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## **Ethnic Diversity, Development and Social Policy in Small States**

*The Case of Mauritius*

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## **Acronyms**

<b>CPE</b>	Certificate of Primary Education
<b>CSO</b>	Central Statistics Office
<b>EPZ</b>	Export Processing Zone
<b>FDI</b>	Foreign Direct Investment
<b>GNP</b>	Gross National Product
<b>HDI</b>	Human Development Index
<b>ICRG</b>	International Country Risk Guide
<b>IMF</b>	International Monetary Fund
<b>MLP</b>	Mauritian Labour Party
<b>MMM</b>	Mouvement Militant Mauricien
<b>MSM</b>	Mouvement Socialiste Mauricien
<b>PMSD</b>	Parti Mauricien Sociale Democrate
<b>PPP</b>	Purchasing Power Parity
<b>PSM</b>	Parti Socialiste Mauricien
<b>ZEP</b>	Zones d'Education Prioritaires

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## **Summary/Resumé/Resumen**

### **Summary**

Rapid development episodes are known to result in perceptible increases in the incomes of individuals distributed over different income and social groups. Income growth, however, may not translate into human capabilities to enjoy the fruits of development. Lack of access to education, housing and health services, alongside deterioration in the income shares of low-income citizens, poverty and disparate tax treatment of individuals, can hamper human capabilities and welfare. Several of these changes depend upon the quality of public policies and the institutions that implement development policies.

Historians, social researchers and institutional analysts, both in the past and present, have pondered over the value of cultures, traditions and social structures in their social policy discussions. But the recent revival of interest in policies and institutions among economists is not random; it has a deep theoretical underpinning. New growth economists have challenged the predictions of neoclassical economists that countries will converge in terms of growth rates, giving hope that the widening gaps between poor and rich countries will narrow and thereby social divisions will diminish. So the current conventional wisdom in economics is that these divisions can be better addressed by understanding the dynamics of policies and institutions emanating from societal interactions and colonial inheritance.

The present study critically examines social policy performance in Mauritius in terms of the quality of institutions, overall resources of the government, social welfare orientation of government budgets and ethnic balance in social policy formulation. The historical roots of colonization and political developments are analysed to assess their impacts on social policies. Part 2 of the study portrays the colonial history and politics, and part 3 describes post-independence political developments that have marked the economic and social trajectories. Part 4 depicts the social situation in terms of social indicators during different phases of development and economic transformation. Part 5 contains an assessment of the budgetary performance of social policy. Part 6 examines the institutional foundations to meet the social policy challenges. The discussion in this section is carried out in the light of the alternative strands of literature, namely participatory democracy, power of state jurisdiction and social cohesion. An analytical exercise is undertaken in part 7 to examine the welfare orientation of social policy with particular emphasis on budgetary efforts to catch up with other countries in the region. Part 8 summarizes the major findings and puts forward some guidelines for social policy reform in small states and a tentative agenda for future research directions.

Some of the emerging conclusions are as follows. Ethnic factions in Mauritius have not resulted in conflict for power and resources as in some sub-Saharan African countries. Rather these factions recognize the benefits of sharing, thereby producing a congenial environment for social cohesion and social capital growth. The ethnically divided Mauritian society has proved to be growth and welfare promoting because of small country size, colonial and diasporic links and a high degree of fragmentation, resulting in a variety of human resources. Rapid economic development, institutional quality and improved income distribution have acted as additional harmonizing factors.

Empirical analysis of social expenditures confirms as expected that income and democracy have positive impact on social expenditures. As regards the impact of ethnic diversity and income inequality, the results are quite revealing. The findings do not contribute to the contention that ethnic or religious factors exert any perceptible influence on social budgets. Coming to income inequality, what is suggested is that as income inequality increases, share of social spending in total government expenditure does not increase commensurately. This means that if social budgets have the explicit job of designing social policies in the light of existing income inequality, this objective is apparently not being achieved.

In international comparisons, it is observed that small countries have allocated relatively larger budgets to education. As regards allocations to health, there has been a slight deterioration in health budgets in these countries. Keeping the same trend, this analysis further shows that Mauritius has outperformed global averages only in educational allocations and health remains the critical sector for social policy attention in the future. Our analysis nevertheless demonstrates that there is some evidence for the effectiveness of catch-up policy on social fronts in terms of budgetary allocations.

When compared against other small and upper income countries in sub-Saharan Africa, Mauritius has outperformed Seychelles in allocations to social expenditure in general and allocations to health and education in particular; and it has outperformed Botswana in social expenditure allocation, suggesting significant outlays on social welfare in general rather than on education or health. In other words, there is a phenomenal increase in government expenditure on social security and protection. Transfer expenditures have surpassed real expenditures. The dismal performance of Mauritius compared to Botswana in sectors like health and education may however cast doubt on the consistency of effectiveness of catch-up policy.

At the time of finalization of this research work, Yeti Nisha Madhoo was a Visiting Research Scholar at University of California, Berkeley, United States and Shyam Nath was a Visiting Professor at Amrita University, Kerala, India.

## **Résumé**

On sait que les épisodes de développement rapide entraînent des hausses perceptibles des revenus d'individus de divers groupes sociaux et catégories de revenu. Cependant, la hausse des revenus ne donne pas forcément aux hommes et aux femmes la capacité de jouir des fruits du développement. Lorsque l'éducation, le logement et les services de santé sont peu accessibles, que les citoyens économiquement faibles voient baisser leur part de revenus, que la pauvreté frappe et que le traitement fiscal des individus manque de cohérence, cela peut les empêcher de développer leurs capacités et nuire à leur bien-être. Plusieurs des changements requis dépendent de la qualité des politiques publiques et des institutions chargées d'appliquer les politiques de développement.

