



# Opportunities First

A New Lens to Shape Priorities for Action  
in Middle-Income Countries





## About CDE

The Centre for Development and Enterprise (CDE), an independent policy research and advocacy organisation, is South Africa's leading development think tank. Since its establishment in 1995, CDE has been consulting widely, gathering evidence and generating innovative policy recommendations on issues critical to economic growth and democratic consolidation in middle-income democracies. CDE has a special focus on the role of business and markets in development.

Drawing on a growing network of international think tank collaborators, CDE disseminates its research and proposals to national and international audiences of policy-makers, opinion formers and the wider public through printed and digital publications, which receive wide media coverage. Our track record of successful engagement enables CDE to bring together experts and stakeholders to debate the policy implications of research findings.

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This report is based on a major project and long document which was written by Stefan Schirmer, Antony Altbeker and Ann Bernstein. Research assistance was provided by Sibongile Nkomana and Marius Roodt, and editing by Alexander Johnston and Jennifer Cohen.

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**Cover:** Escalators out of poverty: in Comuna 13, a poor area in Medellin, Colombia, a giant 384-meter orange-roofed escalator, installed in 2011, scales the mountain in six sections. A journey that was previously all but impossible now takes just six minutes and makes it easier for residents to access economic opportunities located across the city.

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## A New Lens to Shape Priorities for Action in Middle-Income Countries

*This report advocates a fundamental change in approach to entrenched poverty in middle-income developing countries by emphasising the 'O' rather than the 'E' of an equal opportunity ideal. Aspirations to social mobility and justice are more effectively addressed by multiplying poor people's access to income generating activities that can provide routes out of poverty and into the middle class. The best way of implementing an opportunities-first approach is to move cities and jobs centre stage in the global and national discourse of how to combat large-scale poverty in the 21st century. Within this framework the focus should be on young people and women in policies and programmes that build on job-rich economic growth strategies and increasingly formal jobs. Promoting well-managed and effective urbanisation will create cities of hope that offer opportunity escalators towards increased social mobility and steadily growing prosperity. An opportunity-first approach cannot afford to ignore the challenges thrown up by politics and history, which arise in demands for redress and redistribution across many middle-income developing countries. The key to this is for effective states coupled with competitive markets to expand new opportunities for the poor, rather than redistribute a finite number of existing ones.*

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## INTRODUCTION

When the history of the late twentieth and early twenty-first centuries is written, its most striking feature will be the remarkable fact that this period witnessed the fastest decline in poverty ever for the largest number of people. For most of history, human labour in most of what we now call the developing world generated no more than a few dollars of value a day. Now, rapid integration into the modern and international economy has resulted in quantum leaps in the value of the output of human labour.

This step change in economic development has benefited broad swathes of humanity. Many of the world's newly integrated workers are employed in firms that assemble electronic equipment, make shoes, assemble toys or stitch footballs. They earn wages that would be considered exceptionally low in many of the countries where these consumer goods are sold. However, in developing countries, these wages are higher than the incomes most such workers could realistically expect to earn by working the agricultural lands they left behind or from scratching a living from survivalist activities in urban slums. As the number of waged workers has risen in cities around the globe, so too have the incomes of the tens of millions of people who earn their living catering to their needs. Shopkeepers, taxi drivers, barbers, teachers: all have seen dramatic rises in income as the economies of these previously poor countries have expanded and been transformed.

In many ways, this is a familiar story that has been told elsewhere. However, some aspects of this enormous reconfiguration of the global economy have been appreciated less than others. Fundamentally, this is a story of the dramatic expansion of the opportunities of people who previously had very few.

Today there is an urgent need in middle-income countries to build on these successes. Far too many people in these countries remain trapped in or are just barely out of poverty, vulnerable to slipping down again. At the same time, legacies of discrimination and uneven development between groups and regions lead to demands for redistributive policies to address social inequities. All too frequently, though, attempts by government to assist the poor, especially those who have suffered from discrimination, have only a limited impact. Their effect tends to be palliative at best, instead of transforming people's chances of escaping from poverty. Indeed, they may even undermine the expansion of new economic opportunities at a time when the global slowdown has made economic growth a more challenging prospect.

How should we think about these challenges? CDE's work focuses mainly on insights derived from three democracies in the developing world: India, Brazil and South Africa. These are three important middle-income countries at the heart of the economies of South Asia, Latin America and Africa. In 2015 CDE concluded a

*“The fundamental goal of our approach is to put as many poor families as possible on a path leading out of poverty.”*

*“Middle-income countries must place cities and jobs at the heart of their anti-poverty agenda.”*

multi-year project that assessed the potential of these three countries to expand their economies while also strengthening democratic rights and freedoms.<sup>1</sup> In that project we concluded that all three countries needed to rethink how they addressed mass inclusion and poverty.

Building on this earlier project and on the basis of a series of specially commissioned papers from some of the world’s leading development economists (*see appendix*), and engagements with experts in many fields across the globe, CDE has developed a new lens that brings into focus a set of critical priorities for middle-income democracies.

The fundamental goal of our approach is to put as many poor families as possible on a path leading out of poverty and into the middle class. This means that we do not prioritise policies whose principal effect is to help poor people cope with poverty a little better - though these may sometimes be necessary. Rather than ameliorating poverty, we advocate policies that would permanently change the circumstances of millions of poor families for the better. We therefore argue that for the next few decades, middle-income countries must place cities and jobs at the heart of their anti-poverty agenda, and they must ensure that they expand their economies as fast as is possible. Some redistribution of income is necessary in most developing countries, but redistributive policies must not be the dominant response to poverty: they should be effective and affordable but without undermining the key focus on growing the economy and expanding opportunities for the poor.

## SECTION ONE: POVERTY

### Prioritising inequality in middle-income countries: a puzzling choice

In 2010, the Millennium Development Goal of halving poverty rates by 2015 was achieved five years earlier than expected: in 1990, some 1.9 billion people (or 43% of the world’s population) had incomes of less than \$1 a day; by 2010, there were 1.2 billion people (or 21% of humanity) living below a slightly higher poverty line of \$1.25 a day.<sup>2</sup> The main cause of this astonishing and unprecedentedly rapid improvement in human welfare was economic growth. The economies of the three regions of the world that are home to the vast majority of the world’s poor had all grown rapidly: at eight per cent per year in East Asia, seven per cent in South Asia, and five per cent in Africa. This era of global economic growth saw the first fall in global inequality of household income since the early 19th century.<sup>3</sup>

Notwithstanding this startling reduction in global poverty and the fall of inequality (measured in global terms) that accompanied it, more and more attention is being devoted to issues of inequality by policy-makers and opinion leaders across the world.<sup>4</sup> One reason for this is that inequality has risen in many developed world societies, and developed world concerns continue to play a disproportionate role in shaping the way political and economic issues are framed in all countries. It seems strange that rising inequality in North America and Europe should be a

more significant determinant of global debates about how to tackle poverty in the developing world than the fact that in China, the proportion of people living in poverty fell from about nine in ten in the 1970s to one in ten in the 2010s.<sup>5</sup> That income inequality may have risen in China seems considerably less relevant than the fact that hundreds of millions of people there are now living vastly more prosperous lives.

