

**THE ROLE OF DEMOCRATIC GOVERNANCE  
IN COMBATTING THE NON-MATERIAL DIMENSION  
OF POVERTY**

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**Abstract**

*One of the greatest challenges to humanity in the current era is persistent and large-scale poverty. In addition to its material (income-based) aspects, poverty has a significant non-material dimension. At this juncture, democratic governance is an important tool towards combating this non-material dimension of poverty. The two major pillars envisaged by democratic governance, namely the ‘humane’ market and the ‘progressive’ state, together with institutions as a third part enabling coordination between these two, provide vital benefits in that respect.*

**Key Words**

Poverty, democratic governance, humane market, progressive state, institutions.

**Introduction**

One of the greatest challenges to humanity in the current era is persistent and large-scale poverty. The concept of poverty here is not solely restricted to its traditional income-based material conceptualization, but is also associated with a variety of non-traditional dimensions. These non-material dimensions form the main focus of this article.

At this juncture, this paper argues that democratic governance is an important tool in addressing this non-material dimension of the poverty problem by ensuring unique benefits towards it’s the process of alleviating poverty.

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\* The views expressed in this paper belong entirely to the author. The author thanks to the anonymous referees for their valuable comments.

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On that basis, the paper is composed of two sections. The first section discusses the definition and content of the poverty problem, with particular attention given to its non-material dimension. This section also tries to underline the present day negative repercussions of the current global environmental degradation and the ongoing economic crisis on the state of poverty.

The second section introduces the concept of democratic governance with its unique benefits in addressing the non-material dimension of the poverty problem. In this section, the emphasis is on the co-functioning of the two pillars of democratic governance, namely the ‘humane’ market and the ‘progressive’ state, and furthermore the role of institutions, the ‘deep determinants’ in the combat against poverty, which enable coordination between these two pillars.

The last section consists of brief concluding remarks.

### **1. Global Poverty at Present**

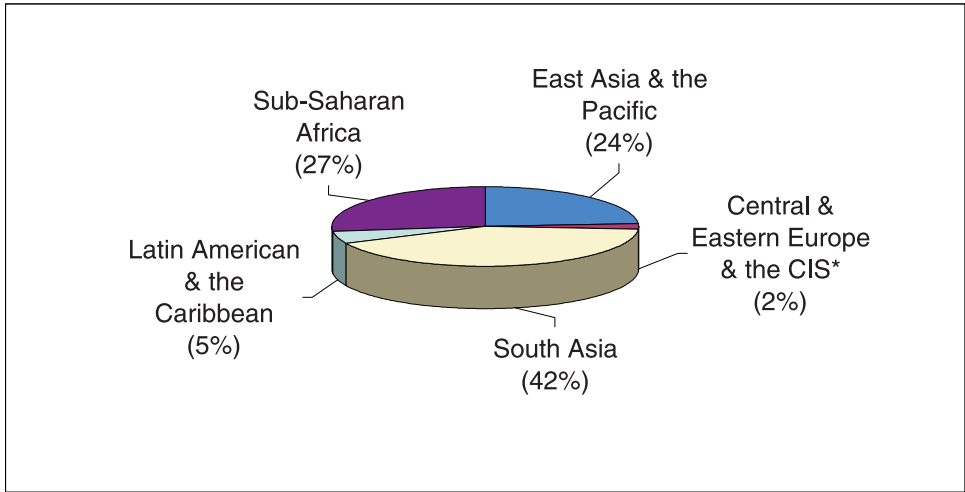
#### **1.1. The Critical Situation of Poverty**

Half of the world’s population lives below the international poverty line of \$2 per day (measured in purchasing power parity). The income of one-fourth of the world’s population is \$1 per day or less. As indicated in Figure 1, half of these people live in China and India, and one-fourth in the least developed countries (LDCs), heavily indebted poor countries (HIPC) and sub-Saharan Africa (SSA). Although the proportion in poverty has decreased in the last decade, the absolute number has not changed as a result of population growth.<sup>1</sup>

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<sup>1</sup> Cline W., Trade Policy and Global Poverty, Center for Global Development and Institute for International Economics, Washington, 2004, pp. 1, 10.

