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**POVERTY AND EXCLUSION, RESOURCES AND  
RELATIONSHIPS: THEORISING THE LINKS BETWEEN  
ECONOMIC AND SOCIAL DEVELOPMENT**

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WeD is a multidisciplinary research group funded by the ESRC, dedicated to the study of poverty, inequality and the quality of life in poor countries. The research group is based at the University of Bath and draws on the knowledge and expertise from three different departments (Economics and International Development, Social and Policy Sciences and Psychology) as well as an extensive network of overseas contacts and specific partnerships with institutes in Bangladesh, Ethiopia, Peru and Thailand. The purpose of the research programme is to develop conceptual and methodological tools for investigating and understanding the social and cultural construction of well-being in specific countries.

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# **POVERTY AND EXCLUSION, RESOURCES AND RELATIONSHIPS: THEORISING THE LINKS BETWEEN ECONOMIC AND SOCIAL DEVELOPMENT .<sup>1</sup>**

## **SUMMARY:**

This paper investigates the nature of illbeing in a Latin American context, with particular reference to debates over the relationship between resource endowments and processes of social exclusion and inclusion. It does so by summarising and criticising one particular approach - the social exclusion theory of the Peruvian economist Adolfo Figueroa. The paper outlines how his sigma society model explains the persistence of dualism, inequality and poverty in developing societies such as Peru. What is novel for economics is how the persistence of dualism and inequality are endogenous to the model; this is because of the interest elite groups in Peru have in investing in status differences and cultural barriers to defend unequal power relations. The model warns against a false optimism that economic growth can resolve the structural dynamics that reproduce exclusion and poverty. Going beyond the model the paper argues that a more realistic framework acknowledges greater fluidity in the negotiation of relationships, rather than assuming these are quite such a rigid function of people's resources. This paper is a revised version of Chapter 9 of the forthcoming book, *Wellbeing in Developing Countries: From Theory to Research*, edited by Ian Gough and J Allister McGregor, to be published by Cambridge University Press.

**Key Words: Peru, inequality, poverty, exclusion, dualism**

**Key Reading:** \* Altamirano, T., Copestake, J., Figueroa, A., & Wright, K. (2004). Universal and local understandings of poverty in Peru. *Global social policy*, (4),3:312-336.

\* DFID (2005) *Alliances against poverty: DFID's experience in Peru, 2000 to 2005*. London: Dept. for International Development.

\* Figueroa, A. 2003. *La sociedad sigma: una teoria del desarrollo economico*.

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<sup>1</sup> This paper has benefited from numerous criticisms of earlier drafts, particularly those of Allister McGregor, although I cannot claim to have done justice to them all.

[Sigma society a theory of economic development]. Fondo Editorial, Pontificate Catholic University of Peru, Lima.

\* Figueroa, A., Altamirano, T., & Sulmont, D. (2001). Social exclusion and inequality in Peru. Geneva: ILO.

## 1. INTRODUCTION

Debates about development hinge in no small measure on the importance people attach to material resources *versus* social relationships, both as ends and as means. These are particularly evident when one person or group seeks to help another. A food transfer, for example, can be condemned as patronage or applauded as social protection, depending upon the social and symbolic compromises bundled up with it. Development is never as simple as it seems, and the full significance of any one action can only be assessed as part of a wider analysis of how poverty and other welfare outcomes are produced in a particular time and place. While ultimately interested in the general question of how best to identify opportunities (public and private) for action to reduce poverty, the paper is more modest in scope. Its method is to summarise one particular approach to structural analysis of poverty (social exclusion theory as elaborated by the Peruvian economist Adolfo Figueroa) and to subject it to constructive criticism. In so doing, it seeks to contribute towards general understanding of how inventories of resource endowments are only as useful as the analysis of exclusionary/inclusionary processes arising from their use that accompany them.

There is a strong Latin American tradition - embracing dependency theory, structuralism, liberation theology, Freirian pedagogy and post-developmentalism - of emphasising the importance of relational dimensions of development alongside the material. In a study sponsored by the International Labour Organisation, Figueroa, Altamirano and Sulmont (2001) add to this tradition by applying the concept of social exclusion to the Peruvian context. They start by classifying people according to their holdings of human, material, political and cultural resources. They then explore how social exclusion processes affect the way resources are used

to produce welfare outcomes in three domains: cultural, political and economic. Cultural exclusion - on racial and ethno-linguistic lines – is particularly important in Peru, they argue, providing the basis for a horizontal/hierarchical stratification of social networks. These networks in turn underpin political exclusion of non-native Spanish speakers from adequate social protection and formal education, and this in turn reinforces economic exclusion, particularly in the labour market.

