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# The Global Crisis and Transformative Social Change

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# The Global Crisis and Transformative Social Change

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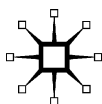
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# Abbreviations and Acronyms

ACFTU	All China Federation of Trade Unions
AFJP	Administradoras de Fondos de Jubilaciones y Pensiones (Association Fund for Retirement and Pensions)
AIDS	acquired immunodeficiency syndrome
AIDIS	All-India Debt and Investment Survey
ALBA	Alianza Bolivariana para los Pueblos de Nuestra América (Bolivarian Alliance for the Americas)
ANC	African National Congress
ANSES	Administración Nacional de la Seguridad Social (National Social Security Administration)
ASEAN	Association of Southeast Asian Nations
BOP	balance of payments
BRIC	Brazil, Russia, India, China
CARICOM	Caribbean Community
CCT	conditional cash transfer
COSATU	Congress of South African Trade Unions
CPE	cultural political economy
CPI-AL	Consumer Price Index for Agricultural Labourers
CSR	corporate social responsibility
CTP	cash transfer programme
DB	defined benefit
DC	defined contribution
DFID	Department for International Development
DWS	developmental welfare state
ECLAC	United Nations Economic Commission for Latin America and the Caribbean
ECOSOC	United Nations Economic and Social Council
ESF	Exogenous Shocks Facility
EU	European Union
FDI	foreign direct investment
FGS	Fondo de Garantía de la Sustentabilidad (Guarantee and Sustainability Fund)
FLI	farm labour income
FRA	Forest Rights Act
G-2	Group of Two (China and the United States)
G-7	Group of Seven (Canada, France, Germany, Italy, Japan, the UK, the US)
G-8	Group of Eight (Canada, France, Germany, Italy, Japan, Russia, the UK, the US)

G-20	Group of Twenty (leaders of 19 countries plus the EU)
G-77	Group of 77 (intergovernmental organization of developing states in the United Nations)
GDP	gross domestic product
GEAR	Growth, Employment and Redistribution
GPN	Global Production Networks
GTZ	Gesellschaft für Technische Zusammenarbeit (German Agency for International Cooperation)
GVO	gross value of output
HDI	Human Development Index
HIV	human immunodeficiency virus
HYV	high-yielding variety
ICSW	International Council on Social Welfare
IFC	International Finance Corporation
IFI	international financial institution
IGO	intergovernmental organizations
ILO	International Labour Organization
IMF	International Monetary Fund
ITUC	International Trade Union Confederation
LASCO	Labour and Civil Society Coalition
MDG	Millennium Development Goal
MOST	Management of Social Transformation Programmes (UNESCO)
NAFTA	North American Free Trade Agreement
NBLSS	National Basic Livelihood Security System
NCEUS	National Commission for Enterprises in the Unorganized Sector
NDRC	National Development and Reform Commission
Nedlac	National Economic Development and Labour Council
NEST	National Economic and Social Transformation
NGO	non-governmental organization
NLC	Nigeria Labour Congress
NPC	National People's Congress
NREGA	National Rural Employment Guarantee Act
NSSO	National Sample Survey Organisation
ODA	official development assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OECS	Organisation of Eastern Caribbean States
OIP	outstanding interest payment
OPEC	Organization of the Petroleum Exporting Countries
PATH	Programme of Advancement through Health and Education
PAYG	pay-as-you-go
PBU	Prestación Básica Universal (flat-rate benefit)
PDS	Public Distribution System
PPP	public-private partnership

PRC	People's Republic of China
PSSOP	Public Sector Systems of Provision
RRF	Rapid Response Facility
SACP	South African Communist Party
SACTWU	Southern African Clothing and Textile Workers' Union
SAMWU	South African Municipal Workers Union
SAP	structural adjustment policy
SC	Scheduled Castes
SCB	scheduled commercial bank
SDC	small developing country
SNA	System of National Accounts
SRM	social risk management
ST	Scheduled Tribes
TNC	transnational corporation
TUC	Trade Union Congress
UID	Unique Identification (Authority of India)
UK	United Kingdom
UN	United Nations
UNCEB	United Nations System Chief Executives Board for Coordination
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNRISD	United Nations Research Institute for Social Development
US	United States
WHO	World Health Organization
WIEGO	Women in Informal Employment: Globalizing and Organizing
WTO	World Trade Organization