**Fig. 1: Income Poverty (Living on less than \$1 a day, %)**



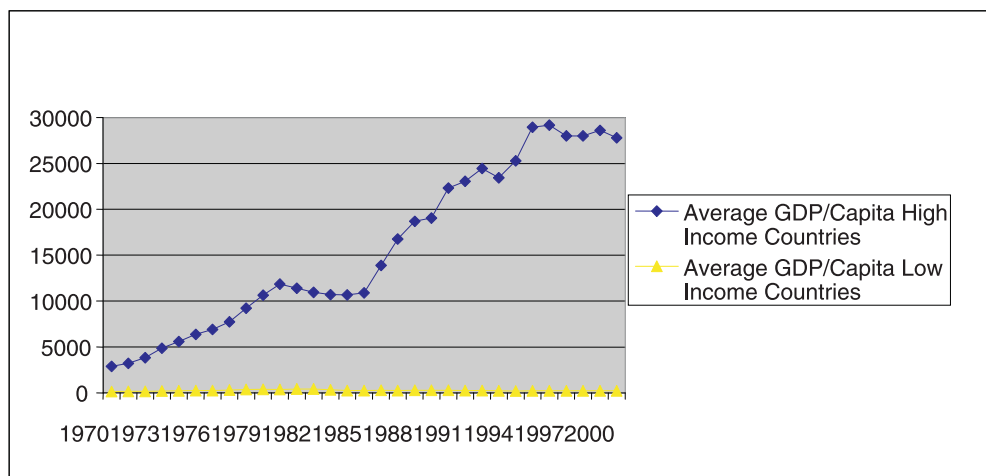
\*CIS: Commonwealth of Independent States

Source: Thomas, 2004

Figure 2 below indicates that the income gap between the rich and poor countries has been constantly increasing since the 1970s. Even though the average GDP per capita of high income countries has been continuously increasing since the 1970s, the same ratio for low income countries is almost the same.

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**Fig.2: Comparison in GDP per capita in High and Low Income Countries**



*\*Average based on 20 countries with the highest GDP per Capita and 20 countries with the lowest, in both 1970 and 2000.*

*\*\*In USD, current prices*

*Source: Global Policy Forum*

However, it would be misleading to restrict poverty in the current era to this traditional income-based conceptualization. Alongside income, global poverty is associated today with a variety of non-material dimensions.

Among the non-material dimensions that could be cited are:

- Lack of access to food, improved water and sanitation facilities;
- Lack of opportunity, power and social security;
- Vulnerability to environmental problems, ill health, economic shocks, personal violence and disability;
- Lack of participation, market access and democratic inclusion; an
- Limited access to non-material needs such as community ties and bonds, moral and spiritual values.<sup>2</sup>

<sup>2</sup> World Bank, "World Development Report 2000/2001: Attacking Poverty", Washington, D.C., 2001, p. 6-7.

Several examples could be useful to give more insight into this non-material dimension of poverty. First of all, it has been shown that poverty is closely linked today to the spread and persistence of communicable diseases such as malaria, tuberculosis and HIV/AIDS.<sup>3</sup> These diseases do not only claim the deaths of millions of people, but also impoverish the social and economic bases of societies. They have direct effects on increasing poverty and paralyzing development efforts by depleting vital services and the skills of people living in these countries. Although they represent a world-wide problem, the damage in underdeveloped nations where poverty is a major concern, like in Africa, is at tremendous proportions.

Secondly, the gender dimension of poverty is fairly critical at present. The so called 'feminization of poverty' manifests itself as women and girls constitute today three-fifths of the world's poor people.<sup>4</sup> In addition, the poor are concentrated in insecure, unsafe and low-paying jobs, subject to domestic violence, trafficked across borders, forced into marriages and under-represented in politics as voters, party leaders and parliamentarians.

Similarly, the non-material dimension of poverty has specific characteristics in the case of young people and children. The unemployment rate among young people is very high in underdeveloped countries; they are still isolated from participation in socio-economic life and labor markets while they do not have access to proper education facilities.

Likewise, the problem of child poverty transcends the issue of income and involves other elements such as nutrition, physical and spiritual development, protection, health care and quality of education. The topic of child labor is another core component of the non-material dimension of poverty in the case of children.

Crisis-and conflict-affected regions, as well as least developed countries, are experiencing these non-material dimensions of poverty deeper and more intensely. Instability and all kinds of volatility in these areas produce

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<sup>3</sup> Stern N., "Scaling Up: The Challenge of Monterrey", in Tungodden B., Kolstad I. and Stern N., "*Toward Pro-poor Policies: Aid, Institutions and Globalization*", 5th Annual World Bank Conference on Development Economics Europe, New York, World Bank and Oxford University Press, 2004, p.13.

<sup>4</sup> Hobden S. and Jones R.W., in Baylis J. and Smith S., "*The Globalization of World Politics*", Oxford University Press, 2004.

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poverty-related consequences such as marginalization, resentment, unequal distribution of wealth, unemployment, capital flight, lack of access to education and sufficient health services.

To sum up, the basic argument here is that handling poverty solely in income-based terms *per se* is not enough to see the whole picture. Rather, it will be appropriate to conceive of this problem within a broader framework as described in this paper as the non-material dimension of poverty.

One of the concepts to best benefit in that respect is that of inequality, which reflects both the material and non-material dimensions of the problem. The following table presents several striking indicators of the concept of inequality, which are closely related to the issues discussed in this paper.