Figueroa (2001a, 2001b, 2003) extends this approach into a more formal and general theory of economic development. Section 2 presents a non-technical summary of how one part of this theory (the *sigma* society model) explains persistent inequality and relative poverty as a low level equilibrium trap. The *sigma* model's theoretical originality rests in demonstrating that economic dualism can be endogenous to a general equilibrium model that assumes all actors are rational and self-interested in pursuit of their material interests. As an exercise in positivist analysis, its main empirical claim is to be able to explain the persistence of high levels of inequality not only in Peru but in several Latin American countries and perhaps beyond. As such, the model provides a counter to the optimistic assumption of most (particularly Western) development economists that the onslaught of capitalism inevitably erodes economic dualism and other forms of market segmentation, and that economic development can usefully be analysed independently of social development. This may seem a rather pessimistic finding, but it can also be viewed more constructively as a way of highlighting the extent to which economic growth and inequality reduction are dependent upon cultural and political mobilisation, not least through advocacy of human rights. This is in stark opposition to the more common assumption of economists that improved human rights are more likely to *follow* economic development than to be a *precondition* for it.

Section 3 looks more critically at the Figueroa's *sigma* model. Part of the problem with it is that in rising to economists' norms of rigour, it introduces simplifying assumptions that put off other social scientists. The deterministic exposition (linked to the ambition to turn the argument into a mathematically precise and rigorous model) also appears to rule out potentially important possibilities for change. I argue that there is scope for recasting the model within a broader and more open *inclusion/exclusion framework*. This

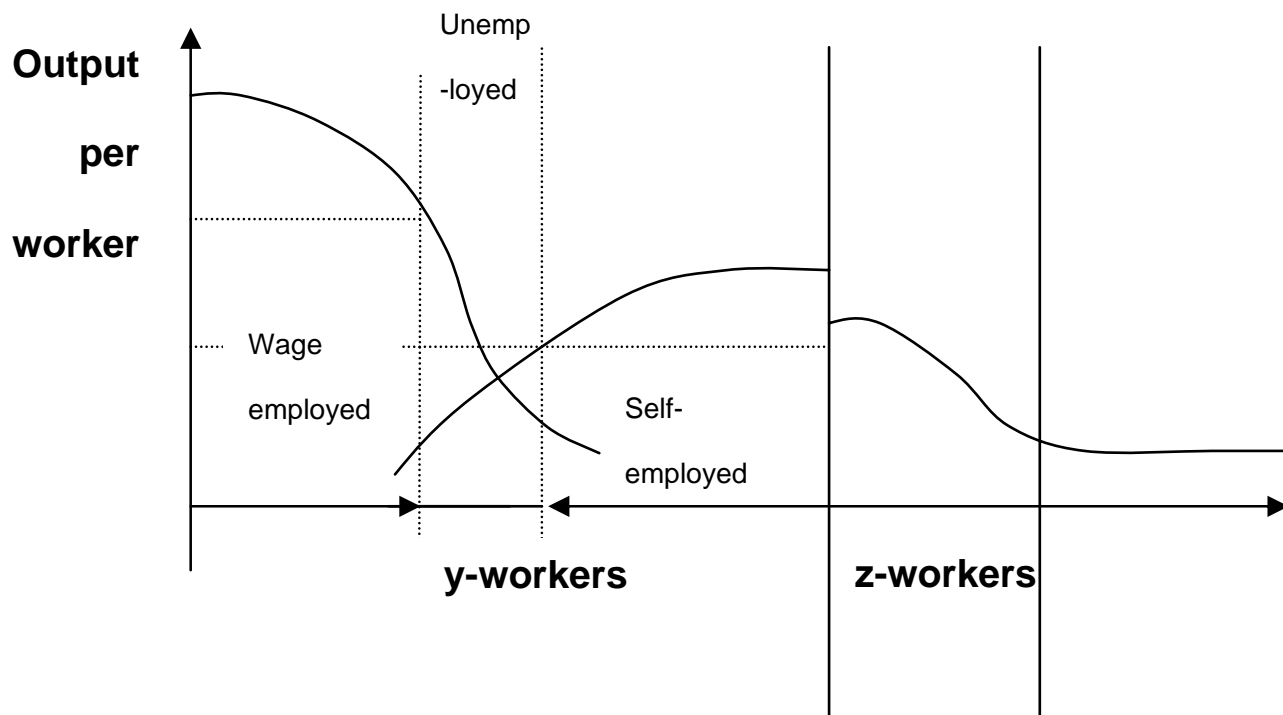
partially represents a reversion to the original exposition of Figueroa *et al.* (2001). However, the six criticisms made of the *sigma* model apply to this paper too.

Section 4 considers briefly the potential relevance of an inclusion/exclusion approach to development policy and practice. I argue that its more negative and realistic flavour is helpful in identifying potential 'pressure points' and 'drivers of change' that take into account system interests of others and the development agencies' own limitations. A simple diagrammatic model is presented to emphasise these points. More specifically, I argue that the *sigma* model, for all its limitations, indicates how the intellectual basis for a human rights based approach to development can be grounded not only in moral philosophy but also in a hard-headed analysis of how to confront key structural constraints to economic progress.