# Preface

Global crises not only deeply impact the economy and people's livelihoods, but they also unsettle basic ideas and assumptions about the meaning and drivers of development. This collection of theoretical and empirical studies contributes to the global debate about the substance and politics of policy change associated with the global financial crisis of 2007/8. It examines the challenges and dynamics involved from the perspective of social development and developing countries. In doing so it engages with some of the most pressing and contested issues: To what extent does the crisis provide an opportunity for moving away from the doctrines and policies that reinforced inequality and vulnerability? What new directions in policy, especially social policy, are required, and are developing countries moving in such directions? Are social forces and political coalitions supportive of transformative change able to mobilize? While the political underpinnings of policy change conducive to social reform, namely contestation, social mobilization and coalition politics, are energized in the context of crises, the nature of demands and the responsiveness of elites can vary considerably.

In November 2009, one year into the crisis, as it became clear that limited attention was being paid to key social, political and developmental dimensions of the crisis, the United Nations Research Institute for Social Development (UNRISD) organized a conference based on a 'Call for Papers' to draw attention to these critical, but little-discussed, issues. Several papers presented at the conference were subsequently revised and form the basis of this volume.

In preparing this volume we have accumulated many debts, among them to the chapter contributors who responded positively to our suggestions for revision, to two external referees for providing critical feedback, to Anita Tombez for doing excellent copy-editing (just before her retirement) and to Chris Kip, Agnes de Mauroy and Kiah Smith for research and editorial assistance.

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# Overview: Social and Political Dimensions of the Global Crisis: Possible Futures

*Peter Utting, Shahra Razavi and Rebecca Varghese Buchholz*

## Introduction

Soon after the collapse of the capital markets in the United States (US) and the United Kingdom (UK) in 2007 it became clear that the crisis had spread not only to global financial markets but also to the 'real economy'. While most developing countries were not exposed to subprime debt due to limited direct financial linkages between many low-income countries and those at the epicentre of the crisis, the financial crisis spread through their economies by three main transmission channels: first, the limited availability of credit for working capital; second, cautious spending decisions, leading to lower output, employment and prices, in turn, affecting confidence among consumers and investors; and third, international trade and investment linkages with falling export revenues and remittance flows (ILO 2008). Though not having significantly contributed to the crisis, many developing countries suffered severely from the indirect impacts, and these economic impacts were magnified as a social crisis unfolded. The economic impacts and social consequences, however, differed, depending on the level of integration, size of economy and structural conditions in individual countries (ODI 2010; Sumner and McCulloch 2009).

Discussions at the global level focused primarily on the channels through which the crisis in financial markets was transmitted to the real economy, the largely unforeseen economic consequences of financialization, the economic impacts of the crisis, and the regulatory gaps that needed to be filled in order to avert a future crisis. On the other hand, social and political dimensions were being discussed very superficially at best. Which social groups in developing countries were most affected by the crisis, and how were they coping? What role can, and should, social policy at both national and global levels play in addressing the social impacts of the crisis? Was the crisis likely to prompt a significant questioning of the dominant neoliberal paradigm in policy circles and enlarge the space for alternative development agendas that were democratic, developmental and equitable? What sort of

politics was conducive to 'transformative' change, that is, change that re-embeds 'the social' (social development and equality) as a central objective in national and international policy making?

### **About this volume**

This volume aims to contribute to the global debate on the substance and politics of policy change. It examines the challenges and dynamics involved from the perspective of development and developing countries. One year into the crisis, it was clear that, while the ideological and policy debate was gathering momentum, limited attention was being paid to key social, political and developmental aspects of the crisis. To this end, the United Nations Research Institute for Social Development (UNRISD) organized a conference on the Social and Political Dimensions of the Global Crisis: Implications for Developing Countries, held in November 2009.<sup>1</sup> Several papers presented at this conference were subsequently revised and form the basis of this volume.<sup>2</sup>

This introductory chapter distils, from the 13 chapters that follow, insights and findings concerning three main questions. First, how resilient is neoliberalism? To what extent does the current context of crisis provide an opportunity to change course – moving away from economic doctrines and policies that promoted patterns of market-led development which reinforced vulnerability and inequality? Core features of such patterns included privatization and financialization, which not only signified the greater weight of firms and finance in economies, but also their engagement with an ever-expanding range of activities associated with both economic *and* social reproduction. Second, what new directions in policy are required, particularly in the field of social policy, and to what extent are developing countries moving in such directions? Third, can social and political forces and coalitions supportive of transformative change mobilize effectively to push through such policy and institutional changes?