**Table 1: Indicators of World Inequality**

One-fifth of the world's population is living in extreme poverty.
Average incomes in the richest 20 countries are 37 times higher than in the poorest 20 – this ratio has doubled in the last 20 years.
In the developed world subsidies to agricultural producers are six times higher than overseas development aid.
Tariffs on manufactured goods from the developing world are four times higher than those on manufactured goods from other OECD countries.
70 percent of the world's poor and two-thirds of the world's illiterates are women.
In 34 countries of the world, life expectancy is now lower than it was in 1990.
More than 30,000 children die everyday from easily preventable diseases.
In Africa only one child in three completes primary education.
In Sub-Saharan Africa a woman is 100 times more likely to die in childbirth than women in high-income OECD

countries.
One billion people lack access to clean water.
African countries pay out \$ 40 million everyday on debt repayment.

*Source: Hobden and Jones, 2004*

## **1.2. The Burden of Global Environmental Degradation on Poverty**

Unfortunately, current environmental degradation aggravates a great many of these above-mentioned indicators within this broadened domain of poverty. Environmental problems today pose a variety of unprecedented, pervasive and intense risks which are particularly intense in the developing and least developed countries, even though the latter were slightly responsible for contributing to this problem and have rather limited capacities to cope with the consequences.

The three fundamental environmental challenges that presently impose huge burdens on poor people and further deteriorate the non-material dimensions of poverty are the problems associated with:

- The global commons,
- Interlinked challenges of demographic expansion and resource consumption, and
- Transboundary pollution.<sup>5</sup>

These challenges carry the risk of reversing anti-poverty efforts and impede meeting the Millennium Development Goals (MDGs).<sup>6</sup>

To state it very briefly, the global commons refer to the elements of the global ecosystem that are used by all, yet under the sovereignty of no single authority. The primary challenges associated with the global commons are air pollution and climate change. The atmosphere supplies

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<sup>5</sup> Held D., McGrew A., Goldblatt D. and Perraton J., *Global Transformations: Politics, Economics and Culture*, Cambridge, Polity Press, 1999, pp. 379-380.

<sup>6</sup> See Annex 1 for a list of the MDG.

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the essential and vital resources for all human beings and continuous air pollution, even in a specific locality, results in unpredictable effects throughout the world. Similarly, scientific evidence identifies climate change, stemming primarily from the emission of heat-trapping gases, as one of the most crucial challenges of the 21st century.

The repercussions and effects of air pollution and climate change are numerous:

- Reduced rainfall,
- Increased risk of flooding and drought,
- Erosion,
- Tropical storms,
- Increased temperature and rainfall variability,
- Decrease in the quality and quantity of water,
- Rise in sea levels,
- Reduced food security, and
- Increased incidence of vector-borne diseases.

Obviously these effects particularly impact the poor and considerably affect the non-material dimensions of poverty.

The second environmental challenge consists of the problems arising from demographic expansion and enhanced resource consumption. World population and thereby consumption is continuously increasing, thereby causing widespread ecological degradation throughout the world. This arises in the forms of:

- Loss of fertility or erosion of soils,
- Desertification,
- Dwindling fisheries,
- Overgrazed grasslands,
- Shrinking forests,
- Disappearing species, and
- Water scarcity.

For instance, the crisis in access to water, which is not only a basic human need but also a fundamental human right, is of enormous proportions. One billion people are today without access to safe water and



the poor, especially the poor in Africa, are most negatively affected by this situation.<sup>7</sup>

Last but not least, there is the crucial problem of transboundary pollution, referring to the transmission of pollutants from their point of origin to other regions of the world. Acid rain, contaminated rain and river pollution could be given as most visible examples of the latter. Even though previously these environmental problems used to be confined to local areas, in the current era they are being transmitted to neighboring and more distant places in a fairly rapid and intense manner. This makes transboundary pollution much more pervasive, affecting particularly the daily lives of poor people all over the world with the risk of irreversible negative outcomes.

To sum up, these environmental problems are further aggravating the terms and depth of the non-material dimensions of poverty and complicate fulfilling the MDGs. The link between environmental sustainability and the fight against poverty is particularly important in the case of developing and least-developed countries as they are trying to get out of poverty while trying to avoid undermining the resource bases and habitat they depend upon.

### **1.3. The Additional Negative Impact of the Ongoing Global Economic Crisis on Poverty**

A second point to touch upon briefly within this context is the negative impact of the current global economic crisis on the state of poverty. The ongoing economic crisis is unfortunately further deepening the non-material dimensions of poverty of the poor living especially in developing and least-developed countries.

Although in the initial phases of the crisis these countries were relatively sheltered from the disrupting effects of the crisis, they have become in time much more prone to its negative outcomes. The macro- and socio-economic effects of the crisis on these countries could very briefly summed up under the following points.