## **2. FIGUEROA'S 'SIGMA ECONOMY' MODEL OF SOCIAL EXCLUSION**

In addition to explaining the persistence of high rates of inequality within some countries, Figueroa (2001a, 2001b, 2003) is also concerned to explain the slow pace of convergence of per capita income between countries. To this end, he develops three distinct models of capitalism at the country level. The *epsilon* economy has homogeneous skilled labour, though unemployment persists as a device for disciplining workers (Shapiro & Stiglitz 1984). The *omega* economy is characterised by excess labour supply, divided between direct employment by capitalists, unemployed and self-employment in an informal sector with limited access to financial services. The *sigma* economy has two types of labour: y-workers are skilled, and divided between the same three activities as workers in the *omega* economy. Z-workers, in contrast, lack the skills to secure high-productivity employment and can secure income only through self-employment, and in generally lower productivity activities than y-workers due to their lack of skills (see figure 1). Those y-workers unable to find employment in the high-productivity sector choose either to remain unemployed or opt for self-employment. Subsistence employment of z-workers is completely separate.

The main emphasis in this paper is on the *sigma* model because it is the most elaborate of the three, and the one that Figueroa argues is consistent with the persistence of inequality in Peru and countries with a similar colonial past. Two questions immediately arise. First, what prevents z-workers from acquiring skills and thus becoming y-workers? In other words, what stops the *sigma* economy from transforming into an *omega* economy? Second, what prevents capital accumulation proceeding to the point at which all y-workers are either unemployed or employed in high-productivity activities? In other words, what prevents the *omega* economy from transforming into an *epsilon* economy?



**Figure 1** The Figueroa *sigma* model

To answer these questions it is first necessary to provide a fuller description of the *sigma* economy model. This is first an exercise in static equilibrium: establishing the distribution of employment and income for a given distribution of assets, and set of goals. Dynamics of economic development are then explored by considering how this equilibrium changes in line with capital accumulation, as well as various exogenous shocks, such as a rise in the money supply and trade liberalisation. The economy comprises four 'stakeholder' groups: capitalists, politicians, y-workers (skilled labour) and z-workers (unskilled labour). Capitalists seek profits. To do so they are willing to take risks, so long as these do not expose them to such large losses that they would cease to belong to the capitalist class. Politicians seek to maximise political power, and the utility of workers is positively related to income and negatively to the drudgery of labour. Capitalists, self-employed y-workers and self-employed z-workers all produce a standard good, B. In other words, the *sigma* model ignores specialisation in production.

There are three types of economic asset: physical capital, skilled human capital and unskilled human capital. There are also two kinds of social asset: political capital and cultural capital. The former consists of influence over government powers to tax, to spend and to regulate. The latter consists mainly of hierarchically ordered social networks through which political capital is mobilised, protected and used. Cultural capital is strongly linked to race, ethnicity and language – personal attributes that change over time, but cannot easily be traded or transferred to others.

The initial endowment of social and political assets is taken to be the outcome of a historical or foundational shock, typically colonial incorporation (on racial lines) into global capitalism. Capitalists own most physical capital and derive most of their income from profits. They are also rich in political and cultural capital. Y-workers own little physical capital, but are skilled. Their endowment of political and cultural capital is less than that of capitalists, but greater than that of z-workers, who have least human, physical, political and cultural capital.

Static equilibrium positions of each group of stakeholders are explored in two stages. First, Figueroa reviews what he calls *basic* markets for labour,



capital and insurance. Second, he considers the quasi-market for power, with politicians acting as power brokers between other stakeholders. In the labour market, the private marginal cost of training z-workers exceeds the private marginal benefits to capitalists. As a result they are excluded from wage employment, and restricted only to self-employment at relatively low levels of productivity. Y-workers face three possibilities, as already briefly discussed and as illustrated by the diagram. Their first preference is to work for capitalists at an efficiency wage,  $W$ , that is set at a premium over and above that which would clear the market for y-workers. Second they can be self-employed and earn income equal to their marginal product, subject to their limited access to capital and to diminishing returns. Third they can be unemployed but available for work by capitalists. Equilibrium in the market for y-workers is set by the condition that  $W$  multiplied by the probability of getting a job must be equal to the marginal product of y-labour in self-employment.

Z-workers are self-employed and produce B, but less efficiently and also subject to diminishing marginal returns. They are prevented from transforming into y-workers principally by lack of education (see below), but also by exclusion from opportunities for learning-by-doing through employment within the capitalist sector and the small businesses of y-workers. Migration, as formalised in the Harris-Todaro model is concerned with rural-urban and inter-sector movement. But the dualism in the sigma model is primarily social not geographical. Z-workers can move to the cities and from agriculture to services in large numbers, but they still face huge barriers to acquiring skilled employment - entry barriers that may be shored up by y-workers as fast as z-workers pull them down.<sup>2</sup>

Turning to the capital market, y and z workers with small businesses have vastly inferior access to credit because their capacity to service debts relative to the fixed costs of providing them is small, and this greatly reduces risk-adjusted net returns to private sector suppliers. They also have less

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<sup>2</sup> Even if z-workers succeed in educating themselves and improving their skills, y-workers raise the barriers by educating themselves even more. Thus the model is more potent in explaining the reproduction of relative poverty than absolute poverty.

means and opportunity to save. Segmentation of the formal insurance market is also critically important. Capitalists have sufficient wealth and income to be able to at least partially insure against the failure of risky investments. As a result they not only invest more, but can also commit to high-risk, high-return investments. Self-employed workers, in contrast, are limited in their ability to make risky investments by fear of losing the little physical capital they have. Their lack of access to financial services helps to explain why output from self-employment is less productive than in capitalist wage employment. Lower productivity of z-workers can also be explained partially by lack of physical capital as well as by lower skills.