Des historiens, des chercheurs des sciences sociales et des analystes institutionnels se sont penchés dans le passé et se penchent aujourd'hui encore sur la valeur des cultures, des traditions et des structures sociales dans leurs débats sur la politique sociale. Le récent regain d'intérêt des économistes pour les politiques et les institutions n'est pas l'effet du

hasard mais a des soubassements théoriques profonds. Si les économistes néoclassiques prédisaient une convergence des taux de croissance entre les pays et ont fait espérer ainsi un comblement partiel du fossé entre pays pauvres et pays riches et une atténuation des divisions sociales, les nouveaux économistes de la croissance ont remis en cause ces prédictions. Si l'on en croit l'opinion dominante chez les économistes actuellement, il faut d'abord comprendre la dynamique des politiques et des institutions issues des rapports sociaux et de l'héritage colonial si l'on veut réduire ces divisions.

Dans cette étude, les auteurs soumettent à un examen critique les résultats de la politique sociale à Maurice, jugés en fonction de la qualité des institutions, des ressources globales du gouvernement, de l'orientation des budgets gouvernementaux sur la protection sociale et de l'équilibre ethnique dans les politiques sociales. Ils analysent les origines coloniales de l'histoire politique pour en évaluer l'incidence sur les politiques sociales. La deuxième partie de l'étude retrace l'histoire coloniale et politique et la troisième partie décrit les événements politiques qui se sont produits après l'indépendance et qui ont marqué le parcours économique et social du pays. La quatrième partie dépeint, au travers d'indicateurs sociaux, la situation sociale pendant les diverses étapes du développement et de la transformation économique. La cinquième partie est consacrée à une évaluation de l'exécution du budget en ce qui concerne la politique sociale. La sixième partie porte sur les institutions nécessaires pour relever les défis de la politique sociale et les examine à la lumière des autres courants présents dans la littérature, à savoir la démocratie participative, les pouvoirs de l'État et la cohésion sociale. Dans la septième partie, les auteurs analysent l'orientation de la politique sociale sur la protection sociale en portant une attention particulière aux efforts budgétaires déployés pour rattraper d'autres pays de la région. La huitième partie résume les principales conclusions de l'ouvrage, indique les axes que pourrait suivre une réforme de la politique sociale dans les petits États et suggère des pistes de recherche pour l'avenir.

L'ouvrage aboutit aux conclusions suivantes. Les factions ethniques à Maurice n'ont pas donné lieu à un conflit pour le pouvoir et les ressources comme dans certains pays d'Afrique subsaharienne. Au contraire, en reconnaissant les avantages du partage, ces factions créent un climat propice à la cohésion sociale et à la croissance du capital social. La société mauricienne, avec ses divisions ethniques, s'est révélée de nature à favoriser la croissance et la protection sociale à cause de la petite taille du pays, des liens avec les puissances coloniales et la diaspora et d'une forte fragmentation, qui fait aussi la diversité des ressources humaines. La rapidité du développement économique, la qualité des institutions et l'amélioration de la distribution des revenus ont été des facteurs supplémentaires d'harmonisation.

L'analyse empirique des dépenses sociales confirme, comme on pouvait s'y attendre, que les revenus et la démocratie ont des effets positifs sur les dépenses sociales. Pour ce qui est des conséquences de la diversité ethnique et des inégalités de revenus, les résultats sont très révélateurs. Les recherches n'aboutissent pas à la conclusion que les facteurs ethniques ou religieux exercent une influence perceptible sur les budgets sociaux. S'agissant de l'inégalité des revenus, les études laissent à penser que la part des dépenses sociales dans les dépenses totales du gouvernement n'augmente pas au rythme où se creusent les inégalités de revenus. Cela veut dire que si les budgets sociaux doivent

explicitement se traduire par des politiques sociales visant à corriger les inégalités de revenus existantes, cet objectif n'est manifestement pas atteint.

On constate dans les comparaisons entre États que les petits pays ont affecté des budgets relativement plus élevés à l'éducation mais que leurs budgets de la santé se sont légèrement contractés. L'analyse met en évidence la même tendance pour Maurice, qui a dépassé les moyennes mondiales pour le budget de l'éducation et où la santé demeure le secteur critique sur lequel devra porter la politique sociale à l'avenir. Elle fait néanmoins ressortir certains indices tendant à prouver que Maurice s'efforce effectivement de rattraper ses voisins sur le terrain social pour ce qui est des crédits budgétaires.

Si on la compare avec d'autres petits pays de la tranche de revenu supérieure de l'Afrique subsaharienne, l'île Maurice se range devant les Seychelles pour ce qui est des crédits alloués aux dépenses sociales en général et à la santé et à l'éducation en particulier et devant le Botswana pour ce qui est des crédits alloués aux dépenses sociales, ce qui laisse à penser que des investissements importants sont allés à la protection sociale en général plutôt qu'à l'éducation ou à la santé. En d'autres termes, il y a une hausse phénoménale des dépenses publiques consacrées à la sécurité et à la protection sociales. Les dépenses de transfert ont été supérieures aux dépenses réelles. Les piètres résultats de Maurice par rapport à ceux du Botswana dans des secteurs tels que la santé et l'éducation peuvent cependant faire douter de la cohérence avec laquelle est menée la politique de rattrapage.

Au moment où s'achevaient ces travaux de recherche, Yeti Nisha Madhoo était chercheuse invitée à l'Université de Californie, Berkeley, aux États-Unis, et Shyam Nath était professeur invité à l'Université Amrita, dans l'État indien du Kerala.