**Poverty remains unacceptably high**

Despite these significant achievements, poverty in middle-income countries remains unacceptably high.<sup>6</sup> We focused on a set of emerging democratic countries across the developing world: those that had per capita GDP of between \$6,000 and \$20,000 (measured in purchasing power parity adjusted dollars: PPP\$), a population of more than 10 million, and a democracy ranking higher than 6 (which qualifies them as either flawed or full democracies).<sup>7</sup> This gave us a group of ten countries, including India, which is at the bottom of our income range, and Mexico, which is at the top. Collectively these countries are home to nearly 900 million poor people, or 44.2% of the world’s people living on less than \$3.10 per day.<sup>8</sup> High poverty rates prevail in India (67.9%), in Indonesia (54.5%), the Philippines (36.5%), and in South Africa (33.3%). Even in countries such as Mexico and Brazil, where poverty rates have fallen to around 10% of the population, this means that more than 33 million people in those two countries remain in poverty. Many more are only just above the poverty line and are vulnerable to falling back as many are starting to do in Brazil as its combined political and economic crises unfold.

*“Developed world concerns continue to play a disproportionate role in shaping the way political and economic issues are framed in all countries.”*

List of Major Middle-income Democracies<sup>9</sup>

COUNTRY	PER CAPITA INCOME (PPP\$)	POPULATION (million)	% OF POPULATION IN POVERTY (\$1.90 pd / \$3.10 pd)	DEMOCRACY
Mexico	17,277	129	3.8% / 11.9%	6.55
Brazil	15,359	210	4.6% / 9.3%	6.96
Colombia	13,801	49	7.1% / 16.2%	6.62
South Africa	13,165	55	15.1% / 33.3%	7.56
Peru	12,402	32	4.1% / 10.8%	6.58
Sri Lanka	11,739	21	2.4% / 16.8%	6.42
Tunisia	11,397	11	3.1% / 13.3%	6.72
Indonesia	11,035	261	21.3% / 54.5%	7.03
Philippines	6,969	102	12% / 36.5%	6.84
India	6,020	1,327	31.4% / 67.9%	7.74

CDE 2016 based on World Bank and Democracy Monitor tables

## Many policies ameliorate poverty without changing people's prospects

By pointing to the limitations of many of the dominant policy approaches in India, Brazil and South Africa we are not suggesting that policies should neglect the very poor whose poverty means they are unable to afford basic health and education services, or able to take advantage of what opportunities do exist. Governments should act to address the provision of direct assistance to very poor people both because this is necessary and because it can help expand their opportunities. However, these types of policies should never constitute the only or even the principal approach to reducing poverty. Nor should we exaggerate their actual impact. Consider, in this regard, Brazil's *Bolsa Familia*.

*Bolsa Familia* is a successful programme which has nevertheless had only a limited impact on improving the chances that beneficiaries will escape from poverty and move into the middle class. Every Brazilian family that has at least one child and earns less than about \$45 per month is eligible to collect the benefit. In 2013, approximately 13 million families benefitted from the programme, corresponding to about 52 million people (28% of the population). In spite of its large size, the programme costs only about 0.5% of the country's GDP because the value of the grants is small.<sup>10</sup> For the same reason, *Bolsa Familia* only reduces the proportion of the population that is poor by just over 1.5 percentage points. The programme's impact on education, health care and other human capital improvements has been small or non-existent.<sup>11</sup> A review of the programme by Soares concludes that it is 'really not an opportunity-generation programme'.<sup>12</sup> Ultimately, *Bolsa Familia* is not sufficient to help poor Brazilians to become more employable, more entrepreneurial or more productive. These are all outcomes that more effective anti-poverty interventions should seek to achieve, on a large scale

***“Corrupt officials siphon off resources designed to fight poverty at an alarming rate.”***

Another good example of a programme that at best only serves to make poverty a little more bearable is India's public distribution system (PDS). This programme distributes rice and wheat through fair-price shops at subsidized rates for families officially classified as being below the poverty line. These families are issued ration cards with which they can make purchases through the PDS. If a family's total income goes even marginally above the baseline that determines poverty, it cannot legitimately get a ration card and cannot access the PDS.<sup>13</sup> Apart from the dependency that this feeding scheme encourages, it is also an ideal breeding ground for corruption. Food that is supposed to help the poor is channelled to members of the middle class and corrupt officials siphon off resources designed to fight poverty at an alarming rate.<sup>14</sup>

India's Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) has produced another programme that promises much but delivers little to change the prospects of the rural poor. It is supposed to guarantee 100 days of low-wage work a year to anybody in rural India who needs it. Despite being cast as a game changer its total funds have not exceeded 0.3% of GDP. In addition, it has been marked largely by its non-performance in states where it was supposed to

make the most difference.<sup>15</sup> The bottom line is that MNREGA's impact on reducing poverty has, in fact, been minimal.<sup>16</sup> There are no plans to use the scheme to improve infrastructure in poor areas, add to the skills of beneficiaries, or provide people with opportunities to move out of poverty.

### What kind of help do poor people need?

Redistributive policies can reduce poverty, but it is not always clear that they do so in ways that empower and include their beneficiaries. Indeed, many participants in discussions about development seem to assume the helplessness of the poor, and to believe that poor people can achieve little without assistance. They are wrong. As research across the developing world has shown, poverty is a condition, not a characteristic. People who live in poverty are as hard working and enterprising as the non-poor. Given the opportunity to succeed, most will. This is why policies that seek to expand the set of available routes out of poverty is the approach most likely to facilitate rapid improvement in poor people's prospects. This is the most plausible way for developing countries to become both more prosperous and more just.

Failing to recognise this, and seeing the poor as the objects of policies, the generosity of which becomes the substance of policy debate, can violate the essential assumption of democracies, which is that all people have shared and equal rights and dignity. Indian sociologist Dipankar Gupta, for example, criticises the complacency that lulls policy makers into being satisfied 'if those on the other side are a little less sick and a little less starved. That such people remain dependent on hand-outs and subsidies and hence never truly become citizens does not darken the mood of those who plan for the poor'.<sup>18</sup>

CDE 2016

*“The Indian experience suggests that providing poor people with public employment opportunities does very little to improve their welfare.”*

The Indian experience suggests that providing poor people with nominal public employment opportunities on a 'right to work' basis does very little to improve their welfare and even less to transform poor people's access to new prospects through which they could pull themselves out of poverty. Similar limitations beset the Expanded Public Works Programme (EPWP) in South Africa. The programme aims to create 6 million 'employment opportunities', but it does little to get anyone out of poverty: the 'opportunities' are temporary, provide little if any training and offer no prospect of promotion.

In South Africa, more generally, the governing party has directed ever-larger shares of the budget to redistributive programmes. Today the country has one of the developing world's most redistributive states with about a third of the population receiving grants in addition to free basic services, a number of other grant programmes and with most public schools requiring no fees. The state has also used its regulatory power to seek to alter the racial profile of employment, business development and the ownership of assets. Tragically, this has done far too little either to expand the quantity of opportunities available to most South Africans or to change the shape of the distribution of opportunities inherited from

Apartheid. That the policies were accompanied by highly exaggerated promises has helped fuel growing social unrest and ever more strident calls for more radical redistribution measures that will not result in greater opportunity for the vast mass of the country's poor.