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<sup>7</sup> Hobden S. and Jones R.W., in Baylis J. and Smith S., “*The Globalization of World Politics*”, Oxford University Press, 2004.

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First of all, since growth in the developed world is slowing down, this situation puts pressure on the exports of developing countries and puts additional burden on their current account balances.

Secondly, just as in the case of developed countries, public finances of the developing countries are deteriorating. With the recent food and oil crisis, these countries have already increased subsidies and income support mechanisms, or reduced taxes on food or fuel. So, the space of fiscal maneuver is further narrowing for them.

Thirdly, tightening and contracting bank lending, credit opportunities, portfolio and foreign direct investment (FDI) inflows to these countries have had negative effects on them which will be most severely felt in those countries with already high deficits in their current account.

Fourthly, remittance flows, which are a strong poverty reduction tool for these countries, are decreasing.

Last of all, the crisis is increasing unemployment in these countries, which hits hardest the youth, unskilled, older people and immigrants who already have difficulties in getting jobs.

All these negative macroeconomic outcomes incurred through the ongoing global economic crisis unfortunately trigger unfavorable socio-economic developments, which are directly related to the domain of the non-material dimension of poverty, as discussed above.

## **2. The Role of Democratic Governance in Combatting the Non-Material Dimension of Poverty**

### **2.1. Definition of Democratic Governance**

To begin with concise definitions, governance could be defined as the sum of the many ways individuals and institutions, public and private, manage their common affairs.<sup>8</sup>

On the other hand, democracy is broadly the polity in which people exercise collective self-determination utilized by the public, *the demos*, to decide their destiny with equal rights and opportunities for participation.

On that basis, democratic governance could simply be defined as the system ensuring that all kinds of policies are designed and conducted to be compatible with the interests of people and responsive to their needs. This represents a system which is participatory, transparent, consultative and publicly accountable, and therefore provides people the vital tools to determine their own destinies.

As can be seen, the concept of democratic governance is concerned with a great number of domains of human activity, only one of which is the socio-economic dimension, which is the primary field of interest in this article. For this reason, in the following sections, the focus will be on the interrelationship between this dimension and democratic governance. In particular, the central emphasis will be on the effects of democratic governance on the non-material dimensions of poverty reduction.

### **2.2. Democratic Governance: A Functional “Via Media” along the Pendulum of Opposite Poles**

The superiority of democratic governance in the battle against poverty is derived from its functional “*via media*” position between the two extreme paradigms that have been dominant over the previous decades.

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<sup>8</sup> The Commission on Global Governance, “*Our Global Neighbourhood*”, Oxford University Press, 1995, p. 2.

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In simple terms, one of these approaches considered the state and the market as the core mechanisms in the functioning of the economy. In order to be familiar with the underlying grounds in lending credence to democratic governance, a brief historical overview of these two approaches might be in order.

In the post-World War II period up until the late 1970s, almost on a global scale, the state had been the dominant factor in the regulation of economic affairs. The scholarship of Keynes has been fairly influential in this tendency. Prior to Keynes, it was assumed that *laissez faire* economics would be sufficient to move the economy towards full employment and equilibrium. In his masterpiece, the “General Theory of Employment, Interest and Money,” Keynes basically argued that the government needed to intervene in the markets to sustain this equilibrium by stimulating aggregate demand. Keynesian economics depended in essence on demand side economics and its main tool was the fiscal policies of the government.

Keynes, who is according to many the father of macroeconomics, demonstrated the aggregate behavior of consumption, saving and investment as the primary engines of economy. In accordance with that theory, Keynesianism formed the basis of economic policy formation in most Western European countries as well as in a large number of developing countries in the aftermath of the Second World War. In this period, as mentioned above, the basic reference point has been the interventionist activities of the government. This was mainly done by stimulating aggregate demand through fiscal policy. That line of action proved itself in the extensive state power of supervision and control over economic affairs, inward-oriented industrialization through import substitution, economic planning and extensive public investment.

The basic problems with Keynesian economics in action started to become apparent at the beginning of the 1970s, especially following the oil shock in 1973. In essence, Keynesian economics did not have a comprehensive remedy for stagflation, which is defined as the coexistence of stagnant economic growth (often indicated by rising unemployment) and inflation.

The recession in the 1970s precipitated a fiscal crisis as unemployment increased drastically, which reduced tax revenues that financed welfare spending. In that context, a welfare state was seen as a burden on wealth creation and the interventionist state was considered to aggravate the problems it was designed to solve. Similarly, bureaucratic state intervention has come to be criticized for its inefficiency.<sup>9</sup>

Therefore, with the oil crises and stagflation problems in the late 1970s, many aspects of Keynesian policy making were abandoned. This paved the way for a process of turning back to classical economic thinking and, in particular, monetarism.