New thinking, policies and politics suggest a variety of possible futures as regards the trajectory of development models. In a context where the scale of the global financial crisis unsettled conventional thinking about development paths and strategy, this overview chapter also considers the substance and likelihood of three scenarios of change. These include 'skewed recovery and development', which prioritizes but re-regulates market-led growth strategies; 'embedded liberalism', which attempts to address both market failure and inequality through significant but partial reforms of mainstream institutions; and 'transformative restructuring and social change', which implies more fundamental institutional and structural reform. A concluding section reflects on which scenario may be materializing given the relative strength of different ideational and political forces.

## **How resilient is neoliberalism?**

Much of the blame for not only the financial crisis that erupted in September 2008, but also the recurring crises since the early 1970s, can be put at the door of economic doctrines, macroeconomic policies, donor conditionalities and changes in power relations associated with neoliberalism or, to be more precise, the political ascendance of finance capital (Bellamy Foster and Magdoff 2008, Ghosh and Chandresekhar 2003). This set of ideational, policy and political arrangements emphasized and prioritized the liberalization of markets (in finance, but also in goods and labour), low inflation, the capacities and virtues of self-regulating markets, the rolling back of some areas of state intervention in the development and regulatory domains, export-orientation, short-term borrowing and pro-cyclical policies in many developing countries. Full employment, standing in as a proxy for social development, was no longer seen as an objective that macroeconomic policy had to pursue.

From a social development perspective, the crisis presented not only a regulatory failure but was a symptom of a much larger ideological failure that had contributed to policies that prioritized the profits of financiers (in the name of 'market efficiency' and growth, the latter remaining elusive for many developing countries) at the expense of long-term economic dynamism ('catch-up'), equality and social development.

Two main assumptions held by market actors and regulators were discredited by the crisis. First, that markets always correct themselves and, as a corollary, are a superior mechanism for organizing resources; and second, that financial markets efficiently aid the real economy but are of secondary nature (Gowan 2009). In reality, the crisis presented a widespread market failure and showed the influence of the financial sector over real economic trends. Hence, the broader issue with the financial sector was not confined to excessive leverage, risk-taking and lack of transparency. Instead, the structural dimension of increased financialization, whereby the financial sector dominated economies and non-financial economic activities, including public services and food and commodity markets, led many to argue that the real challenge lies in reasserting control over the financial sector (Blankenburg and Palma 2009). But, more importantly, the crisis proved the dominant belief in efficient markets wrong with important consequences for the ideology underpinning policy choices in the economic and social spheres.

Another assumption was that inequality did not matter for development – an assumption that was beginning to be questioned even by the IFIs themselves (World Bank 2006). Within-country income inequality increased considerably in most countries in the 1980s and continued throughout the 1990s. Examining 85 countries, the ILO found that during the 1990s more than two-thirds experienced an increase in inequality, as measured by the

Gini coefficient (ILO 2008: 9). This is partly accounted for by changes in the functional distribution of income, that is, the relative share of profits and wages in gross domestic product (GDP), which has moved sharply against the latter (UNRISD 2010). Disregard for such trends not only ignored basic issues of human rights, but also other economic and social implications, such as persistent poverty in low-growth sectors, lower levels of effective demand, constraints on human capital formation, and incentives to business to compete on the basis of low wages as opposed to labour productivity (UNRISD 2010: 61–62).

A key question, then, addressed in this volume relates to whether the crisis has seriously wounded this paradigm. Several chapters question this assumption. Rather they emphasize its considerable resilience (see chapters by Bob Jessop ([Chapter 1](#)), Ben Fine ([Chapter 5](#)), Bob Deacon ([Chapter 4](#)) and Björn Beckman ([Chapter 12](#))<sup>3</sup>).

