Can social policies be an effective means of reducing inequalities?

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Introduction

Income inequality has long been regarded as an unintended effect of development which is mainly caused by failure of the government and market system in distributing the development's benefits equally among people (Le Grand 1991, pp. 427-428). Examining the government's side, Sen (1999) argues that inequality reflects the inability of government's redistribution function along with the breakdown of the social welfare function (pp. 360-362). From the market side, Weeden and Grusky (2014) argue that inequality is mainly derived by the presence of institutional barriers that obstruct capital or labour to flow freely (p. 473). Since income inequality is mainly caused by the difference in ability and opportunity among people to capture income as a benefit of the development, therefore policies in addressing inequality should be focused on redistributing income. Social policy and its characters of redistribution, regulatory and rights (Deacon 2007, p. 4) could be one of policy options for income redistribution purposes. Against this background, this essay will examine the opportunity of social policies to become effective means of reducing inequalities. By analyzing different targeted cash transfer programs implemented by Brazil and Malawi based on relevant literature, this paper argues that social policies are an effective means to reduce inequality.

Literature review: social policies as income redistribution instruments

Social policies could become the effective redistributive instruments in addressing income inequality. According to Deacon (2007), social policy provides an alternative redistribution mechanism in which the government could possibly distribute the outcome of economic activity more evenly to the people (p. 4). Another instrument to redistribute income is taxes, however, according to Prasad (2008) heavy reliance on taxes in redistributing income will drive to high taxes that could potentially discourage and distort economic activity as well as burdening the poor through indirect taxes (p. 6). In addition, evidence from developed countries shows that countries which focus on social policies rather than taxes policy in distributing income have managed to achieve lower inequality (ibid, p. 13).

On the other hand, focusing policies only on economic growth cannot ensure that the growth's benefits are distributed equally. The role of economic growth is important to generate additional resources that enable countries to develop and improve their citizen's wellbeing and prosperity. However, to be effective in addressing inequality, economic growth must be inclusive, which means creating an opportunity for people to contribute to economic activities and to access the benefits of growth (OECD 2014, p. 3; World Bank 2005, pp. 1-2). According to Haan (2013), to be inclusive, economic growth requires an incorporated social policy to ascertain that wealth as a result of growth is equitably accessed by people (p. 15). Likewise, social policies are required for social development purposes. Since the main goal of social development is to empower people by transforming formal and informal institutions that influence the quality of economic growth, public service delivery and human development (World Bank 2005, pp. 1-2), social policies could play role in promoting strategy of people empowerment through its ability to bring in the poor and the low income in the development process. Therefore, to be able effectively reducing inequality, both economic growth and social development strategies necessitate social policies as the main complementary factor.

Analysis: Analysing Brazil's Conditional Cash Transfers (CCTs) and Malawi's Unconditional Cash Transfers (UCTs)

This section will discuss the strengths and weaknesses as well as benefits and costs of social policies implemented by Brazil and Malawi in reducing inequalities. The main reason of selecting these countries are because firstly, both Brazil and Malawi have experienced a decline in inequality significantly over the last two decades, shown by a decrease in the Gini index by 7.4 and 6.4 percentage points respectively (Tsounta & Osueke 2014, p. 9). Secondly, while contemporary social protection is highlighted by growing and successful CCTs as many countries, including Brazil, have done (Fiszbein & Schady 2009, pp. 3-5), Malawi consistently implements UCTs as its main social policy since 2006 (Miller et al. 2010, p. 110). Therefore, it is important to comprehend the factors which affect and are affected these different cash transfer programs in decreasing inequality.

For poverty reduction purposes, targeted cash transfer is an appropriate strategy in combating chronic poverty. Since the chronically poor experience accumulative deprivation of basic capabilities that leads to difficulties in escaping themselves from this condition, providing basic needs or cash to access basic needs for them is appropriate (Hulme & Shepherd 2003, p. 407; Hulme et al. 2001 pp. 6-7). The main advantage of cash transfer programs, according to Hailu and Soares (2008), is their ability to alleviate poverty in the short term because additional income is given directly to the poor (p. 3). Both Brazil and Malawi suffered a chronic poverty problem prior to the implementation of the cash transfer program. For example, Ribas and Machado (2007) report that in 2003 when the *Bolsa Familia* (BP) was introduced, about 73 percent of relative poverty in Brazil was chronic (p. 18). While in Malawi, when the Social Cash Transfer Programme (SCTP) was firstly introduced in 2009, Miller et al. (2010) report that most of poor households were in chronic poverty (p. 110). Even though current data of chronic poverty for both countries is unavailable, the decreasing trend in poverty headcount ratio in both countries could be evidence of the contribution of the targeted cash transfer program in poverty reduction. In Brazil, poverty headcount ratio decreased from 17.3 percent in 2006 to 7.4 percent in 2014 (World Bank 2016), while in Malawi, the UNDP (2016) reports that poverty headcount is in a declining trend from 50 percent in 2005 to 39 percent in 2010.

In regards to income inequality, the main strength of CCTs is the ability to direct the beneficiaries to use the additional income for productive purposes such as education and health, therefore CCTs raise an opportunity to decrease income inequality sustainably. According to the UNDP (2013), as redistributive instrument, CCTs contribute in decreasing inequality through two steps, first, CCTs provide targeted households with a minimum of income needed for investing in human capital, and second, in the longer term, more healthy and educated people are expected to gain capabilities to be involved in income-generation activities (p. 239). In the case of Brazil, *Bolsa Familia* targets the poor and very poor households as beneficiaries in which their per-capita income below US$73 and US$36 respectively (Hall 2008, pp. 805-806). This program provides monthly monetary incentive up to US$104 per family which is conditional upon educational and health activities such as regular school presence and number of visits to health services (ibid). The conditionality of the program on educational and health activities clearly shows that Brazil has a strong commitment in human capital investment that could be an essential factor in boosting targeted citizen's income.