## **Resumen**

Es bien sabido que los episodios de desarrollo rápido resultan en un aumento perceptible de los ingresos de las personas, distribuidos entre diferentes grupos sociales y de ingresos. Sin embargo, el crecimiento de los ingresos puede no traducirse en capacidades humanas que permitan disfrutar los frutos del desarrollo. La falta de acceso a educación, vivienda y servicios de salud, junto al deterioro de la participación en los ingresos de los ciudadanos de rentas bajas, la pobreza y un trato desigual de las personas, son factores que pueden obstaculizar las capacidades y el bienestar de los seres humanos. Varios de estos cambios dependen de la calidad de las políticas públicas y de las instituciones que ejecutan las políticas de desarrollo.

Historiadores, investigadores sociales y analistas institucionales, tanto en el pasado como hoy, han reflexionado acerca del valor de las culturas, tradiciones y estructuras sociales en sus debates sobre la política social. Pero este nuevo resurgimiento entre los economistas del interés por las políticas e instituciones no es aleatorio; tiene un profundo sustento teórico. Los nuevos economistas del desarrollo han puesto en tela de juicio la predicciones de los economistas neoclásicos de que las tasas de crecimiento de los países convergerán, alimentando la esperanza de que las crecientes brechas entre países pobres y ricos se verán reducidas y, con ello, disminuirán las divisiones sociales. De allí que la opinión popular actual en la economía sea que estas divisiones pueden abordarse mejor si

se entiende la dinámica de las políticas e instituciones que emanan de las interacciones sociales y la herencia colonial.

En el presente estudio se hace un análisis crítico del desempeño de las políticas sociales en Mauricio en cuanto a la calidad de las instituciones, los recursos generales del gobierno, la orientación de los presupuestos públicos hacia el bienestar social y el equilibrio étnico en la formulación de las políticas sociales. Se analizan las raíces históricas de la colonización y los acontecimientos políticos para evaluar sus repercusiones sobre las políticas sociales. La segunda parte del estudio retrata la historia y el mundo político en la época colonial, y la tercera parte detalla algunos acontecimientos políticos posteriores a la independencia que han marcado las trayectorias económica y social. La cuarta parte describe la situación social a partir de indicadores sociales durante distintas fases del desarrollo y la transformación económica. En la quinta parte comprende una evaluación del desempeño presupuestario de la política social. La sexta parte examina las bases institucionales para hacer frente a los retos que plantean las políticas sociales. El análisis de esta sección se lleva a cabo a la luz de las corrientes alternativas de pensamiento, a saber, democracia participativa, poder de la jurisdicción del Estado y cohesión social. En la séptima parte se lleva a cabo un ejercicio analítico para examinar la orientación de bienestar social de la política social, enfatizando en particular los esfuerzos presupuestarios para ponerse a la par con otros países de la región. La octava parte sintetiza los principales resultados y propone algunas directrices para la reforma de las políticas sociales en los estados pequeños y una agenda tentativa para directrices de investigaciones futuras.

Algunas de las conclusiones emergentes del estudio son las que siguen. La existencia de facciones étnicas en Mauricio no se ha traducido en conflictos por el poder y los recursos como ha ocurrido en algunos países del África Subsahariana. Por el contrario, estas facciones reconocen los beneficios de compartir, produciendo con ello un medio favorable a la cohesión social y el crecimiento del capital social. La sociedad mauritana, con sus divisiones étnicas, ha demostrado ser promotora del crecimiento y el bienestar social en razón de su pequeño tamaño, sus vínculos con la colonia y la diáspora y su alto grado de fragmentación, lo que ha resultado en una variedad de recursos humanos. El rápido crecimiento económico, la calidad de las instituciones y una mejor distribución del ingreso han servido de factores armonizadores adicionales.

Un análisis empírico de los gastos sociales confirma que, como era de esperar, los ingresos y la democracia tienen una repercusión positiva sobre el gasto social. En cuanto al efecto de la diversidad étnica y la desigualdad de ingreso, los resultados son sumamente reveladores. Los hallazgos del estudio no avalan el argumento de que factores étnicos o religiosos ejerzan algún tipo de influencia perceptible sobre los presupuestos sociales. Con respecto a la desigualdad de ingresos, lo que se observa es que a medida que ésta aumenta, la porción del gasto social en el gasto público total no asciende proporcionalmente. Ello significa que si los presupuestos sociales tienen la tarea específica de diseñar políticas sociales a la luz de la desigualdad de ingresos existente, este objetivo parece no estar cumpliéndose.

Al hacer comparaciones internacionales, se observa que los países pequeños han asignado presupuestos relativamente mayores a la educación. En lo que respecta a las asignaciones

para la salud, se detecta un ligero deterioro de los presupuestos sanitarios en estos países. Siguiendo la misma tendencia, el análisis muestra además que Mauricio se ubica por encima de los promedios mundiales únicamente en las asignaciones para la educación, mientras que la salud sigue siendo el sector crítico a atender por la política social en el futuro. No obstante, nuestro análisis demuestra cierta evidencia de la eficacia de la política de nivelación en frentes sociales en términos de asignaciones presupuestarias.

En comparación con otros países pequeños y de ingresos más altos del África Subsahariana, Mauricio ha superado a Seychelles en las asignaciones para el gasto social en general, así como en las asignaciones para la salud y la educación en particular. También supera a Botswana en la asignación para el gasto social, lo que es indicio de desembolsos importantes para el bienestar social en general en lugar de en la salud o la educación. En otras palabras, existe un aumento fenomenal del gasto público en la seguridad y la protección sociales. Los gastos de transferencia han superado los gastos reales. Sin embargo, el pésimo desempeño de Mauricio respecto de Botswana en sectores como la salud y la educación puede arrojar dudas acerca de la uniformidad de la eficacia de la política de nivelación.