The prospects for social transformation in the wake of crisis are heavily dependent on certain paths of pre-crisis structural change. For example, the financialization of the social sectors, in particular pensions and health-care (Ben Fine, [Chapter 5](#)), the long-term decline of smallholder agriculture since the 1990s along with high levels of indebtedness and food insecurity among the peasantry (Arindam Banerjee, [Chapter 9](#)), extensive labour market informality and livelihood insecurity (Indira Hirway and Seeta Prabhu, [Chapter 10](#)) and the depletion of human capabilities and disruptions in family life and social reproduction (Diane Elson, [Chapter 3](#)) curtail what governments see as the options available to them in the social and labour-market policy arenas. In recent decades, the structuring of global value chains and of national economies around production for export has also reinforced patterns of post-crisis economic restructuring in favour of further trade liberalization, more ‘flexible’ labour markets and the transfer of risks and costs down corporate supply chains (Bob Jessop, [Chapter 1](#)). Despite the growing body of evidence that is critical of privatized social service provisioning and pension systems, many countries continue to pursue such policies, given the vested interests in private for-profit provision (clinics, pension funds and so on), as well as the difficulties of constructing cross-class alliances in the context of deeply segmented modes of welfare provision where the middle classes have turned to fee-based private for-profit provision of welfare services and transfers.

In addition to these aspects of ‘structural power’, elites that benefited from neoliberalism have shown remarkable capacity to shape the post-crisis recovery process through both ‘instrumental’ and ‘discursive power’ (Fuchs 2005). The former refers to the capacity to influence policy design and implementation through lobbying, revolving doors and participation in consultative and decision-making processes. The latter refers to the capacity to frame common sense understandings of crisis and crisis response, that is, of what went wrong, who is to blame and what is the solution?

Several chapters examine these dimensions. They include the capacity of pre-crisis elites (such as those well connected to finance capital) and elite institutions (such as the IMF) not only to design the recovery policy agenda but also to dominate the terrain of discursive or 'hegemonic' struggle in the Gramscian sense. This means that very selective and partial explanations of crisis and crisis response end up framing public and policy debates (Bob Jessop, [Chapter 1](#); Bob Deacon, [Chapter 4](#)). It also means that proposed solutions may well serve to transfer risks and costs onto subaltern social groups and developing countries (Andrew Fischer, [Chapter 2](#)). In [Chapter 2](#), Fischer draws parallels between the 1982 debt crisis and today's predicament. While the 1982 crisis was fundamentally rooted in disequilibria related to the breakdown of the Bretton Woods system, it was recast as a problem of surpluses emerging from oil price shocks in the 1970s and subsequent 'irresponsible' borrowing by developing countries (especially in Latin America) ready to recycle these surpluses. Today, he suggests, there are similar voices framing the sources of the US financial bubble in terms of excess savings in the rising East Asian peripheries, especially Chinese external surpluses.

### **New directions in social policy**

Two years after the financial collapse, with growth slowly picking up in some advanced industrialized economies and large developing countries such as China and India experiencing high growth rates, it was easy for political élites to neglect the severe social consequences of the crisis. Financial and economic crises, however, dramatically impact poverty rates. According to the *Human Development Report 2010*, the Asian crisis of the late 1990s cast 19 million Indonesians into poverty, and the Argentine financial crisis increased the national poverty rate by 15 per cent (UNDP 2010: 80). The United Nations has estimated that between 47 million and 84 million more people remained poor or fell into poverty in developing and transition economies in 2009 than would have been the case with pre-crisis trajectories continuing (United Nations General Assembly 2010). The World Bank estimates put the number of people pushed below its poverty line of US\$1.25 a day at 64 million by the end of 2010 (UN General Assembly 2010: 7). Not only did global unemployment increase following 2007, it also failed to decline once economic growth resumed in 2009 and 2010. The global unemployment rate, which had decreased consistently since 2004 to approximately 177 million in 2007, increased to 205 million in 2009 and is estimated to remain at that level in both 2010 and 2011 (ILO 2011: 74).<sup>4</sup> In many emerging and developing countries, there are signs of a V-shaped recovery, with employment quickly returning to pre-crisis levels in 2010. For 33 countries analysed, however, there is an employment deficit of some 7 million jobs, if employment rates were to be restored to their pre-crisis levels (ILO 2010a: 2).

Unemployment is only the tip of the iceberg in many developing countries, where a much larger share of the workforce ekes out a living in the informal economy through self-employment and informal wage work. Here wages and earnings tend to be lower than in the formal labour market, access to social security provisions often non-existent or, at best, minimal, and workers experience multiple other forms of labour market insecurity (Standing 2011: 10). As formally employed workers lose their jobs or see their earnings reduced, other members of the household are pushed into the workforce to meet family needs. Studies of labour market dynamics during previous crises in Latin America have shown that women's labour force participation may increase in the context of rising unemployment and job instability (Arriagada 1994; Cerrutti 2000). In the absence of comprehensive social insurance programmes, the impact of the crisis on the labour market has manifested itself by the increase in informal or vulnerable types of employment (Bremán 2009; Horn 2009), as well as deteriorating conditions of such work as shown by Indira Hirway and Seeta Prabhu (Chapter 10).