Given this exclusion from capitalist controlled credit and insurance markets, both y and z workers seek their own personalised, informal and inter-linked forms of credit and security. These institutions are an effective form of collective social protection, given lack of access to other institutions, but rules of 'reciprocity and redistribution' limit the scope for individual accumulation (Figueroa 2001b). The nature of this financial dualism is complex, but is reinforced by the distribution of cultural assets. These embed z-workers more firmly in a micro-economy dominated by non-market exchange rules, supported by some patronage from y-workers.<sup>3</sup> The cultural capital of y-workers enables them to access a mixture of mutual forms of social protection and patronage from capitalists and government.

Why does the government fail to raise taxes from the rich in order to address the market failures identified above? A simple (substantivist) explanation is that they may be inhibited by ethnic prejudice towards the subaltern group (Lewis 1985). However, Figueroa is interested in explaining such a decision also in terms of rational material self-interest. There are three policy propositions to consider. First, government could provide free education so as to turn unskilled workers into skilled workers. Second, they could subsidise financial services. Third, they could provide a social protection system. Table 1 takes a first look at each of these policy propositions from the perspective of each stakeholder.

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<sup>3</sup> The latter corresponds to what Wood (2003) refers to the Faustian bargain of the poor: security at the expense of autonomy.

**Table 1**  
**Stakeholder analysis of options for reducing economic exclusion**

	Provide free education	Provide subsidised financial services	Provide social protection
Z-workers	Z-workers would be the main beneficiary in each case. But Figueroa emphasises their inability to turn strength of numbers into political capital for at least two reasons. First, poverty limits their incentive to do anything other than meet immediate material needs (Maslow 1970). Second, they face the standard collective action problem: rather than initiate struggle for access to resources, it is rational to free-ride on the efforts of others to do so (Lichbach 1998; Olson 1965).		
Y-workers	Opposition due to fiscal cost, plus fear of seeing their own employment opportunities weakened (a labour aristocracy argument).	Support, to the extent that this could strengthen their prospects for self-employment and low level capital accumulation. But opposition from those for whom benefits are likely to be more than offset by the fiscal cost.	
Capitalists	Support to the extent that there are skill shortages, and $W$ can be lowered by increasing the supply of skilled labour	Opposition to the extent that increased self-employment raises the opportunity cost of labour, hence $W$ , and reduces profits. For some it may also undermine their powers of patronage.	

Z-workers should benefit from political intervention in each market. However, Figueroa suggests that their ability to bring mass support to bear on politicians

is weakened by preoccupation with material needs combined with a lack of incentives on the part of any individual to lead such a movement. In the case of education, they also face opposition led by those y-workers most likely to face competition from an erosion of education as a barrier to entry into skilled jobs. In the case of financial services and social protection, opposition is led by capitalists fearful of a resulting rise in the opportunity cost of skilled labour and hence W. Both groups are better endowed than z-workers with the political and cultural resources to ensure politicians respond to their wishes. International capitalists can also threaten them with disinvestment if it demands too much on behalf of workers. These arguments suggest formidable political obstacles to any government programme to address social and economic exclusion.

Moving from comparative statics to dynamics, Figueroa assumes that the profits of capitalists are all reinvested in the following period, and that they are more than sufficient to offset capital depreciation. The increase in the capital stock invested in high-productivity activities is likely to be further augmented by technological progress. The resulting economic growth has no effect on z-workers, but y-workers benefit from increased wage employment. Their wages also rise as excess skilled labour supply is absorbed, and technical progress may also raise the efficiency wage premium. On the other hand, this effect may be delayed by displacement of self-employed y-workers (a Ricardian machinery effect). The overall effect on income inequality is indeterminate, depending on whether the 'enrichment and enlargement effects' on the income share of y-workers outweighs the falling income share of z-workers (cf., Fields 1980: 30).

Political reactions to these changes in income distribution cannot be predicted without more detailed specification and analysis of particular contexts. But what even this simple analysis illustrates is how relative income changes of any kind are a threat to the social order. This argument establishes a potentially powerful negative feedback loop: capitalist growth disturbs income distribution, this upsets the political order and undermines the confidence of capitalist investors, hence capital accumulation dries up. A key question is then whether governments can sustain economic growth by mitigating the destabilising effects of induced changes in income distribution. An even more searching question is why political elites in some

countries have been more successful in developing political institutions for reducing inequality, while others have more often resorted to often violent forms of repression (Bardhan 2001; Gough & Wood 2004; North 1990; Powelson 1997).

This line of argument runs counter to the more common assumption that capitalist growth is stabilising precisely because it creates new jobs. A possible explanation for this is that many workers perceive themselves to be excluded from securing those new jobs. Hirschman's (1973) 'tunnel effect' argument (that people will tolerate temporary inequality so long as they believe that their turn is about to follow) cuts no ice. On the other hand, government may have some discretion to alter fiscal and spending policies in response. Capitalists should accept higher taxes to pay for actions to reduce cultural, political and hence economic exclusion of z-workers if this reduces political instability, as well as reducing skilled labour shortages. However, y-workers' support for continued capital accumulation and job creation will eventually disappear if the price of this is a policy regime that undermines their cultural, political and labour market privileges.