En el momento de concluir esta investigación, Yeti Nisha Madhoo era profesor e investigador visitante de la Universidad de California en Berkeley, Estados Unidos, y Shyam Nath era profesor visitante de la Universidad Amrita en Kerala, India.



## **1. Introduction to Colonial Background**

Rapid development episodes are known to result in perceptible increases in the incomes of individuals distributed over different income and social groups. Income growth, however, may not translate into human capabilities to enjoy the fruits of development. Lack of access to education, housing and health services, alongside deterioration in the income shares of low-income citizens, poverty and disparate tax treatment of individuals, can hamper human capabilities and welfare. Several of these changes depend upon the quality of public policies and the institutions that implement development policies. Abramowitz (1986:388) says that a “country’s potential for rapid growth is strong not when it is backward without qualification, but rather when it is technologically backward but socially advanced”. In the same vein, Temple and Johnson (1998) show that average economic growth rates are higher for countries with higher values of a modernization or social development index, a measure of social capability (see also Adelman and Morris 1967).

Historians, social researchers and institutional analysts, both in the past and present, have pondered over the value of cultures, traditions and social structures in their social policy discussions. But the recent revival of interest in policies and institutions among economists is not random; it has a deep theoretical underpinning. New growth economists have challenged the predictions of neoclassical economists that countries will converge in terms of growth rates, giving hope that the widening gaps between poor and rich countries will narrow and thereby social divisions will diminish. So the current conventional wisdom in economics is that these divisions can be better addressed by understanding the dynamics of policies and institutions emanating from societal interactions and colonial inheritance.

A simple illustration will be instructive. One of the originators of the new growth theory, Romer (1992) compared Taiwan Province of China and Mauritius in an attempt to explain the economic success of the two islands. Taiwan was depicted as producer of the idea and Mauritius was identified as user of the idea of having an export processing zone (EPZ) for textiles without making it statutory to locate in a given geographical area (which was the standard model for an EPZ). Because of this simple twist in the strategy of production for exports, garments can be manufactured anywhere in the island while being eligible for all the accompanying advantages and concessions from the government. People could stitch garments at home with the help of family members and informal groups and generate income and employment spin-offs. This example shows that developing a closeness between social and economic policy analyses is not only warranted but also mandatory because economic and social outcomes are complex and complementary.

It is vital to remember that institutions and social policies are complicated products of history, culture, colonial status and geographic location of nation states. International forces have their own impacts on social policies and institutions. To examine such inter-linkages, we need a laboratory-type setting to derive firm conclusions. Very small states such as Mauritius may provide a good case study because of its rapid economic growth in a short time span (1982–1995) and contemporary social, institutional and cultural indicators. In the list of 148 countries, it is ranked 146 in terms of area (only bigger than Singapore and Hong Kong, China) and 148 in terms of population, along with Estonia,

Gabon, The Gambia and Trinidad and Tobago (World Development Indicators). Smallness in terms of both geographical area and population size will present a distinctive picture of institutions and social development more precisely.

### **Background to Mauritius**

The Republic of Mauritius consists of Mauritius and other smaller dependencies: Rodrigues Island, Saint Brandon Islands and the Agalega Islands, the Caigados Carajos Shoals and the Chagos Archipelago. There are also other small uninhabited islands, such as Gunner's Quoin, Flat, Round, Gabriel and Serpent (also called Parasol Island) in the north. Diego Garcia was part of Mauritius until 1965, when it was sold to the United States by the colonial authority, Great Britain, just before handing over control of the island to the local people in 1968. Among these islands, Mauritius is the largest, both in area and population, and it is here where the capital city of Port Louis is located. The geographical area of Mauritius covers about 1,865 square kilometres and the island is situated in the Indian Ocean some 2,000 kilometres off the southeast coast of the African Continent (800 km east of Madagascar). In terms of size, it is a tiny island, only 65km (40 miles) long and 45km (28km) wide. Other countries nearby Mauritius are Madagascar and Reunion, the latter being a Department of France.

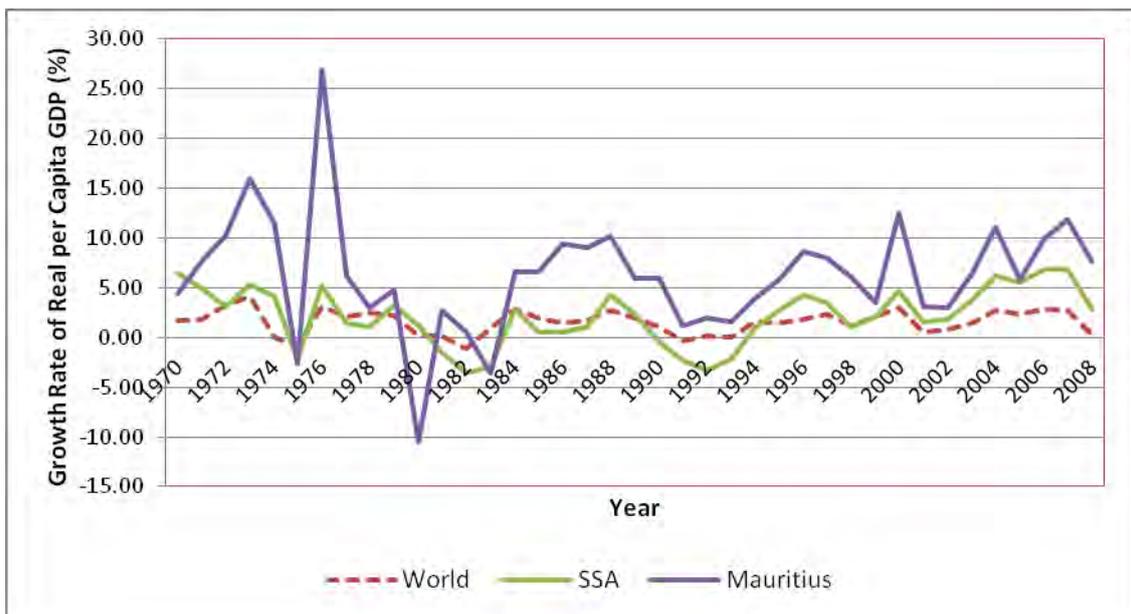
During the 1960s, there was a baby boom in Mauritius, which followed Malthusian predictions about population crisis. The annual population growth rate touched a high of 3 per cent per annum. With higher levels of education and rapid economic growth, the population growth rate now is less than one per cent (0.6 per cent) per annum. The present population of Mauritius is close to 1.3 million. It may be interesting to note that while population density in Mauritius is one of the highest in the world (550 per sq. km), arable land as a percentage of total land area was 49.02 in 2005 (see table 1). This figure is much higher than for some comparable small states, such as Cape Verde (11.41), Seychelles (2.17), Singapore (1.47), Botswana (0.65), Malta (31.25), Trinidad and Tobago (14.62), Ghana (16.26) Reunion (13.94), Jamaica (15.33), Fiji (10.95) and Gabon (1.21). Besides geographical area and cultivable land, export markets in the European Union, United States, Africa and India, and economic and diplomatic relations and bilateral agreements with these countries, make for a much bigger economic presence than would be expected for a small island like Mauritius. It is conjectured that there are natural gas and petroleum deposits in the vast seabed belonging to Mauritius, but the economic costs of such explorations are prohibitive. Mauritius, however, is not endowed with any mineral resources. Sea, cultivable land, forests and climate are the important natural resources that have shaped the history of this island.