In this way, the 1980s and early 1990s have been characterized by the dominance of the neo-liberal approach which favored reduced government intervention in economic affairs, a greater role for *laissez faire* capitalism and outward oriented policy-making. Monetarism became the basic reference point, which proposed supply-side economics based on free market principles, in sharp contrast with the preceding era. On that basis, the 1980s and the 1990s were the years that these neo-liberal policies, referred to as the ‘Washington Consensus,’ were extensively adopted by many developed and developing countries all over the world. The IMF and the World Bank have been fairly instrumental in the implementation of this process.

However, with the late 1990s, it has become evident that a great many of the economic problems could not be solved by the ‘natural’ order of markets. As Giddens has argued, the neo-liberal approach failed to cope with the challenges of the era as it had no effective theory or set of policies related to developing a cohesive and integrated society. Its adherence to the unfettered rule of market forces could not bring continuity and social solidarity during these years.<sup>10</sup>

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<sup>9</sup> Padgett S. And Patterson W.E., *A History of Social Democracy in Postwar Europe*, London , Longman, , 1991, p. 257; Heywood A., *Political Ideologies: An Introduction*, London, Macmillan Pres Ltd., 1998, pp. 146-147.

<sup>10</sup> Giddens A., “Introduction”, in Giddens A., *The Global Third Way Debate*, UK, Polity Press, 2001, p. 18.

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Similarly, Öniş and Şenses have argued that the neoliberal era has been associated with “weak growth performance, persistent poverty, rising inequality and endemic crises with costly ramifications.” Besides, an important point to stress is that better performing countries in this era have been the ones which substantially deviated from the tight norms and policies of neoliberal prescriptions.<sup>11</sup>

Table 2 below provides support for the latter two arguments.

**Table 2. The Promises and Outcomes of the Free Marketers**

	<b>Promise</b>	<b>Outcome</b>
<b>Capital-labor Relation</b>	Deregulation will allow full employment	No clear impact
<b>Forms of Competition</b>	Deregulation will erode oligopolistic market power and restore free competition	Re-regulation, fewer producers: from one oligopolistic form of competition to another
<b>Monetary regime</b>	Control of monetary base is possible	Monetary innovation prevents this control
<b>State</b>	Minimal state will enhance growth and productivity	Poor private productivity due to the lack of education infrastructures
<b>International regime</b>	Smooth currency adjustments	Large up and down of exchange rates
	Vanishing external disequilibria	Unprecedented and stable polarization of deficit and surplus countries
	Complete autonomy of national economic policies	Stronger constraints upon national room for manoeuvre

*Source: Boyer, 1996*

<sup>11</sup> Öniş Z. and Şenses F., “Rethinking the Emerging Post-Washington Consensus: A Critical Appraisal”, *Development and Change*, Vol. 36, No. 2,(2005), p. 27.

Therefore, the search for an alternative perspective, a ‘*via media*,’ between these two opposite approaches, is indeed timely today, which could better respond to current global economic challenges. The incidence of the recent global economic crisis could be taken as an advantage to facilitate this process since it was triggered by a combination of a great many of the failures of the market-based approaches. The analyses on the root-causes and fundamental systemic reasons of this ongoing crisis manifest that the system becomes prone to potential crises when it lacks sufficient governance and regulation.

On that basis, by incorporating the favorable elements from these two approaches, this new perspective aims at substantiating a functional synthesis acknowledging, on the one hand, the essential role for private initiative in economic activity, yet on the other hand, emphasizing the role of the state in providing social security, equality of opportunity and a strong re-distribution system. Within this framework, economic policy formation should consist of the utilization of the dynamism of markets with public interest in mind.

Democratic governance is simply the engine to activate this new perspective. It functions as the core instrument in establishing an efficient public-private partnership (PPP), which paves the way for an effective public sector responsible for providing a strong legal and regulatory framework, combined with entrepreneurship as the primary impetus of economic progress. Democratic governance provides that through pioneering individual freedom, equality and pluralism within a dynamic model of egalitarianism. Therefore, it serves to eliminate various kinds of inequality prevalent in society and enables the active welfare politics of inclusion and partnership.

In that way, democratic governance fulfills a very important role in addressing the broadly comprehended poverty problem that has non-material aspects. In that regard, democratic governance:

- Facilitates promoting opportunity in employment, sanitation, education and health services;
- Enhances security and stability through reducing vulnerability to natural disasters, ill health, economic shocks, personal violence, disability and

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- Entails empowerment via access to market opportunities as well as public services for the poorer segments of the societies.<sup>12</sup>

Democratic governance is also consequential for women's empowerment and gender mainstreaming, and helps removing gender biased paradigm and policies.

These refer to the significant effects of democratic governance in alleviating the non-material dimensions of poverty, mentioned above.

The core underlying reason for this outstanding performance is to be discovered in the unique *modus operandi* employed by democratic governance through its two core pillars, the *sui generis* configurations of the 'state' and the 'market.' These are the 'humane' market and the 'progressive' state. On that basis, the following consecutive sub-sections aim to underscore several basic features of these two pillars of democratic governance in connection with their positive effects on the fight against poverty.

### 2.3. Democratic Governance and the 'Humane' Market

One of the major drawbacks of the neo-liberal approach has been the acceptance of the market as an end in itself. In other words, the transition to, and the predominance of, the market economy *per se* was perceived as a final objective in its own right.

Such an understanding obviously provoked an artificial and factitious divide between the spheres of 'economy' and 'society;' supposedly these two reflected exclusive ontological domains. This line of stance duly precipitated a 'dehumanizing' role through the separation of human beings from their economic environment and transforming them into "fictitious commodities," quoting Polanyi's masterpiece "The Great Transformation."<sup>13</sup>

This separation was by its very nature crippled from the beginning, as it meant in simplest terms the negation of human existence and activity. It is misleading to conceptualize the market as an end in itself because the market

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<sup>12</sup> World Bank, "World Development Report 2000/2001: Attacking Poverty", Washington, D.C., 2001.

<sup>13</sup> Polanyi K., *The Great Transformation*, Boston, Beacon Pres./Beacon Hill, 1957.



is nothing but a means to improve well-being and quality of life, thereby being a vehicle to enhance human wealth and prosperity.

Likewise, the distinction between the spheres of ‘economy’ and ‘society’ is *void ab initio*. There is neither an ‘externality’ or dichotomy nor a relationship of hegemony between the two, and they are in perpetual coexistence and interrelationship with each other. The reverse would be nothing but the denial of the complexity of socio-economic life.

On that basis, the perception of democratic governance towards the market is well-matched and rewarding. Based on the above-mentioned vision and comprehension, the fundamental goal of democratic governance is ultimate sustainable human development which could be ensured *inter alia* through the medium of a ‘humane’ market. This aforesaid market is nothing but solely an effective tool to accomplish this objective.

Likewise, in the democratic governance perspective, supportive engagement of the private sector plays an important role. Individual entrepreneurship and innovation could benefit in the fight against poverty in a variety of effective ways that could develop creative and new business models to meet the demands of poor people.

In that case, the overall objective of the private sector transcends beyond the ‘quantity’ of growth that is measured in statistical terms, but also pays attention to the ‘quality’ of growth which is accompanied by employment generation and thereby poverty reduction. Just like in the case of the market, this pro-poor concentration of growth puts the latter, not as an end itself or an objective in its own right, but a means to alleviate poverty, reduce inequality and bring wealth and prosperity to all.

#### **2.4. Democratic Governance and the ‘Progressive’ State**

Democratic governance effectuates the so-called ‘progressive’ state, whose number one priority is sustainable human development. The latter refers to a smaller, yet more effective formation of state, much more functional in providing social development and justice.

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The progressive state is an enabler, which is still involved in funding and regulation of services, but not in their provision. Besides, it is an ‘ensurer,’ referring to the obligations of care and protection of its citizens.<sup>14</sup>

The classification and subsequent analysis given by Öniş is very useful in giving a well-matched summary of the duties performed by the progressive state described above, which has critical functions in the approach of democratic governance.<sup>15</sup>

**Table 2: Principal Domains of State Intervention in Late Industrialization in the Context of Globalization**

<b>Strategic Intervention</b>
Physical infrastructure
Building technological capacity
Human capital formation
<b>Regulation</b>
Competition
Property rights
Foreign investment
Environment
<b>Redistributional Role</b>
Macroeconomic stability
Consensus building
Effective provision of welfare
Measures aimed directly to alleviate poverty via a focus on target groups; policies aimed at reducing interregional inequality

Source: Öniş, 1994

<sup>14</sup> Giddens A., “Introduction”, in Giddens A., *The Global Third Way Debate*, UK, Polity Press, 2001, pp. 5-7; Giddens A., “Introduction: The Progressive Agenda”, in *Progressive Futures: New Ideas for the Centre-Left*, Policy Network, London, 2003, p. 19; Latham M., “The Third Way: An Outline”, in Giddens A., *The Global Third Way Debate*, UK, Polity Press, 2001, p. 27.

<sup>15</sup> Öniş Z., “Globalization and the Nation State: The Possibilities and Limits of State Intervention in Late Industrialization”, *Sosyal Bilimler Dergisi*, I(3), (1994), pp. 112-123 and p. 117.

As seen above, the first role of the progressive state is strategic intervention regarding physical infrastructure, technological capacity and human capital formation. The main underlying reason for this kind of intervention is the existence of market failures inherent in the market economy. Strategic intervention is vital in:

- Labeling industries with long-run promises,
- Investing in the creation of complementary assets in which private investors are reluctant to invest, and
- Influencing resource and investment allocation in the required direction.