This is a delicate balance, and Figueroa adds a final twist by advancing a new political economy explanation for doubting the ability of politicians to manage it. The reaction to social and economic exclusion in richer societies, he notes (following Okun 1975) is a political process of establishment of universal rights. But this is not necessarily an effective way for politicians in a *sigma* economy to maximise power. First, no credit is given to those who deliver them, since a right is, by definition, an entitlement, not a gift. Second, universal provision limits powers of patronage. Third, rights are not easily reversed. Other strategies include restricting access to information about the process of government (hiding costs) and repression.<sup>4</sup>

In sum, the model presents a profoundly pessimistic analysis of an inegalitarian development path that is consistent with the self-interested

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<sup>4</sup> The argument presented here ignores the importance (positive and negative) of external forces in moulding political culture. But the key point being made is that local economic incentives cannot be relied upon on their own to bring about a fall in inequality.

actions of the main domestic actors. Both z-workers and capitalists would benefit from labour market integration. But in isolation from each other - and perhaps even if they could form an improbable alliance - they lack the political resources to force the pace of integration in the face of resistance from y-workers and government. Figueroa asks whether development agencies might help to overcome these collective action problems. If the main issue was one of income or asset redistribution then this might, he suggests, be the case. But reflecting on the historical failure of land reform to transform *sigma* economies in Latin America, he observes that the key battles have to be fought in sensitive cultural and political domains where external support can be counterproductive. There is also, of course, the issue of how to model the incentives of the intervening development agencies themselves.

### **3. AN ASSESSMENT OF THE THEORY**

For economists, the *sigma* model's theoretical originality rests in demonstrating that dualism can be endogenous to a general equilibrium model based on the assumption that all actors are rational and self-interested in pursuit of their material interests. As an exercise in positivism, its main empirical claim is to be consistent with the persistence of high levels of inequality in several Latin American countries. As such, the model provides a counter to the tendency of most (particularly Western) development economists to assume that the onslaught of capitalism will inevitably erode segmentation of the labour market, and that the resulting process of economic development can usefully be analysed in isolation from cultural and political relationships and changes.

If labour market dualism is primarily geographical and sectoral (as most theories of economic development since Fei and Ranis assume) then it can be eroded by migration and by investment in improved transport and communication. Early attempts to construct a more detailed explanation of 'an immutable economic dualism' (Boeke 1942) were undermined by the criticism that they ultimately rested on questionable empirical evidence of the resilience of non-capitalist values in the traditional sector (Higgins 1956). In contrast, Figueroa's model of persistent dualism rests on a universal application of orthodox economic assumptions of methodological

individualism (i.e. rational pursuit of individual utility). The historical creation of a highly unequal capitalist society is a necessary condition for the model. But the *persistence* of dualism becomes endogenous or a *consequence* of exclusion rather than its prime determinant.<sup>5</sup> Hence Figueroa helps to fill a gap noted by Kanbur and McIntosh (1989:119), who observed that ‘... there are non-dual economy models of growth but there are no models which treat factor immobility and asymmetry as endogenous, and, hence, there are no models which analyse the path of dualism itself. This is clearly a major area for further research.’

A second important feature of Figueroa’s model is that segmentation (of the financial market as well as the labour market) is linked back to endogenous inequalities of political power between different social groups. Members of these groups actively invest in status differences and cultural barriers to defend these unequal power relations. Thus social development, such as promoting good governance or building social movements in support of an extension of social and economic rights, becomes a precondition for economic development, rather than part of some parallel and distinct development policy agenda. In contrast, economists have tended to argue the other way around: that economic development (particularly job creation) is a precondition for social development. Having suggested a low level equilibrium trap for the economy that can only be broken by political struggle, Figueroa then uses ‘rational choice’ political economy arguments to explain why he thinks this is unlikely.

While Figueroa’s precise but narrow *sigma* model specification of social exclusion theory renders it more accessible and challenging to economic theorists, it risks at the same time alienating other social scientists and

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<sup>5</sup> This does not contradict the view that race is a core problem of development in Latin America and elsewhere. The point is that racial and ethnic differences (and indeed gender differences too) are perpetuated not only by cultural inertia but by a combination of resource distribution and the constrained material self-interest of each group. A major strength of this theory is that it explains persistent inequality even when lines of ethnic division are themselves fluid.

development practitioners. For example, by emphasising the way variation in incentives to collective action for different groups perpetuates cultural, political and economic dualism, the model can be criticised for neglecting opportunities for individual upward social mobility through learning-by-doing and parallel development of informal networks.<sup>6</sup> This serves as a reminder that the *sigma* model is partially prevented from evolving into the *omega* and ultimately the *epsilon* model by the persistence of population growth as a mechanism for replenishing the number of z-workers and by the limited labour absorption that results from highly capital-intensive growth in the capitalist sector. But social (especially gender) relationships, which are exogenous to his theory, are again possibly more important factors behind fertility than economic factors (such as education, job prospects and potential returns to children) which are endogenous to the theory.

