Social Policy Initiatives as an Effective Means of Reducing Inequalities

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Introduction

Social policy refers to actions carried out by the government and society to deliver various welfare services. Social policy is also a multifaceted discipline or area of study. Kennett (2001 p,4) defines social policy as a well-thought-out set of goals to redistribute economic resources amongst its citizens to ensure the welfare of its citizen. Esping -Andersen (1990) brands social policies as a pathway to prosperity and equality. However, some scholars do not consider inequality a serious policy issue requiring states' intervention and advocate Kuznets idea that inequality rises in the preliminary stages of industrialization but once the process of industrialisation is complete, inequality declines as citizens demand from their governments the distribution of acquired wealth (The Economist 2012). Thomas Picketty claims that the traditional wisdom of the twentieth century that inequality will eventually decrease as economies mature, was essentially wrong. He articulates that there is no reason to believe that capitalism will ultimately reverse the trend of rising inequality (The Economist 2014). On the other hand, Stiglitz (2012) contends that inequality is not the natural consequence of economic growth rather it is a policy choice made by the governments. He argues that states' intervention is needed to redress growing income inequality.

Source: UN.org

This paper examines whether social policies are effective means of redressing growing income inequality or other policies are more helpful to facilitate economic growth and social development. Responding to this question this paper will argue that social policies promoting education enable the population at the lowest decile to harness skills and in the same way healthy and better-skilled population contributes to the overall growth of the economy.

The growth of income inequality and its political and economic consequences is once more a hot issue in public debates. President Obama calls it a 'defining challenge of our times '. The scope of action of social policy to mitigate the effects of income shocks is vast which includes initiatives taken by the state to protect economically marginalised segments of society. It also includes responding to the social needs of the whole society (International Labour Review 2000, p.113). The term Social policy is used for actions of the state involving delivery of welfare services including education, housing, health care, food and housing, cash transfers, and a wide range of other welfare services (Zahid and Whiteford 2017, p.25). Dolgoff (1999, p. 297) points out that social policies are the public policies that safeguard the interests of the weak, promote equality, and welfare states use various social policy initiatives to achieve these objectives.

Education and Economic Growth

Social policies promoting education enable the population at the lowest decile to harness skills and in the same way, a healthy and better-skilled population contributes to the overall growth of the economy. According to OECD report (2016, p. 7), the inequalities of income, health, literacy, opportunity, and accessing good quality jobs are interlinked and feed each other. Inequality also negatively impinges upon growth as fewer people invest in education and skill development and consequently further worsening inequality and poverty. Anwar (2014, p. 354) argues that Inequality manifests itself in many shapes but policymakers limit their focus on the analysis of income and expenditure inequality. He explains that socio-economic factors dictate and exacerbate income or consumption inequality. Income inequality is a complex phenomenon and it is closely associated with inequality of opportunity including the opportunity of access to education and health. For instance, Anwar (2009 P.163) compared the literacy rates of the population in Pakistan as per consumption deciles. He used household data for the years 2001 to 2005. According to household survey results inequality of education and literacy between high incomes deciles and low is acute in Pakistan. He examines that in 2001 literacy rate in the children of age 10 years or above from the lowest decile was 24% wherein in the highest decile it was 72%. In the same way, the difference in literacy rate of adults of 15 years of the richest decile was 72% and the poorest just 22%. Similarly, the difference in literacy rates between urban and rural poor is more acute. As noted afore Social policies promoting education and skill development create an environment that helps foster human capital. Mankiw et al (1992, p.416) emphasize that a higher degree of human capital leads to accelerated economic growth. Khilji and Wang (2007, p.390) argue that education is the main ingredient of human capital. Afzal et al (2012 p.23) argue that there is a direct linkage between economic growth and subsequent reduction in income inequality and investment in school education in Pakistan. Ali and Jabeen (2015 p.581) examined the data based on real GDP and inflation and enrolment of students at the primary, secondary and tertiary level between 1973 to 2013 and demonstrated that improvement in enrolment in education had a direct impact on GDP, inflation, life expectancy as economic indicators registered substantial and consistent upward trend.

Social Welfare Programs in Pakistan

Secondly, social transfers, which include social insurance programmes and social assistance benefits, can help in the redistribution of income. Social safety nets and social protection measures help the vulnerable cope with economic and social risks. In Pakistan, social security is mostly informal where the poor depend upon family members for mitigation of the impact of economic shocks.