Obviously, all of these factors have positive effects in the combat against the non-material dimensions of poverty.

The second role of the progressive state is in terms of regulation which is critical for:

- Building up competitiveness in the economy,
- Bargaining with transnational companies on the forms of foreign investment and technology transfer,
- Protecting property rights, and
- Regulating industrialization in harmony with environmental and ecological balance.

Last but not least, the progressive state is involved in redistribution, referring to its functions in terms of macroeconomic stability, consensus building, alleviating poverty and fighting inequality of wealth and income.

## **2.5. Democratic Governance and Institutions**

Institutions lie at the core of the concept of democratic governance as they fulfill the coordination function between the ‘humane’ market and ‘progressive’ state, discussed above. Institutions could simply be defined as

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the “set of humanly devised behavioral rules that govern and shape the interactions of human beings.”<sup>16</sup>

In that sense, well-functioning institutions serve as the so-called “deep determinants” of development,<sup>17</sup> since they promote more transparent and accountable management of public services, support civil service reform and codes of conduct, lessen the incentives for corruption, strengthen local governments and decentralization, facilitate legal and parliamentary reform, and enable better delivery of justice.

As can be seen, these are attained as a product of the combined performance of the ‘humane’ market and the ‘progressive’ state, and result in fairly positive effects on the fight against poverty. In other words, dysfunctional institutions are among the main obstacles to the alleviation of poverty.

One of the primary examples of this situation is the case of African countries. Weak institutions have been the major factor in constraining their efforts in the fight against poverty. The lack in quality of institutions has been a significant determining factor accounting for the ineffectiveness of

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<sup>16</sup> Rodrik D., “Institutions for High-Quality Growth: What They are and How to Acquire Them”, paper prepared for the International Monetary Fund’s Conference on Second-Generation Reforms, Washington, DC, November 8-9, 1999, National Bureau of Economic Research, Working Paper 7540, at <http://www.nber.org/papers/w7540>, 2000, p. 3.

<sup>17</sup> Rodrik D., “Institutions, Integration, and Geography: In Search of the Deep Determinants of Economic Growth”, at [ksghome.harvard.edu/~drodrik/growthintro.pdf](http://ksghome.harvard.edu/~drodrik/growthintro.pdf), 2002 (b), p. 1-2 and 4-5; Rodrik D., Subramanian A. and Trebbi F., “Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development”, National Bureau of Economic Research, Working Paper 9305, at <http://www.nber.org/papers/w9305>, 2002, p. 2; Rodrik D., Subramanian A. and Trebbi F., “Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development”, National Bureau of Economic Research, Working Paper 9305, at <http://www.nber.org/papers/w9305>, 2002, p. 2; Rodrik D., Subramanian A. and Trebbi F., “Institutions Rule: The Primacy of Institutions over Geography and Integration in Economic Development”, National Bureau of Economic Research, Working Paper 9305, at <http://www.nber.org/papers/w9305>, 2002, p. 2; Acemoglu D., Johnson S. and Robinson J., “Institutions as the Fundamental Cause of Long-run Growth”, National Bureau of Economic Research (NBER) Working Paper No. 10481, 2004; Rodrik D., “Getting Institutions Right”, at [ksghome.harvard.edu/~drodrik/ifoinstitutions%20article%20\\_April%202004.pdf](http://ksghome.harvard.edu/~drodrik/ifoinstitutions%20article%20_April%202004.pdf), 2004, p. 1.

aid given to these recipient countries in sub-Saharan Africa because of the lack of well-functioning institutions.<sup>18</sup>

In that context, once we identify the major advantages of well-functioning institutions from the view point of the fight against the non-material dimensions of poverty, the following table gives a good summary.

**Table 3: Types of Institutions for Market Efficiency**

<b>Market Creating Institutions</b> (Property rights and contract enforcement)
<b>Market Regulating Institutions</b> (To deal with externalities, scale economies, informational incompleteness)
<b>Market Stabilizing Institutions</b> (For monetary and fiscal management)
<b>Market Legitimizing Institutions</b> (Social protection and insurance, redistributive policies, institutions of conflict management, social partnerships)

*Source: Rodrik, 2002 (a)*

Through these functions, institutions are influential not only in the distribution of assets, income and costs, but also incentives of market participants and efficiency of market transactions. They pave the way for the proper functioning of markets by ensuring that contracts are enforced, antifraud laws are operative and codes of conduct are widely accepted.<sup>19</sup>

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<sup>18</sup> Dollar D. and Levin V., “Sowing and Reaping: Institutional Quality and Project Outcomes in Developing Countries”, *World Bank Policy Research Working Paper 3524*, (February 2005), pp. 8 and 12; Tungodden B., Kolstad I. and Stern N., “Toward Pro-poor Policies: An Overview”, in Tungodden B., Kolstad I. and Stern N., *Toward Pro-poor Policies: Aid, Institutions and Globalization*, 5th Annual World Bank Conference on Development Economics Europe, New York, World Bank and Oxford University Press, 2004, pp. 2 and 8.