## SECTION TWO: EXPANDING OPPORTUNITIES

### Thinking seriously about economic opportunity

Perhaps the most common use of the notion of 'economic opportunity' is in discussion about the extent to which a society offers its members equal opportunities or, conversely, fails to do so.

Historically, most societies have failed to offer all their members equal opportunities to live prosperous lives. Indeed, it is only comparatively recently in human history that this has even been deemed desirable, with large groups of people (slaves, black people, members of lower castes, women, members of religious minorities) in most historical societies having been thought to be undeserving of equal rights, dignity and opportunity.

*“A society that rewarded everyone equally would find it difficult to offer incentives for people to acquire skills, work hard, or take risks.”*

The fact that it is now more or less universally accepted that all people should have equal opportunities, and that any deviation from this is seen as morally and politically unjustifiable reflects deep and irreversible changes in human society. It does not mean, however, that each person's set of opportunities is, in fact, equal. Deep inequalities remain in all societies, though some are much more unequal than others. Seeking to eliminate these remains a continuing challenge, and efforts to do this are premised on the conviction that 'neither birth, nationality, colour, religion, sex nor any other equivalent characteristic should determine the opportunities that are open to a person – only talent and achievement'.<sup>19</sup>

At the same time, the promotion of the ideal of equality of opportunity is often also a response to a sweeping redistributionist vision. This is an approach to economic and social policy that envisages radical change premised on a more far-reaching idea of equality in which what is prized is not just equal opportunities, but complete equality (or, as it is sometimes expressed, equality of outcomes). This is an approach to social and economic issues that takes for granted the proposition that any form of inequality, in income or wealth, is illegitimate and undesirable. From this point of view, there may be many sources of inequality, but none is morally justifiable and all must be eliminated.

A number of criticisms can be made of this approach. Some argue that it would be unjust for a society to reward everyone equally, irrespective of their differing abilities and skills, how hard they worked, or how much risk they took. Others make the less philosophical, more pragmatic case that a society that rewarded everyone equally would find it difficult to offer incentives for people to acquire skills, work hard, or take risks. As a result, such a society would be less prosperous and its economy less dynamic, leaving everyone worse off. Others point out that

such an approach would require violence to implement and that this would need to be done at regular intervals to prevent any form of inequality re-appearing.

Whatever its deficiencies as an approach to economic and social policy, the call for greater equality of outcomes is often politically attractive for certain politicians and for people whose income falls below the national average (a constituency whose members are always a majority) or who have a sense of grievance about how society is structured. For this reason, the emphasis on equalising opportunities – as opposed to outcomes – has often been used, not just for the advocacy of a programme for eliminating arbitrary restrictions on people’s economic lives, but as a political and philosophical response to the call for more equal outcomes.

There is a difficulty with this, however. If one takes the ideas of equality of opportunity to its logical conclusion, and seeks to design a policy programme on that basis for countries that deviate from the ideal, the resulting policies becomes implausible and unachievable. This is the reason American economist, professor Tyler Cowen, in a report commissioned for this project, argues that ‘upon inspection, equality of opportunity has many of the same problems as equality of outcomes’.<sup>20</sup> Indeed, this was recognised in the 1970s by John Rawls, a key advocate for a social democratic approach to social justice, who saw that achieving equality of opportunity would likely be even more difficult than achieving equality of outcomes.<sup>21</sup>

The essential cause for this pessimism about the practicality of the goal of equal opportunity is the enormous number of reasons some people’s opportunities might be inhibited relative to others’, coupled with the recognition that addressing these inhibiting factors would take at least as much intervention by government as would ensuring equal outcomes.

Unequal access to quality education is an obvious source of unequal opportunities, for example, and it is one that should be addressed. In practice, though, no society on earth has ever achieved equal access to equally good education. And education is only one case. Unequal access to housing, healthcare and sanitation could also be said to create unequal opportunities (because some will be exposed to greater health risks than others), but, again, it is hard to envisage how these inequalities could be addressed in an absolute way. A case could also be made that the unequal inheritance of wealth by children affects the distribution of opportunities. And, if that is true, it may also be true that the unequal intergenerational transmission of social and human capital to children (because some parents have had better education than others, or because they have better jobs, or because they are members of more extensive networks, etc.) may be another important source of inequality of opportunity. And this is not to mention different genetic inheritances between individuals – you have a talent for athletics and I do not.

It is apparent even from this brief list of factors leading to unequal opportunities that achieving the goal of equality of opportunity would require such deep and impractical changes to social institutions and cultural norms that it is simply impossible. Nor is there any way that it could be achieved, even if policy-makers were completely committed to all the interventions that would be needed.

***“Unequal access to quality education is an obvious source of unequal opportunities.”***

Indeed, if a society sought to address all of the potential sources of inequality of opportunity, it would quickly be paralysed.

If equal outcomes and equal opportunities are both politically and morally powerful ways of conceiving social justice, but if both are equally impractical and unachievable, what is left?

We would argue that the appropriate goal to which societies should commit themselves, and to which policy-makers should apply their energies, is the *maximum possible expansion of opportunities for the poor*. It is for this reason that we concur with Professor Cowen when he argues that, 'it is not clear why equality of opportunity should be the priority, rather than raising opportunity by some absolute amount as much as possible'.<sup>22</sup>

### Expanding opportunities for the poor

As a national goal, the expansion of opportunities for the poor avoids many of the problems of the alternative approaches – pursuing equality of either outcomes or opportunity – and focuses, instead, on how quickly the incomes and quality of life of people in poor households can be encouraged to rise. While it may be inappropriate to treat opportunity as synonymous with prosperity, or to equate the expansion of opportunity with the rise of household income, it seems clear that if the incomes of poor households are rising this must be because the set of economic opportunities open to them has expanded. And, as importantly, the reverse is also true: as incomes rise, the set of opportunities open to people – and to their children – will also expand.

There is, then, an important link between opportunities and incomes. Can we be more precise about what we mean when we talk about opportunities? Unfortunately, as is quickly apparent when one tries to do this, 'opportunity' turns out to be a slippery concept.

An opportunity may be something that exists and that is known to exist and which may be, for that reason, easily quantifiable. This is true, for example, of vacancies at local stores or open places at a technical college. But understanding opportunities in this way, and confining analysis to these kinds of opportunity, seems to miss the point about how economic opportunity actually works. Many opportunities – and probably the most important of them – may be much less visible, much harder to quantify, much less tangible, and much more contingent in nature than these examples would suggest.

A significant economic opportunity, for example, may be no more than a gap in the market. In this case, its existence cannot really be known in advance, and can only be revealed through its successful exploitation: someone has to act, whether in the hope or expectation of success, and, if they are successful, they will have revealed that an opportunity of the kind they envisaged actually existed. Success,

***“If a society sought to address all of the potential sources of inequality of opportunity, it would quickly be paralysed.”***

in other words, proves that an opportunity existed. However, the opposite does not hold: business failure does not have to mean that the opportunity did not exist, and may show that the person seeking to exploit what he believed to be a particular gap in the market was unable to do so for reasons that may be more or less confined to him and that someone else might have succeeded. And this is true more generally: it may be a universal rule that most economic opportunities are probabilistic in nature, in the sense that someone who tried to exploit them might or might not succeed, but whether they did so or not could not be known in advance. In this case, a society should aim both to increase the quantum of available opportunities and increase the chances of its members' identifying and exploiting them successfully.