Many of the chapters highlight employment as a key dimension of the crisis. Prior to the crisis, the concern was with periods of 'jobless growth' and the large informalization of employment, which posed real obstacles to inclusive growth paths in many countries. With the onset of the crisis, these problems have become more pronounced.

The post-crisis development path envisioned by various authors in this volume is one which addresses the structural dimensions which have led to the neglect of 'decent work'. Several chapters propose a development model that is centred on formal job creation, a shift towards stimulating domestic demand rather than excessive reliance on export-oriented growth, and greater attention to redistribution and social policies, all of which need to be addressed through a greater role of the state.

What remains invisible, however, in both labour market statistics and calculations of GDP, is the unpaid work that goes into sustaining people (cooking, cleaning, caring for children, the sick and frail elderly people (Diane Elson, Chapter 3). Evidence from previous crises attests that the time that is allocated to these unpaid care activities tends to increase to make up for the shortfall when goods (for example, processed grains) and services (for example, healthcare) cannot be purchased due to income constraints, and also that much of the burden of this work falls on the shoulders of women and girls, leading to depletion of human capabilities (Pearson and Sweetman 2010).

In many developing countries with rudimentary social security systems, those people hardest hit by the crisis tend to have limited, if any, access to formal social assistance and social insurance, and instead rely heavily on coping strategies at the household and community level. However, these informal coping mechanisms are heavily constrained by structural changes associated with migration, agrarian decline, informalization and the burden

of having to deal with multiple crises. It is dangerous therefore to idealize the 'coping strategies' of those who are adversely affected by recurrent crises; breaking point may be reached with harmful and long-lasting effects.

The limits of local solutions and coping strategies justify a stronger role for the state in the social policy arena. Social policy is often treated as an add-on to a largely unchanged economic policy agenda centred on the liberalization of markets along the lines already mentioned. In recent years many governments in developing countries have tended to adopt fragmented social protection instruments (for example, narrowly targeted conditional cash transfers) that focus on 'targeting the poor'. Indeed, in many developing countries, social protection is piecemeal and assists only a small percentage of poor people (ODI 2009). UNRISD and other research, however, has shown that social policy, when more broadly conceived, can contribute to development in multiple ways, not only by providing social protection, but also by addressing overarching concerns with redistribution, equity, production, demand-driven growth, social reproduction and social cohesion (UNRISD 2010).

One of the key questions addressed by this volume is whether we are seeing a shift towards more inclusive social policies. Some crises in the past have yielded such outcomes. Following the East Asian crisis in 1997, some governments expanded their social welfare programmes. When the crisis hit the economies of East Asia, most of them did not have well-developed formal social welfare provisions (Lee 1998). The severe social consequences led to initial international support to establish a Western-style social contract that could underpin the creation of formal social insurance schemes (Birdsall and Haggard 2000). However, with the urgency of the crisis averted, the social consequences lost their political urgency. Nonetheless, following the East Asian crisis, some countries in the region paid greater attention to social policies, especially where democratic politics facilitated public pressure for a shift towards a relatively more extensive welfare system, as seen in the Republic of Korea and Taiwan Province of China (Kwon 2005). The extent of changes that were introduced to include more active social policies depended, to a large extent, on the ideational and political forces in each country.

It is not clear from the international policy response that developing countries are being encouraged to comprehensively respond to the social crisis; indeed, the messages that are being sent seem to be mixed, as Bob Deacon shows. The G20 and the IMF have been promoting trade, investment and growth as the main pillars of their policy packages. While the focus on jobs and the value of social protection is included,<sup>5</sup> it is less clear whether the resources that are made available for these areas are in any way sufficient. Moreover, there is concern that debt incurred by financial sector bailouts, pressures to reduce budget deficits and ongoing conditionalities attached to new loans will constrain policy space to pursue countercyclical



measures, expand social policy and address unemployment (Molina-Gallart 2009; UNDESA 2011).

Yet there are signs that other institutions are paying more attention to the need for universal social policy. Particularly relevant are the efforts of several UN agencies to promote a 'Global Social Floor' consisting of a package of old age pension and disability benefits, child benefits, universal health care and minimum employment guarantee schemes. However, as Deacon suggests, such efforts run the risk of perpetuating an approach to social policy centred on poverty reduction and protection, rather than a more rights-based and redistributive approach.