The environmental history of Mauritius has had severe consequences for the economy and society. It is a volcanic island, formed from the upsurge of molten lava from the ocean bed. The island of Mauritius has a tropical climate with warm, dry winters and hot, humid summers, and its terrain consists of a coastal plain and mountains encircling a central plateau. The summer months are also the cyclone season. Cyclones passing near and over Mauritius can have a serious effect on the local weather, causing heavy rains and squally winds even if the cyclone does not directly hit the island. Direct hits only occur every few years, but this may change due to climate change. Direct hits, however, have the potential of damaging the standing crops (sugarcane particularly), reducing the productive working days for business and industry, disrupting infrastructure and public utilities and

rendering the population homeless. Depending on the severity of the cyclone, there is a moderate to huge drain on the resources of the government, non-governmental organizations and citizens.

The entire coastal area of Mauritius is suitable for international trade and marine economic activities. Since there are no immediate neighbours, the country does not need to spend on national defence, allowing more public resources to be allocated to economic and social development. While this is an economic and social advantage, the lack of defence capability does not allow full control of the exclusive economic zone that belongs to Mauritius in the Indian Ocean. A good deal of ocean monitoring is carried out with international cooperation with the American and Indian navies. Nevertheless, recurrent cyclones can pose extreme security risks, draining financial resources and making the island environmentally vulnerable. The cyclones are capable of wreaking havoc on infrastructure, creating a permanent need to put in place disaster relief structures that border on quasi-military organizations, instead of the normal fire brigade or civil defence structures common elsewhere.

**Figure 1: Comparative growth rates (percentage)**



**Note:** SSA: Sub-Saharan Africa. **Source:** United States Department of Agriculture (USDA) International Macroeconomic Data Set. <http://www.ers.usda.gov/Data/Macroeconomics>, accessed 5 August 2010

What is striking is that Mauritius has maintained an overall growth rate of around 5.5 per cent per annum – a remarkable growth rate given the worldwide slowdown of growth after the first oil shock in the early 1970s (see figure 1). This exemplary economic performance resulted in an unprecedented increase in Mauritius’ per capita income from US\$1,000 in 1982 to more than US\$3,000 in 1995, pushing Mauritius into the category of upper middle-income countries. Gross national product (GNP) per capita was about \$6,700 (\$11,412 in purchasing power parity/PPP dollar) in 2008. Over the period of continuous growth strides, a substantial reduction in the unemployment rate raised the country to near full employment (1.5 per cent unemployment rate in 1992). Development strategy maintained the policy of economic diversification (sugar, textiles, tourism,

financial services and information and communication technology (ICT) with emphasis on export orientation of all economic sectors. Seychelles, another island in the Indian Ocean and a sovereign country often compared with Mauritius, is much smaller both in area and population but is another growth centre in the Indian Ocean. The main difference, however, lies in the fact that Mauritius is a highly diversified economy (textiles, sugar, tourism, financial services, information technology and seafood processing) whereas Seychelles is overwhelmingly dependent on international tourism and seafood exports for its economic development. While Mauritius is classified as an upper middle-income country and has made large gains in its per capita income, one must look beyond income to evaluate human well-being.

The human development index (HDI) is used to capture other dimensions of human development such as health, education, a decent standard of living, and the ability to participate in the decisions that affect one's life and to enjoy the respect of others in the community. It is important to note that the HDI of Mauritius is higher than world average and much higher than sub-Saharan average; Mauritius performed better than Botswana but ranked lower than Seychelles in the HDI ranking in 2010 (UNDP 2010). Among the top 10 performers in Africa, Mauritius ranked second and Seychelles and Botswana ranked first and sixth, respectively (see table 1). This performance is impressive given that Mauritius is behind Botswana and Seychelles in per capita GDP. Moreover, Mauritius ranks well in health indicators, with a high life expectancy of about 72 years. It falls between Seychelles and Botswana in terms of educational performance: its adult literacy rate is 87.4 per cent compared to Seychelles' 91.8 per cent and Botswana's 82.9 per cent, and its combined gross enrolment ratio in education is 76.9 per cent compared to Seychelles' 82.2 per cent and Botswana's 70.6 per cent.(UNDP 2010).