Given these difficulties, it is not possible to exactly measure the equality or otherwise of the distribution of opportunities. Nor is it possible to rigorously assess the extent to which an opportunity space was expanding (and whether it was doing so faster for some people than for others). Nevertheless, some way of assessing progress and the impact of interventions undertaken to expand the opportunities that poor people can access must be put in place.

Since the measurement of progress is key to assessing how policy-makers' choices are affecting the lives of the poor, it should focus on outcomes. This could be done by defining poverty in a reasonable, context-specific way, and then measuring how many people exited the state of poverty in a given time period, and by how much. This is not ideal – prosperity, as we have said, should not be equated with opportunity – but, precisely because there is a link between the two, measuring how quickly the incomes of poor households are rising, would give us some sense of the extent to which the poor's set of opportunities was widening and deepening. It could also be helpful to combine this approach with surveys of poor households and those emerging out of poverty to see if they perceive new opportunities to have opened up for them, their families and their communities. Some kind of measure of change could be regularly and systematically, albeit qualitatively, explored.

*“It is irrelevant that governments or other actors intervened with a new approach with good intentions and ambitious wish lists. What counts are results.”*

## A new lens

To meet the challenges they face and to move beyond the limitations imposed by the politics of inequality, middle-income countries need a new policy lens. They need to focus on opportunities first, and become less concerned about inequality. They must adopt a new policy orientation centred on the expansion of opportunities that poor people can access. To be effective, such an approach needs to **prioritise outcomes** rather than intentions or inputs. It is irrelevant that governments or other actors intervened with a new approach with good intentions and ambitious wish lists. What counts are results. If the outcomes of such efforts end up by only ameliorating poverty or generating opportunities benefiting only

those who are already middle class, then a society is not serious about steadily eliminating widespread poverty.

Furthermore, the orientation of policy makers must be **incremental and pragmatic**. Any intervention to get people onto a path out of poverty has to be regarded as positive, but at the same time, there has to be a relentless focus on ensuring that the first step on that path is not the last, and that, instead, everyone has a chance to keep moving up the income ladder to eventually reach middle class status.

Interventions need to focus on, and have the ability to **go to scale**. Experimentation is good, as are pilot projects, but all interventions need to be assessed by a hard question. Can this approach work effectively and affordably for many millions in countries with limited resources and capacity? The goal needs to be the progressive attainment of an increasingly middle class society. Generally, this is achieved not through isolated projects – whatever their scale – but by the accumulation of millions of incremental changes across society and throughout the economy. Policy needs to facilitate this evolution, and projects will seldom achieve much on their own. Well-functioning economies, millions of firms and competitive markets are therefore extremely important in making this happen.

*“Governments have a vital role to play by ensuring that the conditions are in place for strong private sector led growth.”*

Too frequently, development agencies, governments, politicians and media who profess commitment to pro-poor policies are distrustful of the private sector. They see large companies and especially multi-nationals as operating against the interests of poor people, indeed the national interest. This negatively affects the prospects of opening opportunities for millions of people to get out of poverty. **The fact is that without growth there is no opportunity**. And without markets, entrepreneurs and privately owned firms, little growth or employment will take place. As the World Bank has noted: ‘The private sector is the key engine of job creation, accounting for 90% of jobs in the developing world.’<sup>23</sup>

**Governments have a vital role to play** by ensuring that the conditions are in place for strong private sector led growth and by alleviating the constraints that hinder firms from creating jobs. **Competitive markets and businesses, large, small, domestic and international, need to be at the heart of the development and anti-poverty narrative** if there is to be any chance of further successes in the battle against poverty. From a perspective that emphasises expanding opportunities it would be perverse to downplay the mechanism that provides the best path out of poverty. It would be equally nonsensical to design and advocate additional anti-poverty interventions that make it more difficult for the economy to generate opportunities for the poor.

Increased **economic freedom** and other basic freedoms and rights are positively correlated with higher economic growth and can empower poor people in multiple and sometimes unexpected ways, so that they can find paths out of deprivation. Development economist William Easterly has demonstrated time and again that ignoring the political nature of the state and accountability to citizens in domestic

politics often results in development initiatives making little impact on large-scale poverty and opening up few opportunities to get ahead.<sup>24</sup>

## SECTION THREE: POLICY PRIORITIES

### Inclusion is driven by employment

Too often, when policy-makers talk about inclusion, their ideas seem to be premised on the implicit assumption that the process of inclusion happens *after* a society produces the valuable goods and services that are the output of economic activities. For them, inclusive policies are those that redistribute the value created in the production process to those who did not participate in it. Often distributive programmes, while ameliorating poverty, do little to foster any form of deeper inclusion and opportunity-expansion.

A much better way of thinking about inclusion is to see it as being intrinsic to the productive process itself. Seen in this light, it is the process of expanding the quantity, range and value of economic activities that drives the inclusion of people, because this is the outcome of expanding employment. This is the approach that has been so successful in reducing poverty in the countries where poverty has fallen fastest and furthest. And it is for this reason that we think that countries seeking to expand the opportunities of the poor need, first and foremost, to ensure the fastest possible rate of economic growth. That means building the institutions and adopting the policies that are needed to ensure that firms, which are the vehicle for growth, can thrive. In these difficult times especially, getting as much growth out of the economy as possible has to be a top priority.

*“Competitive markets and businesses need to be at the heart of the development and anti-poverty narrative.”*

Jobs, as the World Bank and many others have argued, are the best route out of poverty. ‘People work their way out of poverty and hardship through better livelihoods. Economies grow as people get better at what they do as they move from farms to firms and as more productive jobs are created and less productive ones disappear. Societies flourish as jobs bring together people from different ethnic and social backgrounds and nurture a sense of opportunity. Jobs are thus transformational – they can transform what we earn, what we do and even who we are.’<sup>25</sup>

All people should ultimately have jobs in which they have an opportunity to earn the kinds of wages that would make them part of the middle class. In developing countries the crucial question is how to get there. The key is formal sector employment, even if this is initially largely in low-productivity, low-wage sectors,

to which the limited skills of the existing workforce are suited. Middle-income countries cannot afford to create jobs mainly or only for the workforce they wish they had. They have to create jobs for the workforce they actually have.

At the same time, it would be grossly unjust if low-wage factory jobs were to become the endpoint of development strategy. Fortunately, this need not be the case. Firstly, these jobs are not the endpoint in any sense. Factory workers can learn new skills and move up the ladder in the firm – from making T-shirts to supervising others making them, or graduating to making more complex garments. Secondly, these factory workers often save money and move out of low-skill factory jobs to do other things - establish small firms of their own servicing the needs of the next generation of factory workers. Thirdly, and most importantly, firms acquire new capabilities, access new markets and become more productive. As they do so, they move up the value chain, creating new opportunities for themselves and their workers. Policy-makers should focus on ensuring that nothing prevents the movement of firms up the value chain. This will require that the legal, logistical, and educational institutions required to facilitate this movement are built.

***“It is the process of expanding the quantity, range and value of economic activities that drives the inclusion of people.”***

Creating high-skill, high-wage opportunities does not help those who do not have the necessary skills. And imposing a mandatory range of minimum standards on employment conditions can deprive poor countries of the opportunity to use their cheaper labour as a comparative advantage. Such standards can incentivise employers to mechanise and even to avoid investing in the sectors that could create low-skill, low-wage job opportunities. As Trevor Manuel, the former Minister of Finance of South Africa, argued ‘the more adjectives you put in front of the word jobs, the fewer jobs you will get’.<sup>26</sup> The truth is that the alternative to low paying jobs isn’t high-paying jobs, it’s no jobs at all. Ernesto Zedillo, former president of Mexico, put it clearly, using the language compatible with our expanding opportunities perspective: As people move from agricultural and informal jobs to low-paying manufacturing jobs, they find that ‘these jobs are a step towards better opportunities. It is progress that matters the most when considering the standards of a given country’.<sup>27</sup>

In many countries, inflexible labour regulations make it difficult for the economy to generate a rapid expansion of formal sector jobs. Workers who are in the greatest need of finding a way into the formal job market will be edged out of the labour market into unemployment by excessive regulation or forced into the informal economy, where upward mobility is more difficult.<sup>28</sup> Permitting low, entry-level wages is an important way to generate new opportunities, which then lead to improvements and progress towards ending poverty. Or, as Nobel laureate, Paul Krugman, has written, ‘In a substantial number of industries, low wages allowed developing countries to break into world markets.... Wherever the new export industries have grown, there has been measurable improvement in ordinary people’s lives.’<sup>29</sup>

By ensuring that the available jobs are subject to basic health and safety standards and are not dead-end informal or 'make-work' public sector jobs, a more labour intensive approach to economic growth will immediately contribute to rising productivity and skill levels. Employed people learn on-the-job skills and earn the steady wages that will allow them to invest more substantially in their children's education.

Young people are normally worst affected when economies fail to generate a significant number of entry-level jobs in the formal sector. In Mexico, unemployment is exceptionally low at 3,7%. Nevertheless, Mexico has the third highest proportion of NEETs (young people between the ages of 14 and 30 who are neither in employment nor in education) among countries that are members of the Organisation for Economic Co-operation and Development. The proportion of NEETs in Mexico has, furthermore, remained stable for more than a decade (at around 25%), indicating that the economy has consistently failed to generate sufficient opportunities for this age group.<sup>30</sup> In South Africa, the majority of young people – as many as 63.1% by some definitions – are unable to find work.<sup>31</sup> In India, one million new entrants join the labour market every month and the overwhelming majority can only find work in the informal sector. In Indonesia, 20% of young men and 33% of young women are unemployed and studies have pointed to the difficulties that young school leavers experience when trying to find a job.<sup>32</sup>

The economic effects of the failure to create opportunities for young people is particularly damaging in middle-income countries. In many of these countries young people form the majority of the population. Out of the ten countries on our list, only Brazil, Sri Lanka and Tunisia have a population with a median age of just above 30 years old. The Philippines, South Africa and India have the youngest populations, with a median age of 23.5, 25.7 and 27 respectively.<sup>33</sup> Unless the young people in these countries find employment they will fail to contribute to growth and lead productive lives. As a result, the potential of a demographic dividend would be wasted, and young people could turn into a source of political instability.

Expanding women's access to formal employment, especially those who are trying to break into the market for the first time, is another strong reason to reduce barriers to employment. The most pervasive form of human rights violation across the world continues to be discrimination against women. Despite improvements, in many countries women face numerous barriers preventing them from entering the job market. According to the United Nations, globally, *women* could increase their income by up to 76% if barriers preventing their participation in the formal economy were removed.<sup>34</sup> For example, in 15 countries husbands have the legal right to prevent wives from accepting jobs.<sup>35</sup> In 2013, some 72% of adult men were employed, while the corresponding number for women was 47%. In environments

*“Permitting low, entry-level wages is an important way to generate new opportunities.”*

where growth and inclusion are vital to combat poverty and inequality, the last thing that governments should do is erect additional barriers that create disincentives for employers to hire inexperienced, first time job-seekers.

*“Middle income countries should focus on getting as much growth and private investment as they can in spite of difficult global conditions.”*

## Will technology spell the end for job-rich growth?

The next waves of technological disruption – artificial intelligence, advanced robotics, autonomous and near autonomous vehicles and 3-D printing – appear poised to threaten some of the jobs that have enabled poorer people in the developing world to get themselves out of poverty. Fears of this kind have been around since the industrial revolution. What has happened in each previous instance has been rising productivity and better paid jobs in more capital-intensive factories.

Some economists argue that this time it is different. The new technologies will result in large-scale displacement to both manual and ‘cognitive and non-routine labour’. This will ‘hollow out both middle and low income production and service jobs, and affect high skilled knowledge work as well’.<sup>36</sup> To cope with these changes will require an increased emphasis on education and re-skilling, and the development of advantages that humans have over machines (creativity, for example). Further, while rapid technological change is usually associated with high long-term growth, Robert Gordon argues that this time technology will not improve economic performance in the long run. In the United States, Gordon argues, GDP per capita growth rate will fall from an average of two per cent per year between 1891-2007, to 0.9% for the period 2007 to 2032.<sup>37</sup>

Will it be possible for middle-income countries to generate job-rich economic growth in such a global environment? Some predict mass unemployment and the need for governments to step in to provide everyone with a guaranteed income. However, many economists still support a focus on low-skill manufacturing in a range of sectors. As MIT’s David Autor points out, ‘journalists and even expert commentators tend to overstate the extent of machine substitution for human labour and ignore the strong complementarities between automation and labour that increase productivity, raise earnings, and augment demand for labour. While some of the tasks in many current middle-skill jobs are susceptible to automation, many middle-skill jobs will continue to demand a mixture of tasks from across the skill spectrum.’<sup>38</sup>

Rather than give up on private-sector growth and start making governments directly responsible for everyone’s wellbeing, middle-income countries should focus on getting as much growth and private investment as they can in spite of difficult global conditions. It will continue to be the case for at least another two decades that poor countries can take advantage of labour surpluses to create export-based manufacturing jobs, many millions of which are moving out of China. For example, Ethiopia has shown what is still possible by becoming Africa’s biggest hub for textile manufacturing. Companies like H&M and Primark have begun sourcing apparel from Ethiopia, taking advantage of cheaper production costs and the government’s investment in industrial zones. Last year, Ethiopia was included, for the first time, on a McKinsey annual list of major sourcing destinations, based on a survey of chief purchasing officers. Ethiopia is also one of the fastest growing economies in the world, with an average growth of close to 10% since 2005.

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## Helping poor people climb the ladder - promoting skills

Building an economy that can create jobs for low-skilled people can happen much more quickly and at far greater scale than the difficult business of schooling reform in developing countries. The quality of education available to poor people in most middle-income countries is poor. India, Mexico, Brazil and South Africa are notable examples among many. Putting this right is of the utmost importance, and will require enormous political will to take on vested interests in the trade unions and to build the other requirements for a more effective system, including appropriate teacher training.