One way to re-emphasise the potential wider relevance of the social exclusion thinking behind Figueroa's theories, without at the same time downplaying the importance of relationships relative to material resources, would be to regard it as just one relatively narrow theoretical development of a wider but still distinct exclusion-inclusion approach to thinking about development. The remainder of this section advances six arguments for adopting such a position. These constructive criticisms of Figueroa's general theories in part hark back to the original paper he jointly wrote on social exclusion (Figueroa *et al.* 2001). However, this paper also can be criticised for being too narrow in its discussion of the way unequal access to multiple resources is reproduced.

The first argument for a broader inclusion/exclusion framework is partially but not entirely semantic. Exclusion of some people, by definition, entails privileged inclusion of others: elite business associations, rent-extracting

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<sup>6</sup> There is a strong analogy here with the 'Ricardian ladder' theory of dynamic comparative advantage. To be sure, some social groups (countries) succeed in graduating to higher productivity activities. But their very success can result in these forms of employment (sectors) becoming more competitive and therefore less remunerative. Meanwhile higher status groups (richer countries) have graduated into new fields that offer still higher returns. Thus absolute growth is possible, but inequality is maintained.



coalitions of politicians and labour aristocracies on the one side; local and low-cost forms of natural resource management and reciprocal forms of social protection on the other. While most people are forced to commit to one 'club' or another, the ability of others to establish intermediate status, to sustain multiple cultural performances, and to broker between groups is also importantly moulded by their inherited resource endowments.

Second, and more fundamentally, the term social exclusion suggests that inclusion is always a good thing, whereas it can of course also be ugly and exploitative. One way of addressing this criticism is to emphasise how coercive *inclusion* in the economic sphere arises precisely because it is embedded in forms of *exclusion* in the political and cultural spheres. Thus a wider inclusion-exclusion framework has no difficulty in dealing with the concept 'adverse incorporation' and other criticisms of social exclusion theory that have emanated particularly from South Asia (Gough & Wood 2004), but also echo much earlier discussion of internal colonialism and inclusive dependency in Latin America. Likewise, political inclusion in the form of patron-client relations can be harmful to the extent that it is embedded in status inequality (cultural exclusion) and/or economic inequality (economic exclusion).

Third, an expanded inclusion-exclusion framework could also easily accommodate more complex and fluid analysis of social identity and networking than that built into the *sigma* model. Language is only one indicator of racial and class divisions denoting different and overlapping degrees of market access, political influence and social protection (Altamirano, Copestake, Figueroa & Wright 2004). For example, it is obvious that not all Andean regions are equally impoverished (Bebbington 1997), nor all peasant farmers within them. A broader framework could also accommodate the existence of skill acquisition through learning-by-doing and hence some upward mobility in the labour market. A key question is then whether the effect of such mobility on relative wages and hence inequality is sufficient to offset population growth, and the continuous erection and fortification of market barriers.

Fourth, while Figueroa's assumption of the limited scope for collective and especially political action of subordinate groups (and of the responsiveness to them of politicians) serves as warning against populist wishful thinking, it

is obviously also very restrictive and can usefully be challenged. One reason for this is to accommodate the growing strength of indigenous movements in Latin America, fuelled in part by external alliances and an appropriation of the language of rights – sufficient even to attract the attention of *the Economist* (2004). More generally, an overly narrow rational choice approach to analysing politics and the state risks understating the influence of leadership, culture, popular resistance and the unexpected on political processes and outcomes, as readily acknowledged by institutional economists such as North (1990) and Powelson (1997).<sup>7</sup>

A fifth argument concerns the nature of wellbeing. Like Marx and most economists, Figueroa's model emphasised the primacy of material wealth.<sup>8</sup> The *sigma* model highlights cultural and political relationships as the means to improving material relations and hence material outcomes. However, it is not hard to broaden the framework to allow for the intrinsic as well as instrumental worth of material, cultural and political relations, as discussed at length elsewhere in this book. Support in doing so comes from the various attempts to construct a universal theory of wellbeing. Thus for Doyal and Gough (1991) primary universal needs are both material (capability) and relational (autonomy). Likewise, self-determination theory emphasises not only competence, but also *two* relationship variables – relatedness and autonomy (Ryan and Sapp, 2007).<sup>9</sup>

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<sup>7</sup> Barrantes and Iguiniz (2004: 145) also make this point: '... Figueroa is very pessimistic about the political possibilities for reducing social exclusion. Despite this it remains necessary to study the characteristics of excluded groups and the means by which they remedy their position.'

<sup>8</sup> Wealth in turn generates not only income, but also freedom (from enforced wage labour, for example).

<sup>9</sup> The universality of autonomy, particularly its significance in more collectivist cultures, remains a matter of debate, even if it is defined narrowly as freedom from coercion. Part of the controversy can perhaps be attributed to the Western tradition that *belonging* (or relatedness) is symbolically affirmed through social recognition of individual action, which requires individual autonomy. This issue is not central to the argument of this note, since it seeks only to emphasise the independent importance of relationships (whether autonomous or based on belonging) and resources.

A sixth argument for a wider framework is that actions cannot be classified unambiguously as belonging to distinct cultural, political and economic spheres. Rather, most activities simultaneously have consequences in all three (White & Ellison, 2007) Indeed, classifying activities into spheres is potentially dangerous in the way it appears to sanction blinkered discipline-specific analysis over integrated analysis. To gain access to credit by joining a village bank entails entering into a complex set of social relationships. To intervene in the material domain by providing food aid, for example, without appraising the political and cultural aspects of the act is likely to have unanticipated and potentially counter-productive effects. These may indeed be so harmful as to render such narrowly conceived intervention deeply irresponsible. Hence a safer framework for analysis is to emphasise that any action can have consequences in all three spheres.

At this point it is appropriate to ask what remains of the idea of social exclusion that is not also captured by other conceptual frameworks that incorporate the relational dimension of development thought terms such as 'social capital' and 'cultural and political' resources (e.g. Bebbington 1999; McGregor 2004; Rakodi 1999). The difference is perhaps mostly semantic, but the word 'capital' and even 'resource' suggest stocks of things that can be accumulated and traded, while the words 'inclusion' and 'exclusion' emphasise the primacy of social relationships as interactive processes. Resources cannot be used in isolation: they have inevitable consequences for others. The *sigma* model, for all its limiting assumptions, serves as a powerful reminder that an inventory of individual asset endowments is only the starting point for any analysis of poverty, which ends only when opportunities and obstacles to change arising from interaction with other parties have been fully explored. More fundamental still, it is open to debate whether social assets are 'traded' in a sufficiently routine and predictable way to make their valuation possible or useful at all.

#### **4. RELEVANCE FOR DEVELOPMENT POLICY AND PRACTICE**

Development organisations face a tension between acting consistently and in a 'joined-up' way (in line with some universal understanding of what they

are doing), and flexibly (in response to local understandings).<sup>10</sup> They are generally more able to operate effectively, consistently and on a larger scale if they have clear, universal and measurable indicators of what they are trying to achieve. At the same time, the very specification of measurable goals can severely constrain their scope of activity, including learning-by-doing and responsiveness to local priorities and needs.

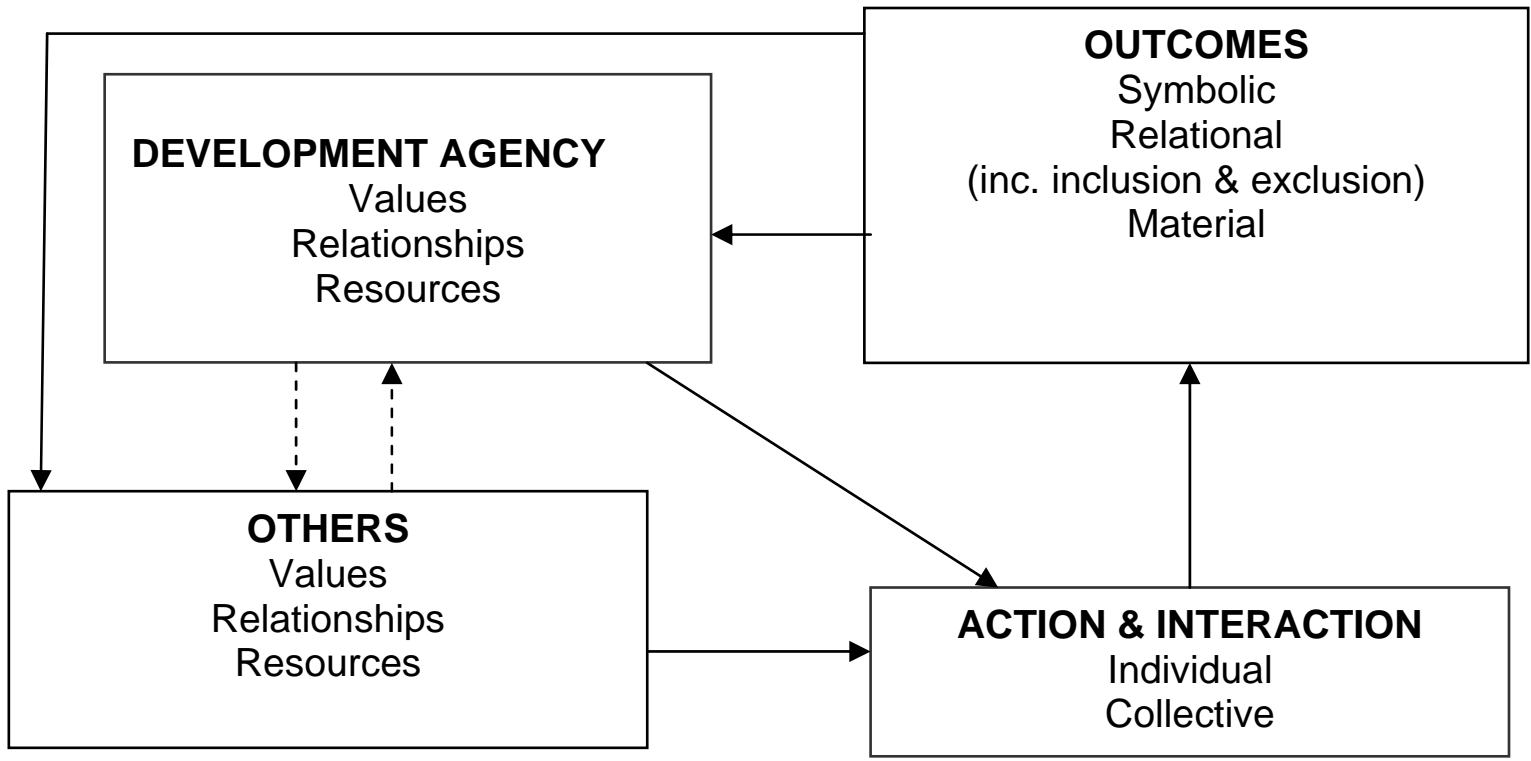
The history of the development industry can to some degree be viewed as the rise to and fall from favour of different frameworks for defining goals and means. For example, the Millennium Development Goals embody a multi-dimensional understanding of wellbeing and basic needs (informed by capability theory) which has to some extent superseded an exclusive focus on GDP growth and income (informed by modernisation theory). Meanwhile, the Comprehensive Development Framework of the World Bank signifies a shift towards a more pluralist view of the respective role of public, private and civil society organisations in promoting development in different contexts. Looking to the future, current academic debates point towards a new conceptual framework that attaches more importance to subjective dimensions of development (including the quality of relationships), both as means and ends, than has been the case in the past. The growing influence of rights based approaches can be viewed as part of this (DFID 2005), as can the increased attention paid by development agencies to participation, process and reflexivity (e.g. Chambers 1997). The Wellbeing in Developing Countries (WeD) ESRC funded research is one of many efforts to develop new ways of thinking and operating that can contribute towards such a potential paradigm shift.

