And it is failing there too. This same type of technocratic politics is perceived to dominate most international economic agreements and institutions, from the WTO to the Bretton Woods institutions.

That is why there have been ongoing demonstrations at Seattle, Washington, Genoa, et al. People have an inchoate feeling that there is something wrong, that there are growing international disparities in incomes, growing inequality and exclusion, and that these economic problems, instead of being addressed by existing international institutions, international inequalities in political power are widening as well. Not only don't the boundaries of politics and economics correspond any more, the types of solutions being pursued by global institutions are going in the wrong direction.

We need to go beyond the existing political framework of domestic and global governance. The enlargement of the European Union (EU) is an appropriate step towards having political and economic boundaries be more congruent. New members will be included not only in the Single Market but in the political decisions and process of the European Parliament and Commission, i.e. in the politics of the European Union. This is clearly a step in the right direction as contentious, uncertain and in flux the exact nature of European governance is. But it still doesn't solve the problem. If you let in Hungary, what happens to Romania? If you let in Romania, what happens to the Ukraine? You're not going to be able to include everybody, and we have already seen how tortuous the politics have been about expanding membership to the few countries which have already been proposed. So, there have to be alternatives to expanded membership that provide for political dialogue and recourse with countries and people who are not going to be included in the European Union. Similarly, in the Americas or the Pacific Basin, we can't talk about extending free trade agreements or other forms of economic integration unless there is some thought given to creating or extending corresponding political systems, and not just dispute resolution systems.

These need to be institutions which are seen as democratic and legitimate by ordinary citizens. Where can we find these new political forms? Clearly, something new in representational democracy must be created which simultaneously respects the present system of nation states, the legitimacy of formal democracy, and that is sensitive to the already fragile position of labor, agriculture, and other domestic interest groups. We need to respect existing political forms, but we also need to create new ones which take into account growing cross-country linkages.

When we were thinking about this at the OECD Development Center, we thought that the Center might be a place to begin moving in this direction. We came up with the idea of a policy dialogue on globalization, inequality and poverty in developing countries. We bring together policy makers and economic experts from OECD member countries and international institutions in dialogues all the time. What was new about this idea was that we wanted to dramatically expand the participation of stakeholders from developing countries, from the countries we are actually doing research on, i.e. the countries where the problems actually exist. We wanted to take head on the criticism that international institutions are closed, secretive and exclusionary.

The dialogue took place at the end of November 2000 and one-third of the participants who attended - fifty people - were stakeholders from representative civil society groups covering twenty developing countries. This elicited a huge positive response from all the participants: from OECD member countries to international institutions to the stakeholders from the South themselves. The World Bank Institute, the Rockefeller Foundation and several other international institutions all talked to us about co-operating on doing further dialogues like this. It wasn't perfect - we learnt a lot from it, and there are a lot of changes that need to be addressed. Voice, for example, has become a very trendy word in international organizations, but participation and accountability aren't. The challenge we face now is how to go forward, how to find an elegant and cost-effective solution to this and similar problems.

This morning the Vice President of the World Bank for Europe demonstrated that the Bank finds itself in a comparable situation. The Bank is simultaneously trying to become more accountable to its stakeholders - civil society and NGOs in both North and South, yet remains technically accountable only to its shareholders - its Board of Directors and

Executive Directors. Even though the OECD doesn't give money, we face similar tensions. The answer lies in experimenting more with inclusive participatory dialogues in places like the OECD, the Council of Europe, and other institutions. We need to see if we can come up with solutions to go beyond voice, to get participation and to get real accountability on these issues. Without these kind of dialogues, or something like them, we aren't going to get solutions to poverty. Without participatory, inclusive and egalitarian global political institutions, we are not going to get solutions to inequality, not only within countries, but especially across countries.

Let me summarize the key points.

? We have known for a long time that there are a set of policies that if implemented, will reduce poverty and inequality. globalization has increased the importance of implementing a particular sub-set of those policies; equalizing the distribution of productive assets, particularly human capital. This means first and foremost education and training policies which generalize, sequentially, primary, secondary and tertiary education and which match the supply of skills with demand. It means labor market reform which weakens the power of insiders but preserves and even strengthens social protection and the social safety net, contrary to much recent policy. Moreover, as Dani Rodrik, Ethan Kapstein and others have argued, globalization and the greater openness to world market forces require a stronger domestic social welfare state in general to protect citizens and help them make the more frequent changes necessary to adapt.

? By and large, these and other types of equalizing policies have not been implemented. So the challenge is not in designing the right policies, but getting the right politics. If policy research and design was the solution, we would have solved poverty a long time ago. We've had it backwards - we've focused so much on researching and designing policies right that we neglected creating the conditions under which they get implemented, and then we blame the countries when they don't do the right thing - we throw up our hands and say there's a lack of domestic political will or leadership. The real challenge is in creating the politics which will allow for the right policies to be implemented.

? The question is how to do this. I have proposed that inclusive, consultative politics will generate inclusive, and therefore equalizing, policies. If we focus on creating participatory democracy, on including stakeholders and civil society in the process, the policies will come of their own accord.

? We have a model and practical experience in how to do this successfully - Northern European social democracies. The consultative, consensus politics of this model presents a viable alternative to the confrontational politics of corporatist European countries like France or the technocratic, apolitical Anglo-American approach. Yes, these systems are socially and culturally specific, and emerged out of a long and complicated historical process. That presents us with a challenge, how those of us who come from Northern European social democracies can share that experience with middle-income developing countries in a way that fits with their societies and cultures. That means technical assistance in building participatory, inclusive, consultative democracies - not just by social partners like government and labor, but with all stakeholders and civil society organisations playing a role.

? Because of globalization we need to extend this approach beyond the level of individual nation states, to extend consultation and inclusion to the global level. One place to start, but not the only place, is through global dialogues sponsored by existing international institutions and bilateral aid agencies, such as the German Development Fund.

? The key will be to go beyond mere consultation to the point where dialogues actually have some clear policy impact. There needs to be some form of accountability between talk and action as exists within democratic nation states. We need to have a goal of creating some form of new international social contract. Next year's UNDP Human Development Report will cover "Voice and Accountability" and should offer some suggestions as to how to put this into practice at both the national and international levels.

If anyone here is interested in furthering these kinds of dialogues, I invite you to contact me at the OECD Development Center. Because without the possibility of dialogue that these kinds of forums will provide we are not going to solve the problem of poverty and inequality in a global world. We're not going to find a solution to poverty which is acceptable on the ground, where such solutions must be lived, unless those who are there - the stakeholders from both high-income and middle-income countries, and the policy makers - participate in the process. Thank you.

Website search