Table 1 reports some institutional and demographic indicators for the top 10 performers in terms of good governance and per capita income in Africa. Mauritius tops the list in terms of African and world governance indicators. It ranks second in HDI after Seychelles, and comes fourth on the basis of per capita GDP, after Seychelles, Gabon and Botswana.

**Table 1: Selected institutional, social, economic and demographic indicators**

Country	African governance ranking 2007 <sup>a</sup>	World governance Rule of Law index ranking 2008 <sup>a</sup>	GDP per capita (PPP constant 2005 US\$) (2008) <sup>a</sup>	HDI 2007 <sup>a</sup>	African regional social security ranking 1995 <sup>b</sup>	Population density (/km <sup>2</sup> ) 2005 <sup>c</sup>	Arable land as percent of total land 2005 <sup>c</sup>
Mauritius	1	1	11,412	2	2	550	49.26
Seychelles	2	5	19,758	1	34	178	2.17
Cape Verde	3	3	2,957	5	5	104	11.41
Botswana	4	2	12,537	6	38	3	0.65
Ghana	5	7	1,351	18	40	95	16.26
Namibia	6	4	5,909	7	na	2	0.99
South Africa	7	6	9,343	8	6	36	12.10
SãoTomé and Príncipe	8	18	1,615	9	36	187	8.33
Gabon	9	24	13,461	3	13	5	1.21
Benin	10	22	1,361	27	17	69	23.53

**Sources:** <sup>a</sup> Frankel (2010); <sup>b</sup> Dixon (1999) pp.249–50; <sup>c</sup> CSO 2005, 2006.

In light of the characteristics described above, although Mauritius is part of sub-Saharan Africa, it is an outlier in various ways, namely political stability, remarkably diverse economic sectors, non-primary export orientation, high social indicators and multicultural ethnic diversity with no indigenous population. Everyone is a visitor, in a historical sense, so the issue of harmony and displaced identities is crucial in society and polity, shedding light on issues that may be intriguing to researchers and policy makers. This colonial and political profile, remarkable economic performance and many good social indicator rankings have made Mauritius an interesting case study. Economists have found it difficult to explain the remarkable economic performance in Mauritius using the standard growth models in which all possible determining factors are taken in to account (Subramaniam and Roy 2003; Nath and Madhoo 2008). A large unexplained residual remains a “black box”, which may contain pragmatic social policy and complex management of ethnic and social diversity, beside other factors.

### **Focus of the present study**

Recent studies on social change in Mauritius have attempted to examine the linkages between economic performance and social development, with special orientation to social problems in general.<sup>1</sup> In addition, there are some interesting studies on social dimensions of ethnicity and politics (Eriksen 1998, 2004, 2005; Miles 1999), education and training (Bunwaree 2001), export-led growth (Woldekidan 1994) export processing zone and employment (Hein 1988); globalization, export orientation and social policy (Bunwaree 2005).

<sup>1</sup> For example, Ghai 2000; Mehrotra and Jolly 2000; Ranis et al. 2000; Mehrotra and Delamonica 2007.

Researchers have also examined the relationship between public expenditure on social protection and economic growth. Although the direction of this relationship is far from settled (Nijkamp and Poot 2004), there are studies finding that social protection expenditures are considered bad for growth (Gwartney et al. 1998; Arjona et al. 2003) because they are more in the nature of transfer expenditure, contributing to an overall loss of economic, innovative and entrepreneurial capacity. In contrast, the significance of social cohesion and social expenditures for economic development has been empirically established in some other studies (Herce et al. 2000, 2001). Sociologists and political scientists, however, have tended to highlight that greater social protection expenditure not only generates more equal and cohesive societies, but also greater economic growth (Korpi 1985; Castles 2005).

The present study critically examines social policy performance in Mauritius in terms of the quality of institutions, overall resources of the government, social welfare orientation of government budgets and ethnic balance in social policy formulation. The historical roots of colonization and political developments are analysed to assess their impacts on social policies. Part 2 of the study portrays the colonial history and politics and part 3 describes post-independence political developments that have marked the economic and social trajectories. Part 4 depicts the social situation in terms of social indicators during different phases of development and economic transformation. Part 5 contains an assessment of the budgetary performance of social policy. Part 6 examines the institutional foundations to meet the social policy challenges. The discussion in this section is carried out in the light of the alternative strands of literature, namely participatory democracy, power of state jurisdiction and social cohesion. An analytical exercise is undertaken in part 7 to examine the welfare orientation of social policy with particular emphasis on budgetary efforts to catch up with other countries in the region. Part 8 summarizes the major findings and puts forward some guidelines for social policy reform in small states and a tentative agenda for future research directions.

## **2. Salient Features of Colonial History and Politics**

### ***Pre-colonial status***

European colonizers viewed Africa as an ideal location to migrate to and expand their empires. Mauritius was colonized long before the history of colonization started on the African mainland in the late nineteenth century. There was a good deal of colonial politics in Africa among the major colonizers, namely British, French, Spanish and Portuguese, in the early phases of colonization. This started with the artificial design of political borders in Africa in European capitals in the late nineteenth century. A major landmark was the Berlin Conference in 1884, followed by several treaties between colonizers designed to share the fruits of colonization. The strategic sharing of nations between colonizers often involved a process of bargaining, if not war. Mauritius is a classic example, where multiple colonization episodes took place on apparently “free land”. As an uninhabited island, it had potential for exploration first by navigators and then by colonizers. Although there is no evidence of human habitation on Mauritius before the early seventeenth century, Phoenicians probably visited the island about 2,000 years ago, and Malays and Arabs stayed on the island in subsequent centuries. It was the Portuguese

who first used the island of Mauritius in an organized way as a call and supply centre on their voyages to East India.