What about realities on the ground? Social policy can play a key role in economic recovery and demand-led growth. The *Social Watch Report 2010* notes that,

The fast and strong recovery of the Brazilian economy in 2009 was mostly due to a combination of non-orthodox compensatory policies ... Recovery was achieved on the strengths of domestic demand, fed by policies to [raise] the minimum wage; social policies, of which *Bolsa Família* (Family Grant) is the most important; credit expansion policies led by public banks; and, to a lesser extent, fiscal policies. (Bissio 2010: 72)

China, as is well known, achieved remarkable rebound with expansionary macroeconomic policies and a massive four trillion Yuan (US\$586 billion) fiscal stimulus package. The package, as initially announced, included significant spending on infrastructure. Following some criticisms of the limited amount allocated to social spending, subsequent revisions announced in April 2009 allocate a larger proportion to social programmes, including pensions, medical reform and social assistance. However, as Sarah Cook shows, there remains a large gap between national policy goals and implementation at the local level. A major constraint is the limited capacity of the central state to manage competing local, regional and bureaucratic interests, or to set incentives and create monitoring mechanisms that ensure compliance among different actors and at different levels in the governance structure. What lies behind these constraints ultimately, she argues, is a divergence of interests and motivations: 'while the Party leadership is driven to invest in social policies by the need to maintain stability as a basis for its legitimacy to govern, local governments are driven by the politics of accumulation and the need to maintain growth in revenues.'

In Argentina steps were taken to deal with the negative consequences of privatization of social policy, for example, through the nationalization of the pension system analysed by Camila Arza. Nationalization entailed the transfer to the state of all the assets accumulated in individual accounts and the elimination of the private branch of the mixed pension system established in 1994. There are nevertheless concerns about the fiscal and political

sustainability of the new system, as well as its capacity to address other long-standing problems that have afflicted pension programmes in Argentina, such as narrow coverage (which excludes the large share of the workforce that works informally), gender inequality and benefit adequacy.

Caribbean countries, which are highly dependent on external markets, as Andrew Downes argues, have used a series of measures to respond to the employment and social impacts of the crisis, including macroeconomic stabilization policies to keep up aggregate employment levels. Pre-crisis social and labour market policies acted as built-in stabilizers and cushioned the effects of economic shocks associated with falling commodity prices and declines in remittances and tourism. Active labour market policies, for example, have included the establishment or extension of skills training and retraining programmes using funds from social insurance schemes where those schemes were already in place (for example, Barbados, the Bahamas and Jamaica), while unemployment benefits, increases in the minimum wage and pensions, and conditional cash transfers have been used to cushion the effects of the crisis. These policies have placed additional pressure on the fiscal accounts of Caribbean governments, but the expectation by governments in the region is that the recession would be short lived. 'If there is deterioration in the economic conditions', warns the author, 'governments would be unable to maintain their original policy stance'.

In India, as Indira Hirway and Seeta Prabhu show, much of the country's vast informally employed workforce remains off the radar of social policy, despite some noteworthy efforts made in recent years to propose social policy breakthroughs for bringing the informally employed workforce into the ambit of social policy (for example, the reports of the National Commission for Enterprises in the Unorganized Sector/NCEUS; see Srivastava 2008 and Breman 2010). Nevertheless, a range of initiatives, focusing in particular on the rural sector, have been promoted recently, including most notably a significant expansion of the workfare programme mandated by the National Rural Employment Guarantee Act of 2005.

However, it is important to bear in mind that putting in place social protection measures, even if these include broad-based social assistance programmes (cash transfers, workfare), is not sufficient to prevent future crises. Nor can it substitute for the lack of robust and decent employment generation. It is worth recalling that an integral component of successful welfare regimes has been their ability to regulate and discipline capital. Another integral ingredient of success was their capacity to create decent employment on a sufficiently large scale.