Source: BISP.gov.pk

Source: Akhuwat.org.pk

However, along with informal structure, the Government of Pakistan runs many formal social security programmes though their coverage is very limited. Direct interventions initiated by the government include Benazir Income Support Programme (BISP), Zakat, Pakistan Bait- ul- Mal, microfinance initiatives like Akhuwat Foundation, Punjab Sasti Roti Scheme. Though disbursement through all aforementioned programmes increased substantially. However, 59% of funds were disbursed through BISP. Disbursement in all programmes made in the year 2009/2010 was 39% higher than last year. However, the allocation for social security and social safety nets in Pakistan is much lower in comparison to other South Asian nations. Zahid and Whiteford (2017, p.25) argue that a BISP beneficiary receives the amount in the form of unconditional cash transfer which equals 48 US cents/day which is, by any measure, a meagre amount to create any difference in recipients' health and educational outcomes. It mainly helps them smoothen their consumption. Furthermore, the poverty scorecard survey shows that majority of the children of the BISP beneficiaries are out of school. So, social protection may be more effective if along with direct transfers the children of the targeted poor families be enrolled in schools which may help them develop skills. Skill development is a sure way of getting out of the trap of poverty and redressing income inequality. (Anwar 2014, pp.369-370).

Social Welfare Programs in India

Similarly, the Indian Government has initiated social policy initiatives like The National Rural Employment Guarantee Scheme (NREGS) to mitigate the effects of ever-increasing inequality. India has registered impressive economic performance in the last few decades and substantially reduced poverty but on the other hand, income inequality has shown a steady rising trend like other emerging economies including China and South Africa. Asian Development Bank (2015, p.1) report points out that, 'if emerging Asia's income distribution had not worsened over the past 20 years, the region growth would have lifted extra 240 million people out of poverty. According to OEDC (2012) report on India, 25.5% of the urban population and 42% of the rural population lived below the poverty line in 2004-2005. But the poverty level shifted to 20.9% and 33.8% in just five years span i.e. 2009-2010. The government of India recognised in the 12th Five years Plan that to manage ever-increasing inequality a holistic strategy is needed. The comprehensive strategy includes policy guidelines to improve health, education, and nutrition. Five Years Plan focuses on the reformation of labour market to improve redistribution of income to redress income inequality. It also recognises the increase in the tax-free threshold to boost up redistribution effects. OECD report (2012) highlights that spending in the social sector can help reduce inequality. But it requires replacing inefficient subsidies with direct support to the mean tested poor households which can improve equity. For example, The National Rural Employment Guarantee Scheme (NREGS) is a flagship project of India to combat poverty and redress income inequality. The NREGS was established in 2005 through an act of Parliament. The enactment guarantees 100 days or more of employment in one year to one member of the rural household at wages that are decided by the Central Government. NREGS combines livelihood protection and rural development and it

Source: developmentnews,org

covers the development of infrastructure by engaging most needy local households in development activities such as the construction of rural roads flood protection structures. NREGS was initially launched in the 200 poorest districts. However, its operations have been expanded to the whole of India in 2008. During its first year of operation, the NREGS was expected to generate 2 billion days of employment. However, Jha and Ghea (2013 p.1) argue that though the project took off well and helped reduce income inequality and poverty in the rural areas but owing to structural issues it did not perform as per expectations. According to (OECD 2012) report, NREGS failed to have the desired impact on rural poverty and income inequality as it offered much lower wages to its employees in comparison to the national wage in India which itself is much lower in comparison to wages offered in the Emerging Economies.

Conclusion

Social policies play an effective role but reversing the trend of rising income inequality requires a comprehensive strategy. As stated above income and non-income inequalities feed each other. Hence, the incidence of poverty and inequality can successfully be reduced through several channels. Rhee et al (2014 p.79) argue that income inequality can be redressed by investing in human capital. As globalisation, liberalisation of economies, and technological advancement have provided enormous opportunities and increases in return to human capital and skill premium. Individuals with better education and skills take advantage of opportunities unleashed by market forces. The social policies that focus on health, education, skill development can have a better impact on the reduction of income inequality. Second, the poor have very limited access to finance as most of them don’t have the right connections and collateral to secure funds. Social policy initiatives that allow access to credit to the poorest of the poor can help reduce income inequality and poverty (Anwar 2014, p.370). Third, ill-planned and untargeted subsidies prove to be a waste of taxpayers’ money. Untargeted subsidies work against the people for whom these are planned. These subsidies pressurise the government to borrow more which results in an increase in inflation which hits badly the most vulnerable in the society. OECD report (2012) observes that instead of untargeted subsidies mean tested direct transfers have better results. Hence, social policies need to be focused and targeted. Social policies targeting income inequality can be more effective the wages are improved. Anwar (2014, P.370) argues that minimum wages announced by Pakistan and India are not at par with the rate of inflation.

Concluding it can be said that the issue of Inequality needs urgent attention as rising income inequality can curb long-term growth by leading to a waste of human capital. Extreme inequality may cause political instability and loss of social cohesion. Furthermore, inequality may undermine the quality of governance increasing pressure on political governments for the adoption of inefficient populist policies. Given the foregoing discussion, it can be remarked that income inequality and its attending after-effects can be redressed by adopting a holistic approach which may include economic measures like progressive taxation and targeted social policy measures for addressing root causes of inequality. A piecemeal approach rarely bears desires outcomes.

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