The adventurous but failed attempts to settle in Mauritius started with the Dutch in 1638. Their interest in Mauritius originated as a pre-emptive move in response to the growing design and influence of French, Spanish and British colonizers who had their eyes on small islands in the Indian Ocean. The Dutch, with the help of fellow colonists, convicts and African slaves, depleted the forests of ebony trees and hunted the dodo (a slow moving non-flying bird) to extinction. One remarkable contribution of Dutch partial colonization of Mauritius was the introduction of sugarcane cultivation, which constitutes the principal agriculture supporting sugar exports even today. They also drafted the first maps of the island, and named “Flacq”; one of the main districts of Mauritius. The naming of Mauritius was also credited to the Dutch, deriving from the name Prince Maurice de Nassau. The Dutch left the island in 1710. There were actually two distinct phases of Dutch rule in Mauritius: the first phase from 1638 to 1658 and the second phase from 1664 to 1710. There was, therefore, a period of about six years during which the island was practically uninhabited, as it had been for much of its past.

### ***Formal colonization episodes***

While the Dutch did not pursue a longer-term colonization drive, French efforts to colonize areas in the Indian Ocean were more targeted. Around 1638, they had taken the islands of Rodrigues and Reunion, and in 1715 an expedition of the French East India Company claimed Mauritius for France. The company established a settlement named Île de France on the island in 1722. With more sustained colonization, the island saw the development of the existing forests for wood construction and the production of sugar from sugarcane. Later, the first sugar refinery was also established. As the sugarcane cultivation and sugar manufacturing picked up, demand for cheap labour increased. To supply labour on sugarcane farms, slaves were brought from Indonesia, Madagascar and India (Pondicherry, a French Colony during colonial days). This period witnessed the first serious efforts to create institutions to establish law and order and some infrastructural development with an active port in Port Louis in the Indian Ocean. News of the French Revolution reached Mauritius in 1790, and colonial policy came under stress. Despite settlers’ discontent with the Royal Administration’s efforts to establish more representative forms of government, the assembly and councils were dissolved in 1803. Attempts to abolish slavery failed as colonists needed slaves for forest and sugarcane cultivation. The differences between the French East India Company and settlers widened and the French grip on Mauritius gradually loosened. Although the island’s elite culture was distinctly French, its social structure grew more complex as the population grew. Port Louis, open to free trade after the demise of the French East India Company, saw a major increase in shipping, especially from Europe and North America. For example, from 1786 to 1810, almost 600 ships from the United States called on Mauritius, and the United States established a consulate in Port Louis in 1794. While these developments seemed to work well for French settlers, the British colonists had a different design for Mauritius. They attacked French forces from the sea with a military offensive in 1810. French forces were unable to counter the British blockade and surrendered in December 1810. Under the Treaty of Paris of 1814, Mauritius and its dependencies became a British colony, whereas Reunion was given back to France. Despite its new colonial status, Mauritius stayed quite close to France, as French (along

with its derivative Creole) was used as the spoken tongue, and the impact of French culture was not disturbed. However, new colonial administrators brought about economic and institutional changes, with consequences for the society and culture of the island. From its status as a colonial island based on maritime trade, Mauritius started looking to agriculture for its economic future. To meet the labour shortage, it was decided to import indentured labour from India, which had become a British colony. The first importation of Indian labour to Mauritius was in 1829. Most of the labour came from the regions of Bihar and Uttar Pradesh. Slaves (the initial imported labour from Indonesia, Madagascar and Pondicherry in India) and indentured labour from Bihar and Uttar Pradesh in India constituted two important sources of labour supply on sugarcane farms.

### ***Development of sugar economy***

During British colonization, two important developments took place, each with important economic and social implications for Mauritius: first, the sugar industry became the island's main source of economic progress; second, in 1835, the British administration took the major decision to abolish slavery and use the imported indentured labour from India. This import of labour was a major contributor to the accelerated development of the sugar industry in Mauritius. From table 2, it is clear that there is a positive link between entry of Indian immigrants and acreage under sugarcane cultivation.

The preferential West Indian sugar tariff was repealed in 1825, allowing Mauritius to export sugar to Britain with no import tax disadvantage. This opened the way for the sugar industry to become Mauritius' main source of income. This shift to sugar cane cultivation caused a decline in food crops grown on the island and increased the country's dependence on food imports. Moreover, it also resulted in a rise in income inequality between large plantation holders and small crop producers. Sokoloff and Engerman (2000) and Engerman and Sokoloff (2002) argue that initial inequalities had long-lasting effects on institutional development. Inequality was created and sustained through mechanisms that protected the elite and maintained a large class of poor, uneducated and disenfranchised people. Commodities such as sugarcane, rice, tea and coffee, which benefit from economies of scale and the use of slaves and indentured labour, are historically associated with power being concentrated in the hands of the elite. In contrast, commodities grown on family farms (wheat and maize) tend to promote the growth of a large middle class in which power is more widely distributed. Thus, sugarcane and sugar exports not only laid down the foundation of an unequal society in Mauritius, but also maintained and accentuated economic and social inequities.