Expanding the scope and substance of social policy will require rebuilding state capacities that have been eroded in many developing countries in recent decades. Such capacities relate not only to resource mobilization and service delivery but also strengthening state accountability to social demands and the democratization of policy making. As several chapters

in this volume (especially those by Björn Beckman and Ying Yu) suggest, a minimalist view of democracy, even if it could have some purchase in countries which have already achieved a relatively high level of economic development and democratic consolidation, is clearly not compelling in contexts marked by extensive deprivation and alarming levels of inequality. In these contexts the legitimacy of governments (and even the stability of the nation-state) largely depends on their capacity to deliver and be effective, and failure to do so creates a vicious circle of low effectiveness-low legitimacy (White 1998). Given the generally high levels of income inequality, extensive poverty, and deep-seated ethnic and gender stratifications that afflict many developing countries, it is all the more important – in both ethical and political terms – that formally democratic states are not just empty shells, but are able to deliver socially inclusive patterns of economic development that can eradicate both absolute and relative poverty, and correct glaring inequalities between classes, regions, genders and ethnic groups.

### **Mobilizing for change**

In the midst of economic turmoil and the severe social consequences lies the optimism that this crisis will lead to change. Often compared to the 1929 economic crisis (United Nations 2009), which led to a more pro-active management of the economy by the state and the extension of various social policies embodied in the New Deal, many commentators argued that the current crisis could create the political space for a structural transformation needed for the challenges in the social, economic and environmental sphere (NEF 2008). Indeed, one argument is that crises are conducive to policy change when they enable societies to enact measures that would be impossible to enact in less distortionary circumstances (Hirschman, cited in Drazen and Grilli 1993).

The trajectory of policy reform will reflect, to a large extent, the configuration of social forces, institutional path dependence and the changing geopolitical landscape. Given the resilience of neoliberalism, what prospects are there that social forces and coalitions supportive of progressive reform, as well as progressive configurations within the state, will be able to challenge orthodox and reactionary positions? Several chapters emphasize the key role of contestation, civil society advocacy, coalition building and ‘counter-hegemonic’ discursive struggle in crafting progressive policy responses. This focus on the politics of crisis response points to the need to go beyond the technocratic prescriptive approach commonly espoused in policy-applied research by identifying key institutional, political and structural conditions that need to be in place for transformative change to occur.

The challenges to neoliberalism have come from diverse quarters, most notably social movements and some governments of the Global South.

Some of the key actors and spaces for change identified in this volume include the following:

- the role of intellectuals and ‘defiant bureaucrats’ within intergovernmental institutions and processes associated with policy reform. Particularly relevant in this regard are various initiatives discussed by Bob Deacon;
- relatively autonomous regional solutions, such as the Bolivarian Alliance for the Americas (ALBA) noted by Bob Jessop, as well as other trends associated with regional integration and South–South cooperation and funding (Bob Deacon);
- democratization, variations in the nature of electoral competition and alliances with political parties as elaborated in the contribution by Dev Nathan and Govind Kelkar, which, they argue, partly explain differences in the social policy response of governments in relation to rural constituencies;
- the vibrancy of social movements, increasingly connected globally via networks and forums, such as the World Social Forum, and focused on a range of alternatives to global injustices associated with capitalism, imperialism, patriarchy and racism (Bob Jessop);
- the role of civil society organizations in both advocacy and as intermediary institutions that can connect grassroots concerns or demands and state capacities. This dimension is the focus of Ying Yu’s analysis of China where grassroots contestation is prevalent but state structures are often unresponsive. The strengthening of civil society in China is also crucial given the extent of state capture by elite interests and the need to build countervailing centres of power (see [Chapter 7](#));
- efforts that address the serious limitations of civil society activism, namely fragmentation and dispersion, by building broad-based coalitions. As Björn Beckman argues, of particular relevance in this regard are the efforts of trade unions to create broad-based alliances by engaging with new constituencies of informally employed workers, and bringing social concerns onto the negotiating table with governments and employers (as in the case of the Congress of South African Trade Unions/COSATU in South Africa), or giving them wider public hearing in contexts where unions only organize a minor part of the population (as in the case of trade unions in Nigeria).

## **Possible futures**

Global crises not only deeply impact economic growth and people’s livelihoods, but they also unsettle basic ideas and assumptions about the meaning and drivers of development. In the wake of the global financial crisis a vibrant debate has unfolded about ‘where do we go from here?’ There was an instant revival of Keynesian ideas, which, in contrast to neoliberalism,

elevated the role of the state and of countercyclical public expenditure in development strategies. Just as developmental states and welfare states eventually emerged as part of the solution for the crisis of the 1930s, the question arose as to whether a different approach to development might gather momentum in these turbulent times. Or less ambitiously, would the type of social policy reforms that were introduced in some countries in the wake of the 1997 Asian financial crisis (Kwon 2005) be replicated in this crisis? Much of the commentary on the 2007/08 crisis had in fact praised the ‘automatic stabilizers’ built into the welfare states in developed countries as effective counter-cyclical mechanisms which could also be useful in developing countries (Green et al. 2010:38; ILO 2008).

### **Skewed recovery and development**

From the perspective of corporate-led and finance-led capitalist development, perceptions of crisis and priorities for recovery will be quite different to those associated with Keynesianism and sustainable development. Crises and ‘creative destruction’ – whereby some firms and industries decline or collapse, as others emerge – are seen as natural features of a capitalist system (Bello 2005; Crotty 2003; Schumpeter 1976). Some interests will push for an early return to ‘business-as-usual’. Indeed, those that played a central role in designing policies to deal with the crisis in the United States and elsewhere were often key figures associated with finance ministries, central banks and the financial services industry, that is, those which had been the main architects and beneficiaries of neoliberal policies promoting financialization.

Policy responses at the first instance included massive liquidity injections into the financial system and direct support to major financial institutions. The United Nations estimated that public funding in the region of US\$18 trillion (almost 30 per cent of gross world product) was made available to recapitalize banks, nationalize financial institutions and provide guarantees on bank deposits and other financial assets (United Nations 2009). Much of the criticism of the bail-out of the banks has been that it restored ‘Wall Street’ and executive pay but not enterprise and employment on ‘Main Street’. While there were signs of global economic recovery in 2009 and 2010 – in terms of real GDP growth, real private consumption, investment and trade volume – the world had experienced a ‘jobless recovery’ (ILO 2011) as noted above.

As Bob Jessop observes in [Chapter 1](#), government policy may have prevented a general financial meltdown, but mainstream policy discourse also narrowed the effective scope of public debate to a limited set of policy options and diverted attention from questions of institutional design, as well as from deeper causes that reproduce crisis-tendencies. At a systemic level, a major challenge for elite economic interests relates to finding outlets for surplus capital by creating or expanding markets in developing countries, new industries, international commodity speculation,

militarization, commodification and privatization (Harvey 2010; Ghosh 2010). Another is to continue to take advantage of surplus labour through policies and practices associated with the flexibilization of labour markets and precarious employment (Standing 2011), as well as transferring risk and costs along global value chains, while ensuring that social discontents do not become major sources of instability. There are, however, growing signs of social discontent, declining levels of trust in governments, and unrest in response to rising food prices, labour retrenchment and austerity measures (ILO 2010a), as seen with the *indignados* in Spain, and Occupy Wall Street movement. If the latter cannot be controlled then the skewed recovery and development scenario may need the backing of repressive states. While deep-seated and locally specific factors underpin the 'Arab spring' uprisings, the high rates of unemployment, precarious livelihoods and repressive state practices are common sources of discontent that feed popular unrest. In contexts where there is deep social insecurity, limited resilience of social institutions to cushion the effects of crises on people, and weak and fragile democracies, the possibility of authoritarian resurgence cannot be ruled out.<sup>6</sup>

Even in European countries with consolidated democracies, as austerity measures are taken to cut benefits, diminish health and education services, and make jobs more temporary, crisis is becoming a way of life with unsavoury political implications. From France to Germany, from Austria to The Netherlands, even mainstream political parties, and not just the far Right fringe parties, are finding it acceptable to stress the 'threat from immigration', thereby giving credibility to populist racism, in what has been termed 'barbarism with a human face' (Žižek 2010). Contradictions and crises in some of the advanced capitalist countries may also be prompting a shift from the politics of hegemony to the politics of coercion and protectionism (Reich 2010). Indeed, in the United States, carceral relations centred on prisons and personal debt have become increasingly important, pervading the lives of certain sectors of the population (LeBaron and Roberts 2010).<sup>7</sup> These developments, associated with coercion, protectionism and anti-immigrant politics, have potentially major implications for sub-altern groups in the global North and South.

### **Embedded liberalism**

The above approach, which centres on narrow interest group preferences, is politically constrained. Elites and other groups that benefit from neo-liberal dynamics need to remain in the driving seat of both policy reform and discursive struggle, which aims to frame reform agendas and common sense perceptions about the nature of 'the problem' and what to do about it. Contexts and goals associated with democracy, modernization and stability mean that this is likely to involve not simply crude interest group preferences and agendas but also attempts to accommodate other interests and