However, since CCTs are mainly intended to enhance targeted beneficiaries from the demand side on specific outcomes such as health and education, CCTs require complementary policies and additional spending on the supply side. To be successful, according to the IMF (2014), the CCTs entail the government to invest on the supply side, for example by improving educational system and facilities (p. 32), therefore the costs in implementing CCTs will be higher since the government has to manage both demand and supply side. In addition, CCTs require high administrative capacity to ensure that the beneficiaries comply upon conditionality, and could potentially result in additional cost for the government. In the case of *Bolsa Familia*, one of its success factors is the strong administrative capacity in which the government created a centralized administrative structure at the initial stage of the program by establishing the Ministry of Social Development and Fight against Hunger to facilitate integration and co-ordination (Hall 2008, p. 805).

On the other hand, providing cash transfers unconditionally could broaden the spending options for beneficiaries and could potentially decrease inequality since it creates a direct connection between income redistribution and basic human needs. According to the UNRISD (2010), the conditionality of cash transfers sometimes do not necessarily result in expected outcomes, therefore unconditional and categorical cash transfers could potentially enhance people capabilities to chase a better and sustainable livelihood (p. 17). In addition, Lustig et al. (2014) argue that the redistributive character of targeted cash transfer program is progressive towards inequality, no matter if it is conditional or unconditional (pp. 287-288). Even though UCTs are mainly intended to enhance and smooth consumption of basic needs especially food (Slater 2011, p. 251) there is some evidence from Africa's countries that beneficiaries of UCTs utilize additional income for educational and health purposes indicated by an increase in child schooling and health outcomes (Edmonds 2006, p. 412; Case et al. 2005, p. 480).

Furthermore, compared to CCTs, the UCTs need less administrative costs since they do not require any condition that need to be monitored. Even though strong administrative capacity is still needed for managing data of beneficiaries, UCTs could involve community in better targeting the beneficiaries and increasing productivity of money utilization. In the case of Malawi, the SCTP provides monthly monetary support up to US$12.85 to about 300,000 ultra-poor households (Miller et al., 2010, pp. 110-111). In implementing the program, the Ministry of Gender, Children and Social as program administrator involves voluntary committees namely the Community Social Support Committees which comprises of literate community members elected by the community to (1) conduct targeting activities through community meeting, and (2) guide beneficiaries to better use of the cash transfer (IPC-IG 2015, p. 1). Accordingly, responsibilities given to the community by the administrator could increase effectiveness of the program since it will gain a strong ownership and legitimacy. According to Vigoda (2002), it is important to bring in communities into the implementation of a public program by sharing the responsibilities because as they become a part of responsible parties, their sense of ownership will be stronger and their commitment in attaining public goals will be higher (p. 529).

Even though there is some evidence that shows that UCT beneficiaries also spend the cash transfers in productive manner, possibility of misuse of the cash for non-basic needs items, such as cigarettes and alcohol, is higher for UCTs than CCTs, since UCTs do not create any restriction for beneficiaries to spend their money. Evan and Popova (2014) argue that UCTs have to be accompanied by a strong message to encourage beneficiaries to spend the cash on basic needs, to invest in children education or to increase health outcomes (p. 4). The SCTP's administrator in Malawi has anticipated this weakness of UCTs by involving the Community Social Support Committees (CSSC) to promote better spending to beneficiaries. Accordingly, IPC-IG (2015) reveals that the CSSC is the determinant factor to the success of SCTP and suggests for Malawi's government to strengthen these committees by material and technical support (p. 1).

Since both CCTs and UCTs implemented by Brazil and Malawi are targeted programs, the process in determining the targeted beneficiaries could be the most crucial steps in program implementation. Inaccurate targets could potentially hamper the goals of the program and lead the program to be ineffective and inefficient. According to Slater (2011), better targeting increases the effectiveness and efficiency of the program because it limits the use of government money only to the intended groups and avoids misallocation to the unintended beneficiaries (p. 253). For instance, criteria of ultra-poor households as targeted beneficiaries of the Malawi's SCTP are (1) households which are unable to meet the most basic urgent needs such as food and clothing, and (2) labour constrained households due to the age, disability of chronic illness of household members (Miller et al., 2010, pp. 110-111). Likewise, targeted beneficiaries of the Brazil's *Bolsa Familia* is defined by establishing the maximum per-capita income of the poor and very poor by US$73 and US$36 respectively (Hall 2008, pp. 805-806). Once the criteria of targeted beneficiaries has been established, it is essential for program administrator to ensure and monitor regularly that condition of targeted beneficiaries are within the criteria.

Conclusion

In conclusion, social policies could become the effective strategy in addressing inequality since they are able to promote better income redistribution mechanism rather than taxes policy. Redistributive character of social policies could be an essential complement to economic growth strategy to be inclusive, and support development strategy to better empowering people. Among other social policies, targeted cash transfers could be the strongest instrument in combating poverty and income inequality since they target the lowest income people in the society as beneficiaries of redistributed income. Even though both of the unconditional and conditional cash transfer programs are progressive towards inequality, the nature of a conditional cash transfer that requires conditionality upon human development aspects leads to an opportunity to decrease inequality in sustainable manner. A well-targeted cash transfer program, both unconditional and conditional, presupposes a strong administrative capacity to ensure that the data of targeted beneficiaries is accurate and updated regularly, therefore it requires the government to establish and develop a strong institutional capacity to manage the program. Involving communities in implementing unconditional cash transfers could potentially strengthen the program by increasing targeting quality and promoting better spending.

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