**Table 2: Acreage under sugarcane and immigration**

Year	Acreage under sugarcane (in arpents)	Net entry of Indian immigrants
1841-1850	59,000	+ 55,704
1851-1860	110,000	+ 101,039
1861-1870	124,000	+ 29,006
1871-1880	123,000	+ 3,619
1881-1890	123,000	- 1,759
1891-1900	123,000	- 2,405
1901-1910	127,000	+ 4,328
1911-1920	161,000	- 1,826
1921-1930	156,000	Immigration stopped

**Source:** Nababsing and Virahsawmy (1976), p. 46

The British administration's efforts to abolish slavery, driven partly by the supply of indentured labour, were resisted by the plantation-owning Mauritians of French origin (Franco-Mauritians). After much investigation, petitioning and subterfuge, the British authorities succeeded in abolishing slavery in 1835. Plantation owners were granted several concessions along with lump-sum compensation. The implementation of the Abolition of Slavery Act and the subsequent "release" of the slaves turned out to be a financial boon to slave owners on the island, who received compensation amounting to £2.1 million over six years. This was an era of accelerated accumulation of capital, never to be repeated in the history of Mauritius.

The abolition of slavery had important implications for the labour market in Mauritius. Over 60,000 former slaves were released and, with few other immediate options, almost all ended up living on the island and providing a cheap source of labour to sugar plantations. Colonial treatment of indentured labour became harsher, resulting in a substantial exodus of Indian immigrants after the expiry of their contracts. This was followed by further imports of labour, which in some respects became a slave trade in disguise. There were cases of workers being subject to beatings, jail sentences, withholding of pay and suspension of contractual rights to return to their home country. Between 1834 and 1910 (the last year of arrivals), out of 451,776 Indian indentured labourers, 157,639 left, pushing the colonists to impose even harsher exit conditions and often eliminating the choice of exit. This situation continued until a labour law regularized the pay system in 1878, and the indenture system formally ended in 1917. Over the course of time, freed slaves and their offspring became fishermen, dockworkers and civil servants and formed about 20 per cent of the population of Mauritius in 1931.

During the 1860s, the growth of the sugar sector was adversely affected by developments in the world sugar market and climatic factors. Increased sugarcane production in other countries and substitute in the form of sugar beet caused a decline in world prices. The opening of the Suez Canal in 1869 shifted trade routes away from the Indian Ocean. Occasional droughts and cyclones, and a deadly malaria epidemic killing more than 40,000 people between 1867 and 1869, had significant impacts on sugarcane production. The Franco-Mauritian plantation owners responded to this calamity in several ways. They cut costs by centralizing sugar production in fewer factories. To increase the profitability of their operations, from the 1870s to about 1920, landowners sold less productive portions of their land. This process was known as the *grand morcellement*, and it permitted

many Indians, who could put together just enough capital, to become small landowners. This meant that for the first time, sugar was produced on small plots with free labour. Between 1864 and 1900, Indians purchased 24 million rupees worth of land (Library of Congress 2011). By 1921 Indians owned about 35 per cent of the island's cultivated land. This trend continued at a faster pace after 1945 and particularly after independence in 1968.

### ***Peculiarities of Mauritian colonization***

The repeated colonization of Mauritius presents a mixed bag of opportunities and constraints. In this sense, the question of what would have happened if Mauritius was never colonized is not really relevant. It has been argued in the literature that colonies that were more urbanized and therefore developed in the pre-colonial period have witnessed lower growth rates after colonization; that is, their fortunes were reversed due to colonization (Acemoglu et al. 2002). The history of Mauritius, however, starts with colonization. Thus, there is nothing like a pre-colonial economic history with indigenous institutions and governance. So, it is difficult to create a counterfactual for Mauritius without colonization, and the much discussed and empirically established “reversal of fortunes” hypothesis does not apply in the case of Mauritius. Similarly, the issues of pre-colonial institutional and cultural factors are also not relevant in the case of Mauritius. A number of studies (for instance, Herbst 2000; Boone 2003) have emphasized that the poor quality of pre-colonial tribal and ethnic institutions, with some exceptions in capital cities, had significant impacts in terms of institutional and economic development in contemporary Africa. In the absence of pre-colonial institutions and cultural traits in Mauritius, the major source of institutional development stems from the efforts of colonial powers during colonization in the form of either growth-promoting or growth hampering institutions.

Nevertheless, spectacular post-colonial economic performance in Mauritius can be interpreted in different ways. In one sense, colonial rule can be construed as a constraining factor. That is, political independence provided opportunities to pursue pro-growth policies as against the colonial policies that promoted the interests of colonizers. The second interpretation is a slightly softer one, which proposes that colonization had a positive impact on primitive institutions and governance, culminating in a higher growth trajectory in the post-colonial period. Acemoglu et al. (2001) have shown that the settler mortality rate was much lower in Mauritius than in other colonies, at least in part due to favourable climatic conditions, which provided incentives for settlers to create good quality institutions, namely rule of law and protection against expropriation. While these institutions were growth enhancing during and after colonial rule, the very fact that Mauritius achieved such grand economic success in a short time span proves that economic stagnation during colonial rule of about 200 years was a constraining factor. It is difficult, however, to quantify the extent of the damage incurred during the colonial period in terms of missed opportunities.

The lack of human history on the island of Mauritius before formal colonization by the French and British settlers has created unusual ethnic and cultural configurations. People moved to Mauritius from different countries and continents, namely, China, Indonesia, India, Africa and Europe, carrying with them their own religious, cultural and social traditions. Despite colonial forces encouraging collusion and fusion, people from

different countries of origin, in general, maintained their individual identity in the presence of wide cultural differences. These identities were not pre-existing with any national heritage as a binding force through historical or patriotic lineage, which produced a good deal of within country heterogeneity. What resulted in Mauritius is a cross-country heterogeneity of immigrant populations. While this kind of population heterogeneity may not be good for growth, colonial links with France and England and diasporic links with India and China have proved to be conducive to economic and social development in the post-colonial period through foreign aid, technical assistance and international trade and investment.

It is worthwhile exploring why the Mauritian colonial experience is so different from other colonial episodes in Africa. