

Strengthening Productive Capacity at the Base of the Pyramid: Creating Policies for Inclusive Capitalism

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The BoP, Informal Sector and policies for Development and Poverty Reduction

- Definition of BoP and the Informal Sector
- Most of people at the BoP are working in the informal sector
- Public policies: macro and sectoral (industrial, agricultural, social, etc.)
- Poverty Reduction perspective, poverty=lack of development
- Multidimensionality: income poverty central element, but not the only dimension
- Public policies and business environment

Poor as Consumers and Producers

- The difference is not clear-cut
- Productive capacity is essential for poverty reduction
- Reduce income poverty = increase opportunities to consume
 - increase income from wage own account employment
 - lower price and/or extend supply

Poor as Consumers: some policy examples

- Consumer policy: prices and quality
- Competition law
- Environmental policies
 - dangers of of single-serve strategies

Strengthening Productive Capacity

- Poor as producers are also consumers of intermediate goods: ITC, finance, energy
- Inclusive value-chains

Fundamentals of Inclusive Capitalism: identity and property rights

- Identity of natural persons
- Legal personality
- Property rights

Be aware of the Predatory State!

- The State does not always look for the best for the people
 - control, conscription, taxation
- People want to avoid the State, not get "formalized"
- Speak softly and carry a big stick
 - nice development plans and PRSPs combined with eviction of squatters and destruction of market places
- Facilitating or inhibiting: taxation and other regulation

Call Jimmy Hoffa!

- Labor policies and the informal sector
 - too lax policies -> abuse of "entrepreneurs"
 - too tight policies -> reduce job opportunities and possibilities for earning a living
- Informal activities should not be romanticized:
 - "hero entrepreneurs and champions of solidarity"
 - informality is often connected to poverty and poor working conditions

Where is the Sheriff?

- Officials have lost the battle in the big cities to slum-lords and mafiosos
- Informal economic activity is not cheaper, it is more expensive
 - corrupt officials, slum-lords and loan-sharks
- No mans land: no maintenance of infrastructure and no public services

Trade policies for the Poor

- Trade policy is mostly targeted for the benefit of formal sector enterprises
 - free zones, tax deductions, subsidies and finance
- Some exceptions, such as Special Safeguard Mechanisms
- Cross-border informal trade, e.g. Haiti-DR
- Business development services instead of harassment
- Basic skills, not negligence
- Micro-credit requires also micro-savings

A Grand Policy Mistake

- In the 1980s -> 80% of total ODA was directed to strengthening productive capacity and infrastructure. Now around 30%
- Hard core Washington Consensus has not yielded results in the poorest countries
 - The Growth Report (Spence)
 - There is demand for a more proactive state
 - World Bank asks for the visible hand of state

Capital for the Poor

- The ghost of Marx
 - developing countries need capital not money
 - money is just one of the forms that capital takes
- Transforming money to capital
 - property rights
 - capital is abstract, not physical -> representing resources in a virtual context
 - ideas -> education and capacity-building

Will the Empire Strike Back!?!

Inclusive capitalism needs a stronger,
not a weaker state !