While pursuing this broad goal, an important policy priority of middle-income countries should also be providing as many job-linked training opportunities as possible and to focus on vocational education. This is a relatively achievable goal in the medium term and will lead to quick and direct benefits for the recipients as well as for the society as a whole.

A major challenge in many middle-income countries is that the skills initiatives they have launched have not succeeded in making a large number of the un- and under-employed more employable or significantly transformed the shortages of skills in those countries. To turn the situation around, these countries need to move away from skills training institutions that are bureaucratic, inflexible and out-of-touch with modern needs, or NGO-type organisations with unrealistic goals and no understanding of the needs of employers. Training institutions need to be effective, and scale is important. Governments need to create an environment in which training institutions are accountable and have incentives to impart the highest quality and most marketable skills that it is possible to provide for their students. The institutions need to work as closely as possible with potential employers, business organisations and others who understand the needs of the evolving labour market.

*“Middle-income countries should be providing as many job-linked training opportunities as possible.”*

When it comes to ensuring an adequate supply of such training and vocational education providers, a key issue has to be the recognition that the public sector on its own cannot meet expanding demand in rapidly urbanizing countries. Governments must facilitate much more private sector provision, both local and international. All providers, public and private, must be appropriately regulated to ensure quality and accountability. Governments must also find ways to encourage companies to enhance their own training capacity.

Brazil is interesting in this respect. Faced with rapidly expanding demand for tertiary education and limited public supply, Brazilian authorities have opened up the system. Private institutions have been instrumental in the rapid expansion of the higher education sector in Brazil. Quality across the system is mixed with private institutions performing better in some areas than others but in general quality provision has been expanded dramatically. In addition, private companies have made a large contribution to vocational training, developed more effective teaching materials, used television programmes to enhance skills development, and set-up large education chains to exploit economies of scale.<sup>39</sup>

## Effective urbanisation is key to expanding opportunities

Countries that want to eliminate the barriers that keep poor people from formal sector jobs have to think hard about where opportunities and markets are located.

Governments need to make it as easy as possible for people in rural areas to move to cities.

Cities produce more than 80% of global economic output.<sup>40</sup> The future is urban and cities are where the vast majority of people have the best chance to find opportunities through which they can follow a path out of poverty. As recently appointed World Bank chief economist Paul Romer has argued, one of the most significant ideas of modern life is to encourage people to live together in dense urban agglomerations and allow them to make their own decisions about how they interact and transact with each other.<sup>41</sup> Together, the city and the market let large groups of people cooperate by discovering new ideas, sharing them and learning from each other. China's growth reflects its rapid embrace of these two big meta-ideas – the market and the city. Cities must, therefore, be at the heart of any national growth strategy.

*“The future is urban and cities are where the vast majority of people have the best chance to find opportunities.”*

Notwithstanding these successes, it is important to appreciate that there is nothing inevitable about the positive link between urbanization and greater wealth for millions of the poor. The rise of poor megacities – urbanization without industrialization – has cast doubt on this relationship, especially for many countries in Africa. What the Chinese and Western experience highlights is the importance of state capacity. This places at its centre, rapidly expanding, effectively managed cities that are home to many poor people. There are too many ‘reluctant urbanisers’ in developing country governments and other institutions.

In many developing countries poor people find it difficult or costly to get to or prosper in the urban areas in which existing economic opportunities are located. Reasons for this include the quality of infrastructure, higher-than-necessary transport costs as well as direct and indirect barriers to urbanisation and densification. The most important issue in this regard is strengthening the link to urban opportunities for both the rural and the urban poor. For people living in rural areas, access to both urban markets and the possibility of relocating to urban areas frequently offers the best and sometimes the only way to escape poverty. Governments should do whatever they can to lower the costs of movement and eliminate barriers that make it difficult for people to leave their rural homes.<sup>42</sup>

The absence of clearly defined, individual property rights in some rural areas traps people in rural poverty; many people need to occupy their land in order to retain their rights to it. Better property rights would enable rural dwellers to own land without having to occupy it. With this kind of security, they can sell it, or take a loan backed by ownership and invest the money into moving to and settling in much more dynamic urban environments. Another intervention that would enable urbanisation is the improvement of rural roads and the infrastructure linking rural to urban areas. Improving health services, education and training in rural areas

and ensuring that the capabilities these generate are not in any way rural-specific, will further allow rural people to more readily seek out urban opportunities.

National, regional and city governments can facilitate urbanisation by making their cities as attractive and opportunity-rich as possible. Cities must contain affordable spaces to live, affordable modes of travel, and must facilitate productive interactions between all parts of the city.

Cities need to be managed better. They need to be ‘cities of hope’ for poorer people (whether new migrants or those who are urban born) which generate multiple opportunities for those normally excluded. This involves changing attitudes among politicians, officials and other elites, towards the inevitable urbanisation and expansion of developing country cities. It requires implementing policies and shaping city growth so that poor people living in urban areas can look for jobs, benefit from access to markets, initiate entrepreneurial activities, grow their firms, hire more people, and incrementally turn slums into formal suburbs of an expanding city.

The key to this lies in three areas: the zoning laws, which are often used by existing residents to limit the growth of affordable housing and poor neighbourhoods; building standards, which if too high can make housing the poor unaffordable, leading inevitably to greater informality in housing; and reliable, affordable public transport across the city.

In a context of rapid urbanisation, the vast majority of economic, employment and population growth will be located in expanding cities. This means that national investment decisions need to take account of increased urbanization and national policy priorities need to catch up with the increasing reality of urban-led societies. Cities need to plan ahead, especially with respect to delivery of basic services and infrastructure tailored to future needs of firms and households. These pressing realities have profound implications for the national allocation of resources and incentives for cities to expand their economies. The political implications are also profound: here the debate concerns how much political power to devolve to increasingly important urban centres, which need greater accountability and authority for many functions ranging from transport to skills and labour markets. Cities must be able to reap the benefits of growth as that will incentivize them to pursue growth.

Middle-income countries need to deal with the rising role and importance of cities. Policy-makers in middle-income countries have largely relegated work on cities to mayors. Few have integrated the urban agenda into national development strategies. There are huge disconnects between what ministries of finance and national infrastructure agencies do, and urban priorities. As a recent report from the Brookings Institute notes, ‘capturing the benefits of urban growth requires early action, effective coordination and political direction from the top.’<sup>43</sup> Many politicians ignore increasing urbanization since it requires management of so

*“National policy priorities need to catch up with the increasing reality of urban-led societies.”*

many functions: long term planning and multi-year expenditures, coordination between different levels of government, engagement with the private sector and significant improvements in governance. Countries that have managed urbanization well such as Korea and Malaysia have planned for the long term and have used strong political leadership to connect the growth of cities with national development strategies.<sup>44</sup> Seeing the rural poor become the urban poor is a bad development outcome; yet without an increased focus on the urban agenda and a change in policy direction this is quite likely.

## Encouraging urban entrepreneurship – formal and informal

The best way to expand opportunities for all firms in middle-income countries is to reduce corruption, improve the quality of governance and create a regulatory and institutional environment that lowers the costs of doing business and enables competitive firms to function and expand. This would enlarge the numbers of entrepreneurs and businesses, while also encouraging informal firms to join and reap the benefits of operating in the formal parts of the economy.

However, such broad reforms are difficult to get off the ground, and they take time to become effective and widespread. In the meantime, governments need to find ways to support the firms that they have, most of which are in the informal sector. One recent analysis reveals that 84% of all new businesses in Asia Pacific countries, 91% in Latin America and Caribbean countries, and 98% in African countries, start up in the informal economy.<sup>45</sup>

Many but not all informal businesses are unproductive, survivalist enterprises stuck in informality.<sup>46</sup> Informal sectors can also be a breeding ground for the micro-enterprise system and a seedbed for enterprise culture. A policy approach that focuses prematurely on making informal firms formal may therefore eliminate precisely the entrepreneurship and enterprise culture that many governments are seeking to nurture. The resulting challenge, according to leading experts, is for policy-makers to ‘join-up’ their policy approach towards the informal economy with their agendas to nurture enterprise culture and entrepreneurship.<sup>47</sup> Most middle-income countries have policies in place to promote entrepreneurship, but these policies frequently fail to benefit the entrepreneurs they already have because the majority are operating unregistered businesses.

## Rethinking priorities

Making the expansion of opportunities the primary goal of middle-income countries leads us to a new set of priorities.

What are these reconfigured priorities? First and foremost, countries need to focus on generating job-rich economic growth. This is a challenging task, and, in the context of a global growth slow-down and rapid technological changes threatening to affect at least some labour-intensive manufacturing activities,

*“Informal sectors are frequently a breeding ground for the micro-enterprise system and a seedbed for enterprise culture.”*

these countries need to work hard on strategies that will allow them to maximise emerging growth prospects and to minimise disruptions.

Alongside these priorities they need to implement policies that will promote social justice by helping poor people connect with the opportunities that the economy generates:

**Jobs:** Removing those laws, employment standards and social norms that act as barriers that exclude anyone, especially women and young people, from the bottom rungs of the jobs ladder, while maintaining basic health and safety regulations.

**Cities:** Facilitating the movement of the poor into well-managed cities where poor people can afford to live and look for work.

**Skills:** Providing poor people with access to skills that are linked to the needs of the economy and the requirements of employers.

**Firms:** Removing barriers that prevent firms from starting up or expanding. This requires building the institutions essential for a better functioning economy (from the rule of law to property rights in poor areas), making it easier for new firms to enter the formal economy, and, in the interim, helping dynamic informal firms to flourish.

We believe these are the best ways to move poor people onto escalators of opportunity from where they, and their families, can move into the middle class. By themselves, these policy priorities would make a huge difference in making middle-income countries more just, and in lifting millions out of poverty.

*“First and foremost, countries need to focus on generating job-rich economic growth.”*

## SECTION FOUR: THE CHALLENGE OF HISTORY AND POLITICS

While a forward-looking policy focused on the expansion of opportunities for the poor is essential if middle-income countries are to make progress towards greater social justice, their politics are often shaped by the manifold forms of injustice that dominate their histories.

Policy-making cannot and should not ignore this reality, which means that policy must also recognise the legitimate claims that some will have for restitution and redistribution. The critical challenge is to ensure that the past does not devour the future (to repurpose one of Thomas Piketty’s phrases). In other words, policy-makers need to find ways to address legitimate expectations that past and present injustices will be addressed, but in ways that do not unduly constrain their societies’ quest to expand opportunities for the poor as quickly as possible.

## Redress: what does an effective opportunity enhancing programme look like?

The histories of slavery, colonialism, and racism out of which most middle-income countries have emerged makes it necessary for some form of redress to be implemented in them. This is particularly true of societies with a history of ethnic, race or communal conflict. In these cases, deliberate programmes might be needed to reduce group tensions and provide those who were previously subjected to discrimination with a sense of new possibilities and inclusion. As a review of affirmative action in Malaysia, India and South Africa undertaken for this project puts it, 'In the context of a strong legal system and a vibrant democratic culture, affirmative action can avoid encouraging a "crutch mentality" and can, rather, facilitate the emergence of a national political culture which, although undoubtedly conflictual and sometimes violent, will withstand such pressures'.<sup>48</sup>

Programmes of positive discrimination are not the only conceivable approach to addressing the effects of past injustices. Others include subsidies to the poor or policies designed to counter specific disadvantages that are the legacies of discrimination, such as a lack of access to quality education. Still, positive discrimination measures remain one of the most popular approaches even though they are prone to a common deficiency. More often than not, policies that are supposed to address injustices that were or are inflicted on large numbers of people become programmes that deliver significant gains to a small fraction of that community. Often the best educated and the well-connected, those who in other words need uplift the least, are the once who receive most of the benefits.

***"Policy must also recognise the legitimate claims that some will have for restitution and redistribution."***

At worst, such policies often generate unintended and negative consequences that hinder economic growth and the large-scale expansion of opportunities. They do this by raising the cost of doing business, creating disincentives for entrepreneurship, expanding inequality, diverting attention from critical issues and undermining the effectiveness of the state. They also create new and sometimes destabilising political tensions.

For example, the demands of new groups in India to have themselves declared 'other backward castes' or OBC, so that they can benefit from affirmative action in state employment, have caused rising tension, including demonstrations and riots. In 2015, eight people died during protests associated with the mostly middle class Patel caste's demands to be declared OBCs.<sup>49</sup> In South Africa the ways in which some racial transformation policies are being implemented often leads to corruption, elite enrichment and reduced capacity in key state departments and institutions vital for growth, effective education and infrastructure provision.

Many people concerned about global or national poverty tend either to ignore the existence and impact of redress policies or accept them as an immutable 'given'. In our view, a serious approach to expanding opportunities for the poor requires engagement on the issue of redress in middle income societies and a search for policies that minimise negative unintended consequences while opening opportunities for the vast majority rather than just the most educated and connected.

## Redistribution: how should this be done in middle income countries?

A different, but related issue is that of income inequality and the need to implement effective and affordable redistributive policies. Here the challenges are similar: to find policies that raise large numbers of people out of poverty, do so in sustainable ways, but do not undermine the core strategy of expanding opportunities through job-intensive, urban-led rapid growth. Global experience offers a few guidelines.

There are examples of affordable approaches to redistribution that also help promote wider inclusion and the expansion of opportunities. There are, however, obvious trade-offs: the larger the target population and the more generous the transfers to beneficiaries, the less affordable the schemes and the greater the potential negative effect on individual decisions to seek work.<sup>50</sup>

As far as possible, redistributive policies should focus on addressing the real constraints people face in taking advantage of employment-related opportunities. Housing assistance, for example, should not focus merely on putting roofs over people's heads, but on creating more efficient, more entrepreneurial and more productive cities. Similarly, education expenditure should focus on delivering quality education.

The redistributive effect of spending money on public institutions will be limited if institutions and processes are badly managed. In many instances, the actual redistribution is from (non-poor) taxpayers to (non-poor) civil servants who then do not deliver goods and services to the poor. In effect, these programmes neither reduce poverty effectively nor expand opportunities.

Public funding of programmes aimed at providing goods and services to the poor does not mean that the state is always the best vehicle for the delivery of those goods and services. Particularly when state capacity is weak, the provision of public goods and services can often be made more effective and efficient through the introduction or strengthening of market forces and competition.

Direct cash transfers and vouchers can cut out 'middlemen' and give recipients control over how best to spend their incomes and can make public or private provision more effective and accountable. At the same time, the individualisation of choice can mean the under-provision of public goods and services in certain areas or sectors, and a loss of economies of scale. Policy, regulation and incentives need to take this into account.

We would encourage re-energising publicly funded delivery in partnership with private firms, operating in competitive markets, as new mechanisms, processes and procedures are explored to deliver effectively to poorer people and communities. Expanding opportunities means empowering the poor as 'consumers': providing them with increased choice, increased agency in accessing schooling, healthcare, insurance etc., and through these mechanisms increased accountability for how

***“It is important not to take for granted a consensus on market-led economic policy.”***

public spending is utilised. The key to effective redistribution is to empower poorer citizens, not encourage dependency or entitlement claims that are continually ratcheted up.

## Changing the conversation: the challenge of marketing and coalition building

In highly unequal middle-income countries with complex histories there are many pressures for an approach to poverty reduction that is driven solely by redistribution and which is implicitly or explicitly anti-market. And in a post-financial crisis world in which growth has remained slow, both in the developed and in many developing countries, it is important not to take for granted a consensus on market-led economic policy. Political developments across the world show that large sections of society feel disenfranchised and angry about inequality. If an opportunities-first approach based on rapid, job-rich economic growth in fast growing cities is to gain traction, serious consideration needs to be paid to the 'marketing' and communication of this poverty strategy.

*“We would encourage re-energising publicly-funded delivery in partnership with private firms, operating in competitive markets.”*

Do we talk about economic growth or do we emphasize jobs? How does one sell the necessity for reforms – essential for further and more inclusive growth – when the benefits of such reforms will take time to materialise? How does one communicate effectively and to which audiences? In middle-income countries and in the international circles and organisations which influence these national policy makers how can an opportunities-first approach to steadily eliminating poverty be communicated with greatest impact? To ensure success for the new approach we are advocating, we need to go beyond persuasive arguments and facts, and find innovative ways to sell the approach to powerful policy-makers and potential reformers at all levels of government: local, regional and national. What are the political interests in a country? Who would benefit from expanding opportunities to the poorer half of society? What information is required to build or strengthen the political coalitions necessary to implement the kind of reforms needed to move the direction of policy towards opportunity rich approaches?

The battle of ideas matters and facts can sometimes change the direction of policy. It is certainly possible to persuade some influential decision makers that reform is in their best long- term interest, and to pressure others into adopting solutions that will work. In democracies it is also possible to use the media and mobilise sections of the electorate to pressurise politicians into reform. And in countries that have decentralized systems of government it is possible to persuade one state or city to try this new approach, which if it delivers results could then have a knock-on effect in influencing other parts of government or other cities in different countries.

To achieve this requires strategic thinking, methods to access and persuade people in power, especially, perhaps, young future leaders who haven't yet made up their

minds about the best way forward, and innovative ways to transmit the message to as many people as possible. A crucial focus has to be on persuading and then helping political leaders – both in government and in opposition parties – to make the case for an opportunities-first approach to job-rich growth and expanding opportunities for the poor.

## CONCLUDING REMARKS

Equality of opportunity is a great slogan but a debilitating, unachievable framework, unsuited to addressing the needs of middle-income democracies. The aim of increasing opportunities for those in the bottom half of society is much more achievable and could provide encouraging and realistic milestones to stick with it. The approach differs fundamentally from many of the policies that are carried out in the name of the poor in countries such as Brazil, India and South Africa, because it is not aimed at ameliorating poverty but at finding pragmatic ways to permanently transform the lives of millions.

Expanding opportunities for the poor has wide application to the most important and the most politically fraught issues that middle-income countries will confront in coming decades. These are: managing urban growth successfully; ensuring that economic activity generates large numbers of jobs accessible to excluded young people and women; raising general living standards; and managing the important challenges of redress and redistribution.

The priorities suggested by this approach relate to the removal of a wide range of constraints on the capacity of poor people to exploit economic opportunities. This means focusing on job-rich economic growth, and rapid and successful urbanisation. This will help ensure rapid increase in the number of opportunities generated by the economy. In pursuing the maximum possible expansion of opportunities, it is important that policy-makers bear in mind that the opportunities created need to match the skills profile of the existing workforce. At the same time, governments in middle-income countries need to devote effective resources towards enhancing the capabilities of the poor, though this should never be a substitute for the expansion of accessible opportunities, so that, over time, people can move into more productive and remunerative occupations.

There are important similarities between these policy proposals and those made by others. A key difference introduced by this approach, however, is that it recognises that one of the stumbling blocks faced by policy-makers is that, in the real world, politics is often driven by the grievances of the past. While past injustices and their current effects are integral to the way in which opportunities are unequally distributed, an approach to policy-making that focuses on the expansion of opportunities would be more future-oriented, and would seek, as far as possible, to use scarce resources to create new opportunities rather than

to redistribute existing ones. It is premised, ultimately, on the recognition that the pursuit of equal opportunities is as impossible and as costly as would be the pursuit of equality of outcomes.

Rather than pursuing the impossible chimera of making everybody's opportunities equal, regardless of the circumstances in which they find themselves, this approach seeks to enlarge the set of available opportunities as quickly as possible, and to remove the obstacles that prevent poor people from accessing opportunities that already exist. This should be done in a pragmatic, achievable fashion, in ways that will benefit millions of people. Putting opportunities first – emphasising the O rather than the E of an equal opportunity ideal – leads us to a more pragmatic lens that lends itself to more incremental and achievable goals, which then makes policy makers more accountable if they fail to make significant progress in the fight against poverty.

# APPENDIX

*Selected papers prepared for the Expanding Opportunities project*

***Expanding Opportunities for the Poor: What is the right framework?*** - by Tyler Cowen, Professor of economics, George Mason University, Fairfax, Virginia

***The Silent March of Freedom: How the reality on political and economic freedom differs from rhetoric and how it is expanding opportunities worldwide*** - by William Easterly, Professor of Economics and Co-director of the Development Research Institute, New York University

***Expanding and Measuring Opportunity*** - by Charles Kenny, Senior fellow, Center for Global Development, Washington DC

***Citizenship, Opportunity, and Redistribution*** - by Dipankar Gupta, Distinguished Professor and Director, Centre for Public Affairs and Critical Theory, Shiv Nadar University, India

***Expanding Opportunity for the Urban Poor*** - by Brandon Fuller, Deputy director, Marron Institute of Urban Management, New York University

***The Informal Economy as a Path to Expanding Opportunities*** - by Colin Williams, Professor of public policy, Management School, Sheffield University

***Expanding Opportunities: Malaysia case study*** - by Graham Brown, Professor of international development, University of Western Australia

## NOTES

1 See, A. Bernstein, *The Democratic Alternative from the South: India, Brazil and South Africa*, CDE and the Legatum Institute, 2014. See also Democracy Works! CDE Publications available online at: <http://democracy.cde.org.za/>

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