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Vulnerability and globalisation: on protection, power and identity in India

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This essay concerns the interaction between globalisation and vulnerabilities, with a primary focus on what this implies for India. Globalisation is often reckoned to be a source of heightened vulnerabilities, with the poor and the weak most likely to be hurt. Is this true? Does this mean globalisation is a bad thing? Or can it be managed?

Two theses are explored.

The first draws from core approaches from within economics, though it is not uncontroversial. Globalisation *can* be a source of increased vulnerability, but whether it is so in practice depends on interactions with domestic conditions. In either case, social provisioning for the management of vulnerabilities should be considered a *complement* to the greater dependence on markets that is a central feature of globalisation, on both efficiency and equity grounds. Public action to manage vulnerability is of rising importance for a country such as India, since the stakes in participation in global markets are rising, with possibly irreversible consequences of stalled or incomplete participation. The state has a central role to play, but design is crucial: alternative designs can either improve or worsen both efficiency and equity. India has experience of both bad and good (or at least promising) designs.

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The second thesis goes beyond economics, and argues that both the assessment of vulnerability, and likely responses, are linked to power and identity—at both the aggregate and local levels. Furthermore, the response to vulnerabilities (whether narrowly economic or linked to identity) is shaped by the structure of agency and associated power structures in a society. Unequal power structures are likely to lead to unequal patterns of neglect, or perverse responses that protect entrenched interests aligned with existing structures of identity or influence. Furthermore, the “vulnerability of identity” can itself be a source of heightened anxiety and resistance, as support structures associated with existing group-based identities are threatened, even when the terms of recognition are initially unequal. From this general prism, effecting change requires developing the political basis and institutional supports for an efficient design. One interesting route is to move to a rights-based approach, with less emphasis on group-based identity as a mechanism for securing protections. Rights-based approaches have disadvantages, and can lead to new distortions if not well-designed. But they may have an important role in a society that is already highly distorted in terms of institutional functioning. This depends, of course, on how the state implements schemes, and respects (or fails to respect) rights.

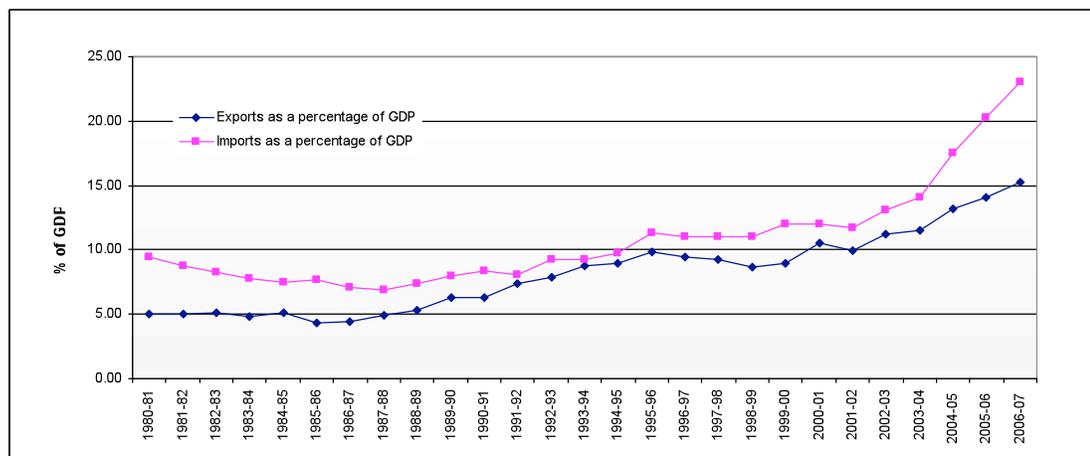
The paper is organized as follows. First, I state why the globalisation-vulnerability nexus is such a hot issue, providing one example—that of financial crises—to illustrate why there is surely *something* behind the prevailing concern. Second, I provide some analytical context, in terms of the economics of vulnerability and markets, what this implies for public action, and how this may interact with the structures of power and identity. Third, I turn to some history as to how societies have

responded to the issues raised by this context, suggesting that there are some useful lessons for India from the post-Second World War political consensus that laid the basis for the broadening of welfare states in industrialized countries. Finally, I turn to some design principles, and look at the National Rural Employment Guarantee Act (NREGA) through the prism of the preceding analytical narrative.

Why is the globalisation-vulnerability nexus a hot issue?

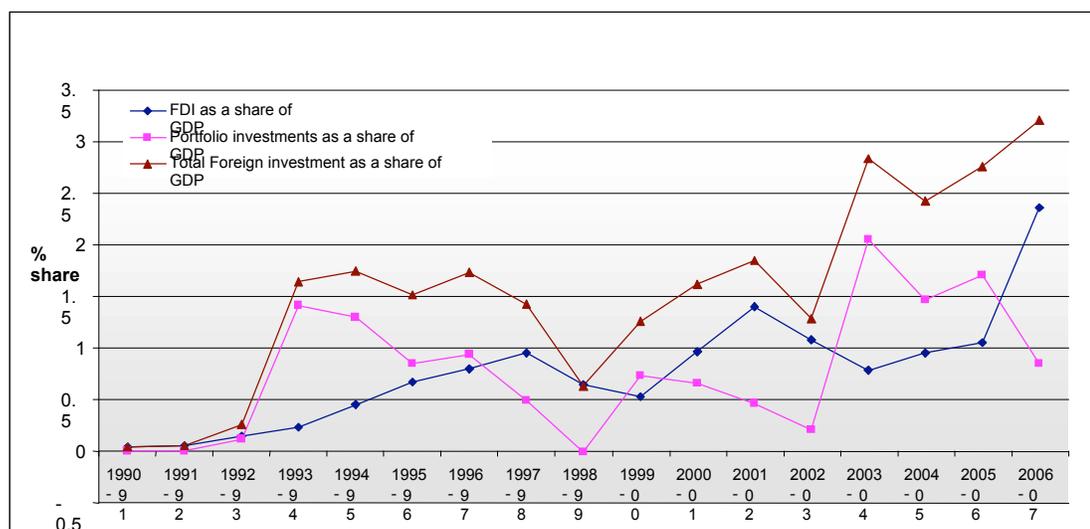
Globalisation attracts fierce proponents and detractors. It has many dimensions. Here I am concerned primarily with economic aspects of globalisation, and in particular the effect of increased integration of a country into international markets. In this sense, India has indeed experienced a large increase in globalisation, especially since the beginning of the 1990s: there has been a large rise in integration with respect to product and capital markets, and, to a much lesser degree, for the labour market. Since 1991 there has been a sharp reduction in the barriers to international trade. As one indicator of effects, the ratio of total trade (exports plus imports) to GDP rose from less than the 15 percent in 1990/91 to over 38 percent in 2006/07 (Figure 1). While the capital market is not fully open, there has also been a large increase in portfolio capital and foreign direct investment, with a rise in the share of associated flows from almost zero in the (crisis-affected) beginning of the 1990s to 3 percent of GDP in 2006/07. One segment of the labour market has seen substantial international integration—that for the highest level of skills, especially amongst internationally mobile Indians.

Figure 1. The ratio of exports and imports to GDP in India, 1980/80 to 2006/07



Source: Reserve Bank of India

Figure 2. The ratio of foreign direct investment and portfolio investment to GDP in India, 1990/91 to 2006/07



Source: Reserve Bank of India

Is globalisation associated with increased vulnerability? It is hard to separate increased integration into international markets from the broader market-oriented liberalization within the domestic market. In India, as in many countries, the processes were proceeding simultaneously. I do not seek to disentangle external and

internal effects here, since the core debates of concern can be treated in relation to the joint effects of both processes. Take the following statements of a critical view on globalisation and vulnerability:

- *Globalisation intrinsically increases vulnerability.*
- *There are pernicious interactions with social inequalities, with subordinate social groups suffering disproportionately.*
- *Globalisation causes a race to the bottom, rewarding countries and industries with less provisioning for vulnerable groups.*

These are all present in the anti-globalisation discourse, and can usefully motivate the discussion here. I will argue that there are channels of change that can be *contingently* consistent with each of these statements, but there is no necessary link. Indeed the opposite may be true. But whatever the balance of specific effects, there is a strong case for public action to reduce vulnerability—both because of the intrinsic desirability of reducing vulnerability and because well-designed institutions for reducing risk (and design is crucial) are *complements* to the market-oriented development that is intrinsic to the aspects of globalisation of concern here. This matters a lot since increased integration into international markets is a central and powerful route to economic development. This is true of now-industrialized countries, and also vividly true of those countries that have experienced rapid, sustained growth in the more recent era, such as Korea, China, Malaysia and Thailand (see the Commission on Growth and Development, 2008, for a recent overview). Where there is variation is in the ways in which integration into international markets is designed,

and the degree to which adverse consequences are managed. This paper is concerned only with effects on vulnerability, not with the broader question of the benefits and costs of globalisation.

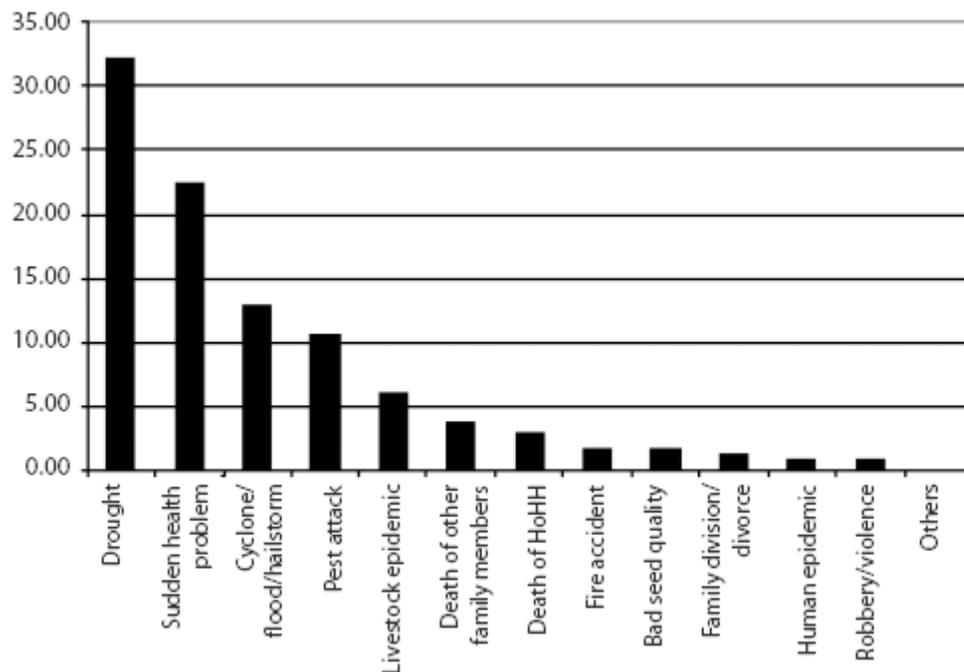
What does vulnerability mean? I'll focus on the core meaning of economic vulnerability: the probability of adverse short-run *changes* in well-being of an individual, household or group—the downside of risk and uncertainty. This can have many dimensions: changes in incomes and wealth, losses in health status, adverse effects on dignity and identity. The last may occur, for example, if globalisation leads to changes in traditional modes of work and social interaction.

Basic economic theory suggests insecurity bred of uncertainty has costs: under standard assumptions, individuals are risk-averse, in the sense that individuals put greater weight on changes in incomes at lower levels of wealth—that further implies that declines are more costly for poorer households and individuals.ⁱ And for anyone, large declines have a greater welfare cost than the value of equivalent gains. This is consistent with the more immediately compelling perspective from poor people themselves: in the major collation of participatory assessment *Voices of the Poor* (Narayan et al, 2001) insecurity emerged as a pervasive and central concern of poor people. This is not only because adverse events are so costly when people are already suffering from chronic poverty. Adverse shocks can be a *source* of long-term welfare declines, when this leads to distress sales of land or cattle, pulling kids out of school and into work, or long-term effects of loss of work on the employability of workers.

What kinds of shocks matter in India? Some indications are provided by a recent survey in selected villages in Karnataka, Madhya Pradesh and Orissa (see

Figure 3, taken from Dev et al. 2007). Amongst shocks common to communities (“covariate shocks”), weather-related ones dominate, notably droughts and cyclones. Amongst shocks specific to individual households (“idiosyncratic shocks”) health-related shocks are clearly the most important. This study found that shocks affected all parts of the distribution of rural households. Indeed, weather-related shocks were *more* important amongst richer than poorer households, as might be expected from their greater landownership. (The authors comment that this may have been influenced by the respondents’ interpretation of the question, in particular that local employment and wage declines consequent on bad weather—that disproportionately affect the poor—were not counted as a shock.) Health-related shocks are reported more amongst poorer groups. So vulnerability matters across the distribution. Note, however, that this only refers to the incidence of shocks, not the severity of the consequences of shocks, that are likely to be greater for the poor.

Figure 3. Proportion of households reporting major shocks in the preceding year in selected villages in Karnataka, Madhya Pradesh and Orissa



Source: Dev et al. 2007

An example: financial crises

To motivate the discussion of links with globalisation, let's look at the effects of a very different type of shock: the financial crises of the 1990s, that dramatically affected a range of countries, including, amongst larger cases, Argentina, Indonesia, Korea, Mexico, Russia, Thailand and Turkey. This is of particular interest in 2009 in light of the global financial shock that started in the United States, that has parallels with emerging market crises, only with much greater global reach. A financial crisis can be an acute source of vulnerability, at both the level of countries and households. All of the countries affected in the financial crises of the 1990s had been experiencing an intensification of globalisation through rising integration in both product and capital markets. At the time of its 1995 "Tequila" crisis Mexico had recently joined

the North American Free Trade Agreement (NAFTA), involving a major opening to its rich northern neighbours. The East Asian countries were coming off decades of extraordinary, transformative growth, that had brought historically unprecedented reductions in poverty. In each case, both rising trade and growing financial market integration was part of the story. This interacted with domestic financial conditions: domestic financial systems often suffered from weak supervision and regulation, with lots of hidden bad assets and widespread connected lending (most notably in Indonesia in Mexico, but a feature of all cases). While specific channels varied, the general patterns were similar: a sudden stop in international capital flows, the emergence into the open of bad debts and currency mismatches, runs on the currency, and sharp deteriorations in the domestic banking industry, with many banks suffering major liquidity and solvency problems.

In the real economy, currency and financial crises led to falls in economic activities, rising inflation, job losses, real wage declines and various combinations of rising unemployment or shifts of workers into lower-paying work in the informal sector and agriculture (with particular mechanisms depending on the workings of the local labour market—big rises in unemployment in Argentina, big shifts into informal work in Indonesia and Mexico.)

There are plenty of debates over the nature of these crises, ranging from questions over whether greater capital controls can avert or mitigate their effects to the appropriate macroeconomic response. Here I have a more limited focus: the interaction between the adverse shocks, distributional effects, the institutional

structure of workout design, and the pattern of power in the affected society (see Halac and Schmuckler, 2004 and De Ferranti et al, 2004). Here is a characteristic sequence.

- Prior to the crisis there are weak *ex ante* resolution and protection mechanisms. Rules for deposit protection are often ill-defined, and safety nets of limited reach. With the partial exception of Argentina and Korea, there was no unemployment insurance, and other forms of safety nets were not designed to expand swiftly in response large wage and employment shocks.
- As the crisis is brewing, richer and better informed domestic actors get their money out faster—and indeed this can be a catalyst for the crisis itself. This was clearly the case for Argentina and Mexico, for example (Halac and Schmuckler, 2004). Those who got their money out to Miami or New York before the currency and other asset prices tumbled actually stood to achieve substantial capital *gains* with respect to domestic asset values as the crisis unfolded. Money of the wealthy also fled from Indonesia.
- After the financial crisis occurs, substantial amounts of public money are spent on financial sector workouts—with estimates of the order of 19 percent of GDP for Mexico, 27 percent of GDP for Korea and 50 percent of GDP for Indonesia for the crises of the 1990s (Honohan and Klingebiel, 2003). This is undertaken ostensibly to save the banking system from systemic effects, that could hurt all kinds of economic activity. But these workouts benefit participants within the banking system—depositors and often owners—at the expense of those outside the system (Halac and Schmuckler, 2004). Financial sector participants are

typically richer, and in the case of owners, very much richer, than the bulk of the population.

- A few workers who lose jobs may get severance payments (if the firms don't go bankrupt) or unemployment insurance (where it exists). But for the most part workers, and their families, are hardest hit by the crisis in the short term, squeezed by job loss, falling wages and rising prices. Indeed, crises can be seen as functioning as a mechanism for resolution of distributional struggles that are not effectively worked out in normal times (Diwan, 2001). The bill for bailout costs comes in the form of higher taxes or lower public spending on goods and services, typically spread out of many years as the stock of bailout-related debt is paid down.
- The immediate shock to the labour market induces a range of individual, household and community-based adjustment mechanisms: movement to informal sector work (important in Mexico), back to agriculture (in Indonesia and Thailand), increased labor force participation of women and children, reduced spending on “inessential” items, such as consumer durables, better quality foods, clothes and even health and education spending.

What do we take away from this sequence of events? First, in this example international integration (here in financial markets) is indeed part of the causal structure of the crisis. Countries that were weakly integrated in international financial markets—very poor African countries, for example—were little affected by this form of crisis. Those who retained significant capital controls, such as China and India, were also shielded from contagion effects. This doesn't mean international financial

integration is a bad thing: both country cases and cross-country evidence support the view that such integration is an important source of long-term economic growth. But it raises questions over the timing and design of such integration. For example, you need, a robust, and well-regulated domestic financial system before full opening.

Second, in the absence of credible, politically supported *ex ante* loss allocation mechanisms, the interaction between unequal structures of influence and a crisis is very likely to lead to inequitable *ex post* workouts. The wealthy have more information on the evolution of economic variables (in this case financial and currency values), more options to manage shocks through portfolio diversification (for example through access to bank accounts in Miami or Singapore), and greater influence over domestic public support at a time in which public resources are declining and demands are rising. If there are no rules, the reaction of the government is a function of where short-run influence is most effective. Almost all scramble to strengthen safety nets, but, with the probable exception of Korea, these were inadequate to the task of protecting those hurt. (Korea is also interesting in view of the political salience of middle and poorer groups for the government, and high degree of solidarity across all groups in the face of the crisis.) The size of fiscal resources devoted to financial sector workouts were typically much larger than any spending on safety nets (as they will surely be in the workouts in rich countries in the wake of the 2008 financial crisis). There is a direct parallel with bankruptcy legislation. One of the motivations for the introduction of bankruptcy laws in the United States was to define *ex ante* the rules of the game when a firm became insolvent; otherwise the powerful used their influence to extract most benefits, or minimize losses (Rajan and Zingales, 2003).

Third, sophisticated household adjustment mechanisms do exist, but these are incomplete, and especially so with respect to common shocks that affect whole communities or countries.

Analytical context: economics, power and identity

Let's start by placing the problem of vulnerability in the context of the analytics of market functioning and government responses. Economic vulnerability is a symptom of market failures, but both its nature and the responses depend on interactions with social structure and politics. Getting clear on this provides a useful basis for assessing the interaction with globalisation.

Vulnerability is (in part) a product of market failure

A central insight from economics is that economic vulnerability is linked to market failures. When a farmer suffers from a bad harvest, or a worker falls ill, with attendant costs of health treatment and lost wages, the underlying problem is of the absence of efficient insurance markets in a world of uncertainty. All households face the prospect of a range of possible outcomes, on the rains, prices, the health of household members, employment availability and so on. Bad outcomes are disproportionately costly relative to equivalent good outcomesⁱⁱ, both because of their intrinsic impact on welfare, and because short-run shocks may lead to depletion of physical or human assets and have long-term effects. The standard view is that most people are risk-averse: they consequently pursue production and investment strategies that lead to lower risk, but also lower return, outcomes. This might, for example, involve choosing more drought-resistant crops, diversifying the occupational and schooling activity of kids, or the spatial location of family members.

If there were perfect insurance markets, in which households could purchase an actuarially fair insurance for bad weather, bad prices or bad health outcomes, the cost of adverse shocks would be significantly lower. This is for two reasons: the well-being of households would be protected in the event of a bad outcome; and there would not be biases in favour of low-risk, low-return activities. But perfect insurance does not exist, for a set of reasons around imperfect information and limitations on contracting. Insurers may not be able to tell if a household is a good or bad risk (and so end up charging a premium that good risks won't pay, the problem known as adverse selection), insurance can lead to riskier behavior (known as moral hazard), and transactions costs can be very high, especially in verification of small adverse events and catching false claims.

Households adapt to uncertainty through a variety of mechanisms. These can be put into three broad categories, that I highlight here since they are also useful for thinking about public action:

- ***Ex ante action to reduce risks.*** This includes actions designed to reduce the variability of incomes. It can include investing in risk-reducing assets—such as irrigation, choosing more drought-resistant crops, diversification of individual and household activities across plots, occupations, spatial location, even marriage choices.
- ***Ex ante action that prepares for shocks.*** In this category, income variability is not affected, but households take precautionary action that allows them to consume more, or (more broadly) achieve better outcomes, when adverse shocks occur. Savings in the form of financial assets, cattle, gold or other assets are

common mechanisms of “consumption-smoothing” at the level of households. Insurance also falls into this category, with the important added feature of pooling of risks across individuals or households. It can involve the purchase of a formal insurance policy, or the informal community-based mechanisms, that may be implicit.

- ***Ex post coping after shocks occur.*** Finally, when a shock occurs, households adopt a variety of strategies to adjust to the circumstances. This often involves selling assets, borrowing, getting help from friends and family, or increasing labor supply (especially of women and children).

All of these mechanisms have been documented for India. Households and communities have developed sophisticated mechanisms for managing risks. In some village studies, researchers have found that informal risk-management mechanisms seem to have a large impact, reducing the impact of income fluctuations on the consumption of individual households (Townsend, 1994). However, these purely household- and community-based mechanisms have costs and are typically incomplete. Risk-reducing investment and occupational strategies are generally also lower return. Of course some activities are higher return *and* lower risk. These are highly desirable—and particularly interesting from the point of view of directions for innovation—but these are not the difficult and interesting questions for the discussion here. Similarly, savings strategies intrinsically involve foregoing current consumption, often involve investing in low return assets. Moreover, if a shock affects a lot of people at the same time, assets such as livestock are likely to experience price declines, or capital losses, precisely when most needed. Community-

based insurance is particularly bad at handling such common shocks (bad rains that hurt all farmers, an aggregate price or employment shock) and catastrophic shocks (that have a drastic influence on wealth and livelihoods).

Market failures around risk interact with the structure of inequality and deprivation.

The costs of shocks and adaptation mechanisms vary systematically across wealth and socio-cultural categories. Households with less wealth and lower status are often systematically more vulnerable to adverse shocks. This is for several reasons. As they are poorer the welfare cost is intrinsically higher. Sheer necessity may have led them to work in riskier occupations: many of the poor depend disproportionately on rainfed agriculture and irregular informal work. At the same time, personal and social mechanisms for managing risk have a weaker resource pool to draw upon, because social contacts are also likely to have less wealth. The poor have fewer savings to draw down or assets to sell. Informal insurance mechanisms may be less effective: while some poor communities have well-developed social networks (often termed social capital) with significant risk-sharing, the scope for mutual help is limited when it is amongst poor people. Furthermore, where risk-management is embedded in unequal relations, this can have high implicit costs: borrowing from traders or moneylenders to manage shocks can carry high explicit or implicit interest rates; or a long-term labour relationship with an employer (say a local landowner) can reduce risk, since employment is more reliable, at the cost of lower bargaining power and the potential humiliations of an asymmetric relationship.

Inequalities in both exposure to risk and the capacity to manage risk can thus be a source of the *perpetuation* of inequality, and so of poverty—poorer and subordinate groups with greater vulnerability to risk consequently also have weaker prospects for improving their livelihoods through pursuing higher return activities and investing in their human or other economic assets. There are many other reasons for the persistence of inequalities; vulnerability is part of the mix.

The structure of vulnerability interacts with the structure of identity

Inequalities between different *groups* is often of keen interest. Economic vulnerability can differ between groups with distinct social identities—for example across castes, language, religion or gender. The historical restriction of scheduled castes to lower-status occupations not only reduced their returns but also increased risk, since it reduced possibilities for occupational diversification, often confined these groups to more hazardous work, and made economic relations with employers systematically and fundamentally asymmetric in terms of power. The nature of social networks, and norms of sharing or helping is often linked to group-based identities—with greater reciprocity and risk-pooling within groups. Of course, what constitutes a group will itself vary: it may extend to an extended family, a broader kinship group, a village. This relates to a further point: it may be tempting to take identity as given in looking at identity-vulnerability interactions. However, identities are intrinsically socially formed, products of group-based interactions, and the nature of vulnerability can itself shape the nature and functioning of a social identity. This has been extensively documented for the evolution of social norms amongst societies that have to manage common pool resources (Baland and Platteau, 1996). In many cases—

fishing for example—these also involve occupations with high levels of risk, with associated norms of mutual help. These internalized norms are constituent elements of the identity structure. I come below to the question of how globalisation can influence this, and how the vulnerability of identity itself can shape behaviours.

There's a strong prima facie case for public action on vulnerability

So the point of departure is an uncertain world with inadequate options for precautionary savings and insurance, bred of market failures, that typically hurts poorer and subordinate groups more and can be a source of the persistence of inequalities. This surely provides a classic rationale for public action, but one in which the choice between making markets work better or substituting for markets should be a pragmatic one: what works best, including on grounds of equity, to deal with the problem at hand? And indeed there is a long tradition of government effort. We can use the categorization from above, and apply this to public action:

- ***Ex ante action to reduce risks.*** There are many investments that are typically financed and undertaken by governments, because of their public good characteristics, in which risk reduction is a central element: irrigation schemes, other water management projects and road networks, all fall into these categories. Note that these are often *complements* to market interactions.
- ***Ex ante action that prepares for shocks.*** As noted, household savings are an important adaptation mechanism, but one for which the costs and options may be inadequate, especially for the poor. This has an immediate corollary: a central, *market-thickening* mechanism to support better risk management is the broadening and deepening of financial systems. Broadening matters since the

reach to poorer households is crucial. Depth matters in the specific sense of having the liquidity, regulatory and supervisory structures such that financial system is itself resilient to shocks—as vividly illustrated in the case of financial crises, including the 2008/09 financial implosion in rich countries. This also can involve specific action to protect poorer and middle groups, such as deposit insurance for small depositors, and support for the expansion of the microfinance institutions (that are often not deposit-takers but can be a source of borrowing to smooth consumption). Insurance is trickier: getting market thickening through private insurance is fine, but runs into the classic problems of adverse selection, moral hazard and transaction costs that intrinsically bedevil this sector, making market-based solutions for higher risk and poorer groups harder to devise. This is why industrialised countries mostly developed solutions with greater reliance on public enforcement or delivery, especially for unemployment, health and old age.

- ***Ex post coping after shocks occur.*** Public action can finally support coping after shocks occur through a variety of transfer schemes, including feeding programmes, subsidies, workfare and cash transfers. Take Indonesia after the 1997/98 financial crisis: it introduced a range of “safety net” programmes, that included subsidies to keep the price of low quality rice down, school-based transfers to keep poorer kids in school, and public works programmes (Pritchett et al. 2003).

This is fine in principle: there’s a strong rationale for public action, and an array of instruments available, many of which have been tried in India. So why are there

such pervasive concerns, in India and throughout the developing world, that vulnerabilities are unacceptably high, even before we get into the globalisation debate?

Public action is itself embedded in an unequal political economy of policy choice and implementation

The real problem is that governments also typically do a bad job of provisioning for security. This is sometimes framed in terms of the intrinsic likelihood of “government failure”. Governments are not run by rule-bound Weberian bureaucracies, implementing the policies of politicians, who in turn faithfully represent the interests of all the people. But that only pushes back the question of why governments fail to effectively act in an area where there is a compelling rationale for extensive action. The Indian state does have significant capacity. Think of the impressive performance in running elections. Or take a more mundane example of the railways: trains are typically crowded and often late, but, to first order, the railways delivers on its aims, of transporting an extraordinary quantity of people and goods to their intended destinations, employing over 1.5 million staff to do so. If India had a social protection system that delivered as well as the Indian railways, the household level security of the bulk of the population would be radically different from now. Providing risk-management services is undoubtedly more complex—in part for some of the reasons that private insurance is hard, that were noted above. But, as argued by Drèze and Sen (1990) amongst others, the international experience displays substantial variation in the extent to which governments do and do not take effective action in provisioning for security.

The core issue lies in the political economy of delivery of public services in an unequal society, and how this interacts with, and helps shape, state capacity. I highlighted above the links between inequalities and the capacity of different groups to manage risk. Political and economic elites usually have many options for managing the risks they face: either because of the assets they hold, or because they are in a better position to extract discretionary support from the state when shocks occur, as in the example of bailouts in financial crises. The two big questions are then. First, under what circumstances are political elites willing to choose policies and institutions that provision for security? And second, what does this imply in terms of organisational designs that ensure the associated services actually get delivered?

The answer to the first question is closely linked to the political salience of demands from middle and poorer groups for provisioning. Under democratic auspices this essentially amounts to the question of how effective democratic processes are in capturing and aggregating the interests and preferences of these groups, and then matching the demands with technical analysis of alternative policy and institutional designs. India presents a highly mixed picture here. On the one hand India became a democracy at an unusually low level of income, and the poor are disproportionately more active voters. But on the other hand, India has also been described as a “patronage democracy” (Chandra, 2004), in which political processes are dominated by the provision of goods and services to particular groups (sometimes on identity-based lines) in return for political support.

The answer to the second question is more complex, and depends on the functioning of the state. “State capacity” is not a free-floating feature of governments,

but a product of the interaction between organizational schemes within the state, including internal checks and balances, and societal functioning. Delivering front-line services, where officials have discretion of who to deliver services and how much, presents particular challenges (World Bank, 2003). The prevalence of patronage structures leads to fundamental distortions in this, especially where there are substantial incentives for corruption, that is especially when internal and societal structures of accountability are weak. This is clearly the case for India.

The political economy of social security provisioning in an unequal society can thus be a source of malaise. Two malaises are common: “neglect” and “distortion”. Both are relevant to India and flow directly from her political and social characteristics.

Neglect. By neglect, I mean the failure to effectively deliver well-designed services where these are justified on either efficiency or equity grounds. Here India again presents a mixed picture. As a democracy in which the votes of middle and poorer groups count—and furthermore a country born with the ideological aspiration of assuring equal opportunity for all—there has been plenty of action, and spending, across all three categories of risk-related policy areas: risk-reducing measures such as irrigation systems; efforts to get banking services to the rural poor; and a long list of social protection programs that seek, at least in part, to reduce the vulnerability of the poor (even though some are really focused on chronic poverty.) But there remain massive areas of neglect. The bulk of rural households remain outside the formal financial system. Politically driven *ad hoc* measures, such as the 2008 loan waiver, suffer from fundamental design flaws that will perpetuate financial exclusion. The

state has a dismal record on providing for health risks. And, prior to the National Rural Employment Guarantee Act (of which more below), measures to deal with the high level of employment and wage risk in rural areas were inadequate, with some partial exceptions, such as the Maharashtra Employment Guarantee Scheme.

Distortion. Distortions in the many programmes that do exist is a more typical feature of India's efforts (though neglect is often the consequence, when programmes fail to reach their intended beneficiaries). Distortion flows from the interaction with structures of patronage and local corruption, and can be sharpened by design flaws, in which poorly designed programmes are sustained because of entrenched interests and populist pressures. Take two cases from different categories of risk-management action: water management and provision of food.

Water management is one of the most important areas for reducing weather-related agricultural risks—the major source of covariate risks for rural households from the survey work reported above. Investment in large-scale irrigation has been a major element of agricultural strategy, and the management of the irrigation system is an important activity of the Indian government. But there are significant failings in this process. In an in-depth study from the 1980s, Wade (1985) documents how behaviour of government officers is shaped by considerations of maximizing private returns from bribes (derived from discretionary delivery of water to farmers), and seek more lucrative posts on this basis. This in turn supported informal market for jobs, based on the expected returns to the position. It is unsurprising that there have been inadequacies in the provisioning and management in irrigation, and essentially private provisioning of water, through drilling of wells for groundwater, has become the

major source of expansion in managed water use for agriculture. (This has led to a new set of common pool problems, with major problems of falling water tables in many parts of India, and thus new vulnerabilities for the future.)

In terms of direct provisioning of food, the Public Distribution System (PDS), by far the largest programme, a genuinely massive effort to provide subsidized food through dedicated shops throughout the country. This programme may provide some security against food price inflation, but is otherwise weakly designed to deal with shocks, is highly ineffective at reaching the poor, and suffers from large-scale leakage (Radhakrishna and Subbaro, 1997).

There is not the space here to provide details: the point is to highlight the sharp contrast between major governmental effort, oriented toward different aspects of the risk management policies framed above, and the very poor job of real risk reduction or management. The designers—and many of the managers—were, and are, undoubtedly sincere in their intentions, but effectiveness has been undercut either by poor design, or, more systematically, by distortions in the functioning of government.

Globalisation and vulnerability

This may have seemed a lengthy detour from our core interest in interactions between globalisation and vulnerability, but it is precisely the interaction between global forces and domestic institutions that is of interest. There are essentially two questions:

- Does globalisation lead to increased vulnerability?

- Does globalisation change the capacity of the state to effectively provision for vulnerability?

Now the answer to both is: it depends. This answer is not a cop-out, for we can now put some more structure on it. In particular, there is a case for what might be termed a strong, but contingent, *complementarity* between globalisation and the provisioning of social security. It is contingent in two ways: on effective design; and on the interaction between globalisation and the structure of power and social identity in a society, here argued to be an underlying driver of the state's willingness and capacity to provision.

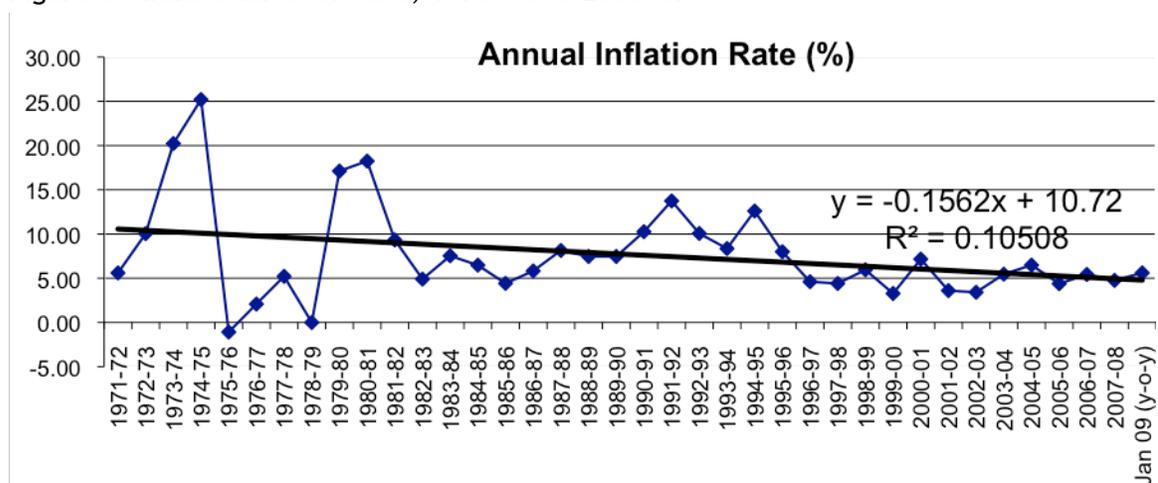
Writing in 2009, it may seem patently obvious that globalisation is a source of larger adverse shocks. International markets for oil and food have been a source of big increases in import bills and prices of essential commodities, that only fell when the global recession got under way. And the credit crunch, that originated in the subprime mortgage market in the United States, spread viciously around the world, either through direct effects on financial institutions who had to write down assets linked to the crisis, or through indirect effects on both economic activity and increased risk aversion in international financial markets. India was relatively shielded from direct effects, but felt the indirect effects both through international financial market channels and lower demand for exports from rich countries.

However, recall the two main sources of shocks reported by rural households in India are weather- and health-related (Figure 3.) Neither of these are directly affected by globalisation.ⁱⁱⁱ Indeed the big concern in 2009 was, correctly, the effects of the delayed monsoon. Nor was price volatility an invention of more integrated

markets. Indeed larger markets lead to lower price volatility, other things equal, though greater integration can lead to faster transmission of international price changes.

What of outcomes? Let's look at India's macro numbers, and take 1991 as the year in which the process of opening received a big, initial push. There is no evidence to support the view that opening led to increased vulnerability at the macro level: total output continued to grow rapidly in the 1990s (consolidating the growth acceleration that occurred in the 1980s) and then increased again in the 2000s. There was no year of negative growth. Or if we take either general or food inflation, the story is of steady decline in the average rate of change and lower fluctuations around this average (see Figure 4 for general inflation; food inflation displays a broadly similar pattern.) Now some of the success in avoiding increased fluctuations at the macroeconomic level is due to the avoidance of premature capital account opening, and reasonably prudent macro management (though there is a case for arguing that the biggest faults of the macro policy are too tight a monetary stance, inducing excessive slowdowns, see Bhalla, 2009). This highlights the complementarity between opening and domestic policy and institutions, and the need to tailor sequencing to domestic conditions—especially the depth and resilience of the domestic financial system.^{iv}

Figure 4. India's inflation rate, 1970/71 to 2006/07



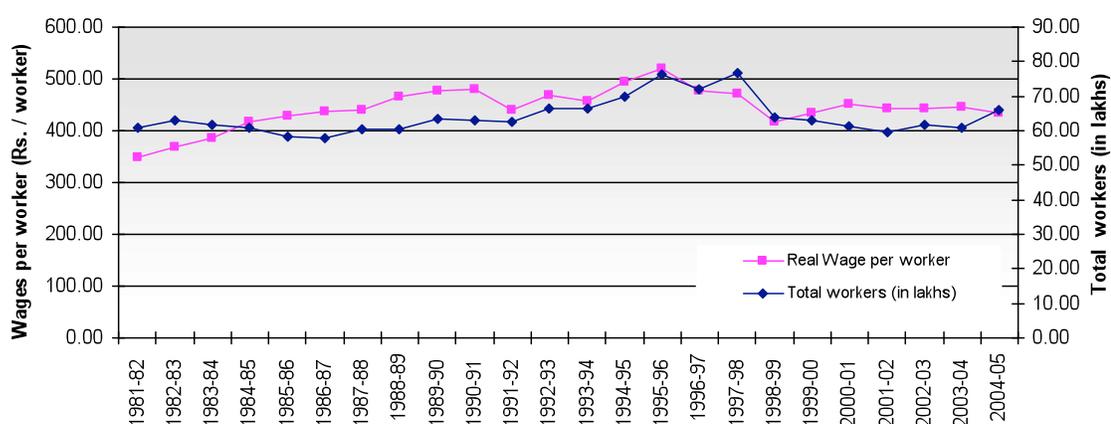
Source: Reserve Bank of India

These indicative macroeconomic numbers do *not* mean all is well. One issue concerns the management of external shocks when they do occur. But I would emphasize two more fundamental issues. First, vulnerability manifests itself at the micro and local level. Occasionally an economy-wide shock occurs that has society-wide consequences. But more commonly the shocks captured in villagers' responses in Figure 3 are individual or local.

Second, it is *desirable* to support the creation and destruction of activities as an intrinsic element of the process of economic transformation. Globalisation is likely to accelerate this—and indeed led to shakeouts in some industries in India in the 1990s, alongside positive aggregate industrial growth. Here there is indicative evidence of significant labour market adjustment in the organized industrial sector in the restructuring of the late 1990s. Both real wages and employment in this sector peaked around 1996-98 and then fell significantly, to levels prevailing a decade earlier (Figure 5). We don't know where laid-off workers moved to, but this is *prima facie* evidence of significant welfare losses for both those who retained and those who lost jobs. The

implication is that openness leads to an increased case for some risk-management instruments, both on welfare grounds, since there can be transition costs when jobs or activities contract, and on political economy grounds to maintain support for the process of economic change.

Figure 5. Real wages per worker and employment in India's organized industrial sector, 1981/82



Source: Annual Survey of Industries 2004-05 (Factory Sector)

Source: Annual Survey of Industries data base.

This brings us to the second question: does openness reduce the capacity of governments to provision for risks? This is part of the broader question of whether openness implies smaller governments. Here there is a striking empirical result from the cross-country patterns. Rodrik (1998) finds that more open economies tend to have *larger*, not smaller, governments, and interprets this in terms of the greater need (welfare or political) to provide social insurance with greater openness, to the extent the latter is associated with either higher shocks or a more intensive process of creation and destruction. There is also evidence that this relationship is causal.^v Lindert (2004) cites evidence that this relationship also held in the historical evolution

of industrialized countries, with those countries exposed to more external risks undertaking greater state-mediated provisioning for risks.

This empirical result is consistent with the specific experiences of developing societies that have been integrating into the global economy. Korea, for example, a case of major insertion into international markets, increased central government spending from 14 percent of GDP in 1995 to over 21 percent in 2005 (World Bank, 2008). The government had already embarked on expanded social insurance in the 1990s and undertook major *extensions* on provisioning for short-run vulnerabilities in the wake of the 1997/98 financial crisis.

How then does globalisation and vulnerability interact with local structures of power and identity? The relationship is ambiguous. Opening may undermine established political and social structures or those with more initial power, wealth and social status may benefit the most.

Let's focus on the question of unequal, culturally shaped identities, in relation to caste, tribal status, religion, and often also language and region of origin. These differences are associated with inequalities of work, education, asset-ownership and influence. Market-opening leads to shifts in the structure of production and consumption, greater movement between jobs and places, and typically greater rewards for education. This can be a force for breaking down historical shaped barriers of occupational and educational mobility across groups. Examples are changes in the caste composition of new entrepreneurs, with Other Backward Castes, and Brahmins for that matter, entering business activities from which they were

historically included (Damodaran, 2008). It is also reflected in *dalits* moving into activities from which they were previously excluded.

However, new market activities can also become an additional field in which those with initially greater influence, status or wealth gain most. This has the potential to lead to further rounds of domination and difference, along the lines of group-based inequalities. There is evidence of continued discrimination in the private sector against individuals from both lower caste and Muslim backgrounds: this comes both from in-depth interviews, and from the research technique of sending equivalent resumés to the same employer, except for names signaling caste or religious status. Applicants with lower caste and Muslim names were significantly less likely to be called for interview (Thorat and Attewell, 2007).

A further example of the complexity of interactions between market-driven change and social structure comes from Munshi and Rosenzweig's (2006) analysis of the interaction between educational expansion and gender in Mumbai. Traditionally caste-based networks were linked to traditional occupations, especially for working class boys. These were in turn linked to education in local language schools. They examine the effects of the increases to returns to English education in non-traditional, white collar jobs in the 1990s. They find that boys tended to continue to be channeled into local language schools, in line with traditional, caste-based network patterns, but that lower-caste girls, who had not benefited from such networks in the past, took much greater advantage of English education. In this case, increased marketisation—indirectly of globalization—was breaking one kind of traditional social differentiation, around gender, even while the caste-based system was impeding change for boys.

Then what is interesting is the potential intersection of two kinds of vulnerabilities:

(a) First, there is the overlay of economic vulnerability on the structure of social differentiation. One way that this can happen is if a more marketized economy leads to a decline in informal, insurance mechanisms that are related to the group-based identity. This is potentially either insurance amongst households within a particular group, or embedded in labour, credit or land contracts between individuals in different groups. While the latter can be asymmetric in the terms of power and status they are often structured to provide (implicit) insurance: for example, on a guarantee of work from a landlord, in return for a lower wage; or in the provision of credit for consumption, in return for a higher, explicit or implicit, interest rate. If such informal contracts decline in importance, households could become more vulnerable to adverse shocks—and this can map on to the pattern of group-based identity. Similar considerations apply when greater marketisation leads to increased variance in income in response to a shock, as when greater input-intensity, especially if credit-financed, leads to large declines in net returns in the face of drought. This has been a source of rise in suicides in some parts of India in recent years—though the incidence of suicides has been mainly amongst farmers, rather than landless labourers.

(b) Second, there can be interactions between market opening and the pattern of identity itself. Social identities are not static phenomena, but are shaped by social interactions. As already noted, this can sometimes lead to a reduction in the salience of historically shaped patterns of social differentiation, where markets are “blind” to patterns of identity. However, this is not necessarily the case. Markets are also

socially embedded, and market participants often use group-membership as a sign of a particular type—and this can potentially become self-enforcing. Glenn Loury discusses this in the context of race for the United States, though he argues that questions of stigma are even more important in perpetuating difference (Loury, 2002). But the point here is that the interaction can lead to identity changes, and these can potentially lead to sharpening of identity structures, as opposed to softening of social differentiation. Manuel Castells (1997) develops the concept of “reactive identities”, in which seemingly traditional patterns of identity are actually highly contemporary phenomena, shaped in response to new developments. As one example, he uses the Zapatista movement in the southern Mexican state of Chiapas—an identity formed in response, he argues, to the combination of social exclusion and political neglect, and one that took as part of its structure resistance to globalization, symbolically initiating its revolt on 1st January, 1994, the day that Mexico joined the North American Free Trade Area (NAFTA). While every movement is different, there are probably parallels with the identity of Maoist/Naxalite movements in India, that also have an anti-market ideology. I refer below to how the design of NREGA can be seen as supporting a more universal conception of citizenship, and so of identity.

Following this brief review of issues, let’s revisit the three “anti-globalisation” statements introduced earlier.

- *Globalisation intrinsically increased vulnerability.* There is no *intrinsic* link with vulnerability, but there can be channels of causation in which this occurs. Indeed, it is actually highly *desirable* that globalisation be associated with domestic processes of creation and destruction in order for the growth benefits

to be realized. Social provisioning to manage vulnerability always matters, but is even more important with greater international integration.

- *There are pernicious interactions with social inequalities, with subordinate social groups suffering disproportionately.* This is far from clear, and may go in either direction, where demands of the market help break down entrenched, unequal structures of social difference, especially when combined with the influence of ideas and information from globalizing forces. However, it is often the case that the greatest gains from globalisation are reaped by those best-equipped to respond, in terms of education, physical capital and connectivity. This reinforces the case for public action to level *up* the playing field. There can also be unexpected interactions with the structure of identity with heightened anxiety from economic vulnerability

- *Globalisation causes a race to the bottom, rewarding countries and industries with less provisioning for vulnerable groups.* There is no general evidence that this is the case, though there are specific examples. A probably important example of negative interactions comes in mining experiences, where there is extensive anecdotal evidence that mining is associated with substantial displacement of poor groups, and environmental degradation. There is evidence for this in India; in the extreme this can lead to heightened violence (Bhushan and Hazra, 2008). However, the more striking correlation is of the complementarity between social provisioning and greater openness. This is further supported by looking at the experience of industrialized countries, to which I now turn.

What did industrial countries do? Are there lessons from history?

Can history provide insights for India? The story of social provisioning for now-industrialized countries is one of a large, long-term increase in both reach and associated public spending, especially in the 20th Century (Lindert, 2004). It is also a story in which the rising voice of middle and poorer groups were a central driver of change. And it is one in which the extension of the state into supporting risk management went hand in hand with the deep increase in international integration. Take the most extreme example: by the end of the 20th Century the Scandinavian states ranked around the top *both* on the social spending scales amongst industrialized countries (and so in the world) *and* on competitiveness scales by bodies such as the World Economic Forum, that are far from being socialist in inclination! There are indeed plenty of specific debates over the efficiency costs of particular designs, and periodic significant reforms, but this has occurred within the broader context of a first-order *combination* of expanded social provisioning to manage risks *with* globalisation.

The contemporary Scandinavian benchmark is interesting, since it shows that even massive spending and tax involvement can be consistent with high levels of openness and high productivity. But more immediately relevant to India and other developing countries is earlier history. Bismarck is often credited with being the original designer of measures to manage the risks faced by workers, with the introduction of accident, sickness and old age insurance during the 1880s. Two things are interesting about the Bismarckian reforms. First, these were a reformist response to the revolutionary threat from Germany's Marxist Social Democratic Party—such a threat is one way of expressing voice. Second, they were tied to labour contracts:

sickness, accident, disability, and old age insurance were all mandated benefits, shared by employers and employees. This much-copied model is highly problematic for most developing countries, both on equity grounds, since it confines benefits to workers with such formal labour contracts (that applies to many, but not all, workers in India's "organized" sector) and on efficiency grounds, since it tends to raise the costs of formalization, and increase resistance to job losses for those who have a formal sector job. This has become a central problem for middle income countries, such as Mexico, significantly complicating the politics and economics of both social policy and labour market reform. When formal sector protection is tied to the labour contract, the—otherwise desirable—extension of social protection to the informal sector amplifies the incentives to stay informal, with potentially significant static and dynamic efficiency costs.^{vi}

An alternative model that emerged in the first half of the 20th Century involved directly government-mediated social provisioning. A good example is the United Kingdom. The Beveridge Report (1942) was conceived and written in the middle of the Second World War, and formed the basis for the post-war settlement, at a highly propitious moment for a new social compact: the vote had been extended to all women only in 1928, and this combined with the unusually high degree of solidarity bred of the war itself, including between the working and middle classes. Also relevant was the fact that the measures were partly sold on the basis of the need to support the competitiveness of British industry, through the state taking care of social provisioning. Note, for example, the principles on which the report opens:

“..Proposals...should not be restricted by considerations of sectional interests... Organisation of social insurance should be treated as one part only of a comprehensive policy of social progress. ..Social security must be achieved by co-operation between the State and the individual. The State in organising security should not stifle incentive, opportunity, responsibility...” Beveridge Report, 1942 p.1

Actual provisioning included the universal National Health Service, unemployment insurance and old age pensions. All of these were revenue-financed and all involved generalized rights of all citizens.

While there was a wholesale expansion in social provisioning to manage risks across the industrialized world, there were differences. Scandinavia and then Continental Europe developed the highest level of provisioning, followed by the UK, and then, some way behind the United States and Japan. In exploring the reasons for both the generalized increase and the variation, Lindert emphasizes five factors:

- increased voice—with the consolidation of democracy
- need—with the aging of the population
- globalisation—with the rise in felt needs to manage change
- rising income per capita—providing resources for provisioning
- social affinity--especially between middle and poorer groups

He also gives a supporting role to ideology and religion, for example Catholic countries, since the Catholic Church and affiliated parties “shed their economic conservatism after World War II” (Lindert, 2004, p. 189). The big difference,

especially between the United States and Europe, lies in lower social affinity between middle and poorer groups in the former country. In an extensive review of potential economic and political sources of this difference, Alesina and Glaeser (2004) emphasize the lack of identification between middle and poorer groups, associated, in part with social differentiation on racial lines. This is supported by belief systems, and especially the stronger belief in the United States that the poor could enjoy upward mobility if they exerted effort. In the World Values Survey, 60 percent of the general public in the United States believe the poor are “lazy” compared with “only” 26 percent of Europeans—though in reality there is no systematic difference in work hours across countries. There is indeed a difference in mobility at the bottom—but with *lower* upward mobility of the American poor (contrary to the myth of opportunity) and especially amongst blacks, and conversely, lower downward mobility into poverty of the middle classes.

How does India compare with this list? Voice is clearly high, given the vigorous democracy, with disproportionately high voting amongst poorer groups (contrary to the pattern in most countries). India is also relatively open, compared with the historical position of industrialized countries. Needs are also clearly high, if with a different structure—and there is a case for arguing that with increased political pressure the now-industrialized countries would have responded more vigorously to the patterns of vulnerability of earlier times. What of income per capita? Isn't India at a starkly lower level of income? In fact at purchasing power parity, India's 2007 income is around 40 percent of the UK's in 1946.^{vii} This is lower, but not dramatically so. By contrast social affinity is more complex and almost certainly

lower in India than in European countries. The heritage of the caste system, the socio-cultural differentiation and generally lower *de facto* status of scheduled tribes, has bequeathed greater social distance between middle and (some) subordinate groups. Ahmed and Varshney (2007) argues this is a source of the weakness of pro-poor political coalitions. This is an issue that needs to be taken account of in the design of social provisioning for risks.

So what happened to all the costs of expanded social provisioning in industrialised societies? Why have massive increases in spending not been associated with big impacts on effort and large costs from the associated taxation? There surely are some distortions, and there are continuing debates on the need to reform “sclerotic” continental European social systems. These matter for future dynamism. But it is hard to argue these have had *first order* effects that has held down past growth for the now-richest group of countries in history (outside a few oil states), or on any differential performance of, say, the Scandinavia countries. Lindert argues that an important part of the explanation lies in smart design: with respect to the inter-country comparison, Scandinavian countries have paid much more attention than the United States (or much of continental Europe) to reducing the disincentive of both social provisioning and taxation. I would also suggest that the complementarity between broad-based systems of social provisioning and the process of creation and destruction also underpinned the long-run productivity increase that lies behind current wealth.

Some implications for India

So for a country such as India, rapidly integrating into global markets, fast-growing and undergoing major internal economic and social transformations, what

makes sense? This is not the place to review the wide array of existing programmes^{viii} (see World Bank, forthcoming, for a review). I rather conclude this essay with some general remarks on design principles, the current policy mix, and a specific look at the National Rural Employment Guarantee Act.

The first, overall message is that social provisioning for risk is a central element of the process of economic growth and structural transformation, and not an add on. Theory, experience and history all support the view that government-mediated action to support management of risks faced by households is desirable on efficiency and equity grounds, is likely to be more important with globalisation, and can be done.

In the design of social provisioning, both the policy mix and technical design can make a major difference:

A sound policy *mix* involve action in all three areas of risk reduction, *ex ante* risk management and *ex post* coping. Risk reduction includes areas from macroeconomic management to flood control. Supporting *ex ante* risk management includes broadening of the financial system, and design of insurance options (for example for health, weather, old age). Supporting *ex post* coping includes a range of what are traditionally termed safety net measures (or at least those aimed at vulnerability rather than chronic poverty.) While the primary focus of most assessments of systems of social provisioning lies in the performance of the set of *ex ante* insurance and *ex post* instruments, it is important that these be considered within the broader mix of risk management policies and institutions..

Turning to technical design of the insurance and coping-related instruments, the central issues concerns the relationship between the structure of risks, the nature of market failures, and instrument design. Instrument design in turn concerns the mix, targeting (who uses the scheme) and effects on behaviour. On mix, it is almost certainly the case that a range of schemes will be required (though undoubtedly smaller than the number of schemes that exist now), since design and delivery questions are quite different for dealing with health, weather, employment and price-based risks. With respect to targeting, the question is often framed in terms of how effectively a scheme reaches the poor, that is the extent to which it covers only and all the poor. But this is not the right question for vulnerability: the issue is whether the instrument mix reaches all uncovered *risks*, and at what economic cost, in terms of changes in behaviour and market-based outcomes. This applies to both poor and non-poor households prior to a shock. Of course, what matters most are (uncovered) shocks that are both large and hit the poorest households, since losses in well-being are greater the lower the initial wealth, as noted above. There are also questions of the extent to which insurance is financed by charges or general tax revenues. But there are sound economic reasons for comprehensiveness, as well as political economy ones. A final general comment concerns the effects on behaviour and markets: this is central to an evaluation of any scheme, since it defines the counterfactual of what would occur in the absence of the policy. Often there will be costs. A classic example is unemployment insurance, that reduces welfare declines when a worker loses his job, but typically also reduces efforts in finding a new job. There can also be benefits. To take an example from an area involving a largely non-risk based transfer: “conditional

cash transfers”, in which cash is provided to a poor household if a child goes to school (or other human capital related activity), induces behavioural changes that *offset* market imperfections linked to financing school attendance, that are the basis for the intergenerational transmission of inequality.

Of equal importance to technical design is the interaction with functioning of the state. As discussed above, the Indian state typically works as part of a patronage democracy in which the bureaucracy and politicians manage programmes with the objectives of increased political influence and personal enrichment, as well as the intended goals of the programme. The evaluation of social provisioning needs to take this into account: how far is the design of schemes aligned with clientelist and personal enrichment, relative to efficient risk management? And assuming some degree of policy autonomy and some weight to broad social welfare goals of policy framers, exactly the same question needs to be posed with respect to new schemes.

So how does the Indian policy mix look relative to these considerations? A broad brush assessment would be: quite high with respect to overall effort, but low with respect to both mix and design (though I come to NREGA below.) Here’s a summary assessment.

- *Risk reduction.* Avoidance of macroeconomic fluctuations has been reasonably good. But action on efficient sectoral and microeconomic mechanisms for risk reduction has been varied, and often poor. The expansion of irrigation has undoubtedly had large impacts on farmers affected, but actual management was bedevilled by corruption, when carefully analyzed in the 1980s (Wade, 1984). It is unclear whether it has improved. Management of common pool resources,

notably groundwater, has been dismal. Private wells have led to large, medium term benefits of reduced water variability, but this is likely to be a source not only of water shortage but also greater water-related vulnerability in the future. Subsidies to power have exacerbated over-exploitation.

- *Finance.* There has been substantial effort on the first leg of provisioning of mechanisms for *ex ante* risk management, that of broadening financial access, for example in the push to expand rural banking. But results have been weak, with the bulk of rural households still without access to the formal financial system in the early 2000s (Basu, 2006). It is too early to judge the recent push for financial inclusion.
- *Social provisioning for ex ante insurance and ex post copying.* Effort has been quite high: over 2 percent of GDP on government spending for social safety nets is a substantial outlay for a low income country; health spending and emergency relief for disasters is on top of this. But results have been weak, because of both the mix and design issues. Here are the main features.
 - Until the introduction of the NREGA, total outlays were dominated by the Public Distribution System of subsidized food and kerosene through dedicated shops. While this can have benefits in reducing price fluctuations, it is intrinsically a weak instrument for most state-contingent risks, and is riddled with problems of inefficiency and diversion, making it a very high cost instrument (Radhakrishna and Subbarao, 1997).

- The health system does remarkably poorly in providing for catastrophic risks—especially in poor rural areas (see Banerjee, Duflo and Glennerster, 2007, for an account of part of the health system in rural Rajasthan.)
- Beyond these core areas, there are a wide range of smaller schemes, including midday meals for children, local public works, pensions for widows and disabled, and school stipends. Many of these bring positive benefits, though many are not directly linked to vulnerability, and many of those aimed at transfers to the chronic poor have well over half of their beneficiaries amongst the non-poor.
- Some of the major Indian social transfer programmes, including the PDS, make use of the Below Poverty Line (BPL) categorization, that is a form of asset-based proxy means test, as the eligibility criterion. This is likely to be a poor measure of cost of shocks, since it reflects longer-term wealth—in addition to its intrinsic weaknesses in categorizing the poor (Jalan and Murgai, 2008) and susceptibility to administrative corruption.
- All programmes are embedded in state delivery systems, and subject to the vagaries of patronage and diversion. Some observers (Kapur, Mukhopadhyay and Subramanian, 2008) see this as a fatal weakness given the ways in which state systems operated.

This brings us to NREGA, probably the most ambitious scheme for risk-management ever developed for a poor country. As is well-known, it involves a guarantee of up to a 100 days of work per rural household within 5 kilometres of residence at the state's

agricultural minimum wage.^{ix} Targeting is by self-selection, that is purely by the willingness of person to undertake unskilled work. Public works schemes are implemented by local governments, and not contractors. It is backed by an extensive set of rights to information, requirements on transparency and other social accountability mechanisms. It was launched in 200 districts in February 2006, and has since been extended throughout India. It has been controversial, especially in the wake of the report of the Comptroller and Auditor General of India (2007). This found significant deficiencies in implementation—though, as argued by Siddartha and Vanaik (2008), the CAG's assessment was a very partial one, that was extensively misinterpreted in the public debate. In mid-2008 there were further concerns with the murder of activists who were working to ensure the required accountability measures were followed.

There are undoubtedly important issues in implementation, but it is too early to form an overall assessment on impacts. Here I only seek to place the scheme in the context of the issues raised in this essay.

- *Technical design.* The scheme has a set of design attributes that make it highly attuned to risk-management for rural areas. The guarantee is crucial to this. It implies that households with able-bodied workers can systematically get access to wage work, in response to the full array of either idiosyncratic or common shocks. It is thus appropriate for weather or other agricultural shocks or to health-related shocks—provided, in the latter case, there is still available household labour supply. In this respect it is a complement to health insurance, that only pays for health costs, not for foregone income. In terms of effects on

household behaviour and markets, there is likely to be diversion from other, lower-paying uses of labour (that reduces the net transfer benefits; see Murgai and Ravallion, 2005). But this has additional welfare benefits when it strengthens the local bargaining position of labor-surplus households in local labour markets, and puts an effective floor on local wages.

- *Governance design.* The design for governance can be seen as both a well-articulated response to the functioning of the Indian state, and a gamble. Taking contractors out of the system reduces incentives for distortions, while the innovative range of transparency and social accountability mechanisms makes malfeasance by local officials more difficult, and the right to the programme more likely to be meaningful. As the CAG report and field investigations reveal, in some states there is considerable abuse. This is especially so in poorer states such as Jharkand (see, for example, Bhatia and Drèze, 2006). There is also concern over lack of governmental staff support for planning and managing the public works. It is too early to assess how effectively these will be resolved. It is in these respects that the scheme is a gamble with respect to implementation. The objective of NREGA being a permanent, institutionalized programme, and a central pillar of a broader set of risk-management programmes, depends on it not being distorted by the functioning of the Indian state, that is not becoming yet another badly implemented poverty programme.
- *The role of rights.* NREGA seeks to change the way the state functions. At its core is a conception of universal citizenship—linked to a rights-based approach unrelated to either influence or identity. This potentially changes the dynamic of

interactions between individuals, groups and state actors. If the act works on the ground as it is intended to, the natural alliance is with other workers, and with those who can support the claims, including through the social audit mechanism—precisely because of the universality. Thus the right is essential. Does this mean that social mobilization is unimportant? Not at all: indeed the NREGA worked best when it has been in areas where there has been a history of social mobilization, and this is sometimes on identity-based grounds, for example around a local tribal identity. However, unlike the pre-existing system, the access to resources, in this case work, should not be a function of discretion, or patronage, of politicians, bureaucrats or contractors. This potentially has psycho-social effects, since a right is associated with an affirmation of the dignity of those seeking that it be executed, as opposed to the subtle or not-so-subtle humiliation of seeking patronage from those in positions of social advantage.

- *Political alignment.* Passing the NREGA was a product of a concerted process of social and political action. A final question concerns the extent to which NREGA is aligned with underlying political processes. At one level, there is a parallel with the broadening of systems of social provisioning to manage risks in now-rich countries—as in the support for the Beveridge Report in the UK, and more generally in the wake of the expansion of the vote. India has in principle a political structure supportive of such broad-based provisioning, especially in light of the salience of the rural vote, and the fact the poorer citizens have a higher propensity to vote. Furthermore, the choice to make NREGA an act was

intended to provide some resilience to shifting political winds. But politics still matters. There are a range of contingent factors, around budget allocations from the centre and the states, and, especially, around the effectiveness of implementation of the scheme on the ground, and the protection of rights. This will be influenced by political considerations, perhaps especially at the level of State Governments. So far, the signs are that NREGA is indeed evolving into a scheme that has broad political support. It was indeed strongly associated with the Congress-led, United Progressive Alliance, that put forward the act in 2005, and was expanded to the whole country under this government and featured in their election campaign for 2009. But implementation was by no means confined to UPA-run states. It has been particularly strong, for example, in Rajasthan, that was run by the opposition coalition until the recent elections. More broadly, NREGA appeared to be increasingly accepted across the political spectrum throughout India, with even competition over raising the wage—for example in Uttar Pradesh. There remains the risk that political and administrative processes of patronage and corruption will undermine some of the core principles of the scheme, but this is a separate question from whether it is broadly self-enforcing politically.

Thus on efficiency, equity, governance and political alignment, NREGA has attractive design properties. There are important open questions on implementation, deeply linked to whether it can work against—and indeed contribute to changing—the functioning of the India state. Is it only a handout, supporting current consumption as opposed to the investment needed to equip workers for change? There are important

consumption benefits. However, if the scheme effectively provides as guarantee, it will help poor rural households to escape from high-risk traps, allowing them to invest, in addition to reduce the need for households to sell off their capital when adverse shocks occur. This has, of course, to be complemented with a whole set of other programmes around education, health, infrastructure and so on. And is it affordable? Globalisation requires substantial investment in infrastructure and skills to support India's structural transformation, and has a substantial public debt burden. But NREGA should be financeable over the medium term from a combination of reallocation from other social programmes and increases in taxes. There are many other programmes that are worse on *both* efficiency/growth promoting grounds as well as equity grounds than a reasonably well implemented NREGA. PDS and energy and fertilizer subsidies are just a few of the examples. Over the long term, NREGA should gradually decline in importance as urban-based mechanisms for unemployment insurance rise in importance.

Conclusion

Globalisation is here to stay. It brings potentially large opportunities. Failure to make use of the economic opportunities would severely hurt India's growth and structural transformation process. By itself globalisation is likely to have little or no impact on the most important sources of current vulnerability faced by Indian households, notably health and weather-related shocks. But the global market developments of the past few years vividly show how international turbulence can be transmitted across borders. India has been partially protected from the subprime crisis by the incomplete integration of her financial system. A relatively slow pace of

integration in the reform process of the past quarter century probably led to foregone gains in efficiency and productivity, but also provide a degree of protection against adverse events.

More fundamentally, reaping the benefits of globalisation depends on domestic structures that support the creation and destruction of activities that is central to long-term growth. This essay has argued that institutionalized risk management structures are a *complement* to globalisation. This is for reasons of efficiency—given the widespread failures in the market for insurance; of equity—given the highly unequal distribution of the capacity to manage shocks); and of political economy—since the powerful have greatest leverage to influence discretionary policy when a crisis hits.

Of course there are good and bad designs. But the international and historical evidence provides support for the view that such comprehensive provisioning is feasible as well as desirable. India has made some important innovations—with NREGA potentially the most significant—but has a long way to go to build such a system. It also has a host of ineffective programmes, embedded in patronage and rent-seeking structures.

A particular aspect of the nexus between vulnerability and globalisation lies in the functioning of social identities. Globalisation has complex interactions with the structure of identity: it may contribute to reducing the salience of hierarchical and exclusive patterns of identity, for example through expanding market opportunities for groups who historically suffered adverse terms of recognition, that is social identities subject to discrimination or humiliation in India society. But there can also be adverse interactions, when globalisation creates opportunities for economic change that are

aligned with established power structures, and social groups with weak influence suffer attacks to their economic, social and cultural positions—as in some of the interactions between mining ventures and *adivasi* groups. Identity is dynamic, and changes induced by globalisation can be both a source of affirmative change and of anxiety—and this may add to conflicts around economic designs.

Building a comprehensive, institutionalized system of social protection in India will involve confronting all these issues: of the relationship between design, efficiency and equity; of the political economy of securing support for an institutionalized system; and of recognising the interactions with the structure of social identity in India society. This will involve transforming the functioning of the Indian state, that is significantly embedded in historically shaped structures of power and identity.

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ⁱ This is intuitively very likely to be true for given absolute changes in wealth; it is often assumed that this is also true for the same proportional changes.

ⁱⁱ In economic parlance, people have diminishing marginal utility of income.

ⁱⁱⁱ There may, of course, be second round effects from the cost and availability of drugs, for example. In India's case, the dramatic growth of the pharmaceutical industries—that has greatly increased access to drugs—is positively linked to the globalisation.

^{iv} There is an important question over how to design the process of opening of the financial sector to induce deepening; but that is not the focus of this paper.

^v Rodrik explores this through use of the exogenous component of trade (as calculated from measures of distance and population size) in the regression equation explaining government size (Rodrik, 1998).

^{vi} See Levy (2008) for a full discussion of the Mexican case.

^{vii} This is based on calculations derived from Angus Maddison's data series, updated for recent Indian growth; see Maddison (2009)

^{viii} See World Bank (forthcoming) for a recent review.

^{ix} This was increased to 100 days per person in the 2009 drought. But here we are concerned with the general principles.