<sup>19</sup> Stiglitz J., *Globalization and its Discontents*, Penguin, 2001, pp. 346-347.

## The Role of Democratic Governance in Combatting the Non-Material Dimension of Poverty

### Institutions:

- Enhance productivity and growth by distributing rights to the most efficient agent;
- Affect investment levels and adoption of new technology by affecting the incentives to invest;
- Limit producer rents and protect consumers from high prices by delineating market rights.<sup>20</sup>

All of these stand for major achievements in the fight against the non-material dimensions of poverty and promotion of the living standards of poor people.

Therefore, the concept of institutions is precisely located at the heart of the ‘*via media*’ configuration of democratic governance between the above-mentioned two opposite paradigms, as discussed above. The recognition of institutions as important elements in the functioning of the economy and crucial tools for alleviation of poverty makes the traditional distinction between the state and market obsolete. The reason for the latter view is the fact that institutions facilitate the convergence of these two domains towards a state of partnership where they complement each other.

As Rodrik states, a successful, and also pro-poor, economy is based on the mix of state and market, a combination of intervention and *laissez-faire*.<sup>21</sup> This new line of thinking considers government and market as complements and therefore does not question whether a specific economic activity should remain exclusively within the domain of one of these. Instead, at some junctures, it supports government intervention; in some other areas, it prefers the collaboration of public and private spheres, while in some specific sectors, it leaves ground to private initiative and entrepreneurship backed by government regulation.<sup>22</sup>

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<sup>20</sup> The World Bank, *World Development Report 2002: Building Institutions for Markets*, Washington D.C., 2002.

<sup>21</sup> Rodrik D., “Institutions for High-Quality Growth: What They Are and How to Acquire Them”, paper prepared for the International Monetary Fund’s Conference on Second-Generation Reforms, Washington, DC, November 8-9, 1999, National Bureau of Economic Research, Working Paper 7540, at <http://www.nber.org/papers/w7540>, 2000, p. 13.

<sup>22</sup> Stiglitz J., *Globalization and its Discontents*, Penguin, 2001, p. 346.

## Conclusion

One of the greatest challenges to humanity in the current era is persistent and large-scale poverty, associated with a variety of non-traditional dimensions. These non-material dimensions have formed the main focus of this study.

On that basis, democratic governance has a crucial role to play in this battle against the non-material dimensions of poverty. Simply defined as the exercise of collective self-determination with equal rights and opportunities of participation, democratic governance has a major role in ensuring this important goal.

### Annex 1: UN Millennium Development Goals, 1999-2015

<p><b>1) Eradicate extreme poverty and hunger:</b> Reduce by half the proportion of people living on less than one dollar a day Reduce by half the proportion of people who suffer from hunger</p>
<p><b>2) Achieve universal primary education:</b> Ensure that all boys and girls complete a full course of primary schooling</p>
<p><b>3) Promote gender equality and empower women:</b> Eliminate gender disparity in primary and secondary education preferably by 2005, and at all levels by 2015</p>
<p><b>4) Reduce child mortality:</b> Reduce by two-thirds the mortality rate among children under five</p>
<p><b>5) Improve maternal health:</b> Reduce by three-quarters the maternal mortality ratio</p>
<p><b>6) Combat HIV/AIDS, malaria and other diseases:</b> Halt and begin to reverse the spread of HIV/AIDS Halt and begin to reverse the incidence of malaria and other major diseases</p>
<p><b>7) Ensure environmental sustainability:</b> Integrate the principles of sustainable development into country policies and programmes; reverse loss of environmental resources Reduce by half the proportion of people without sustainable access to safe</p>

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drinking water

Achieve significant improvement in the lives of at least 100 million slum dwellers by 2020

**8) Develop a global partnership for development:**

Develop a further an open trading and financial system that is rule-based and non-discriminatory. Includes a commitment to good governance, Development and poverty reduction-nationally and internationally

Address the least developed countries' special needs. This includes tariff- and quota-free access for their exports; enhanced debt relief for heavily indebted poor countries; cancellation of official bilateral debt; and more generous official development assistance for countries committed to poverty reduction

Address the special needs of landlocked and small island developing states

Deal comprehensively with developing countries' debt problems through national and international measures to make debt sustainable in the long term

In cooperation with the developing countries, develop decent and productive work for youth

In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries

In cooperation with the private sector, make available the benefits of new technologies-especially information and communications technologies

*Source: United Nations*