In one sense, the idea of social exclusion is not a very promising source for inspiration in this project. This is because its contribution is primarily analytical, rather than prescriptive in intent. If its central purpose is to explain the persistence of inequality and relative poverty, then it is no accident that it is pessimistic in its analysis of the scope for effective development intervention. The *sigma* model further reinforces this

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<sup>10</sup> See McGregor (2004), for a discussion of the idea of local and universal understandings, centred particularly on the concept of poverty, and Copestake (2005) for a fuller discussion of the tension between consistency and flexibility in development practice.

pessimism by formally modelling the reproduction of inequality as a low-level equilibrium trap. Nevertheless, the theory is in part valuable precisely because it counters the institutionalised optimism of frameworks elaborated by and for development agencies to emphasise opportunities over obstacles. A seemingly more negative approach can also be constructive if it provides a more realistic analytical foundation for identifying more precisely where scope for positive intervention might be, and how it fits into a larger political picture. By presenting comprehensive theory of why inequality persists, the model invites practitioners to identify the restrictive assumptions that can be challenged. This echoes the current fashion for being more strategic and selective in identifying 'drivers of change' in development or 'neuralgic pressure points' (DFID 2005).



*This side of the diagram is concerned with monitoring states*

*This side of the diagram is concerned with monitoring specific changes.*

**Figure 2** A reflexive framework for appraisal of development interventions

A modest step towards incorporating inclusion-exclusion thinking into development practice is for development agencies to include themselves as well as other actors in their framework of analysis. This is illustrated at a general level by Figure 2.<sup>11</sup> It goes beyond the discussion in this paper so far by explicitly acknowledging the importance to development of symbolic as well as material and social dimensions of all actions. Agencies (including intervening development agencies) are defined by their values, relationships and resources. Values include formal goals but also the importance attached implicitly to different states and roles. Relationships may be both positive (e.g. membership of strategic networks and coalitions) and antagonistic. Resources include claims over material, natural and human assets as well as personal capabilities. Together they influence how different agencies act and interact with each other over time, with outcomes (symbolic, relational and material) which in turn alter their states.<sup>12</sup> If development agencies do nothing, then cycles of action, outcomes and altered states of 'others' continue without them. But the downward dotted line is a reminder that the mere existence of a development agency can affect the way others perceive themselves and behave. The upward dotted line, on the other hand, serves as a reminder that the values, relationships and resources of development agencies are also determined by how they perceive others.

The inclusion-exclusion theory explored in this paper provides some initial pointers for this kind of analysis. The mere presence of a development agency strengthens some values and latent relationships while weakening others. These symbolic and relational effects are reinforced in the way they act e.g. through choice of language, staff recruitment, forms of consultation and collaboration. Thus development agencies unavoidably reinforce or weaken overall social stratification and the relative political influence of different groups. These symbolic and relational effects can be more important (in both their direct and indirect effect on wellbeing) than intended

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<sup>11</sup> This diagram is distinct from but fully compatible with the WeD conceptual framework to be found in McGregor (2004:7), which is more concerned with ordering ideas than informing action.

<sup>12</sup> See Bevan (2004b) for a thorough discussion of the time dimension.

material effects, yet they are often ignored or downplayed. Much scope still remains for strengthening our analysis of the negative as well as positive consequences when one group of people use their resources and relationships as means to the end of adding to the resources and relationships of others.



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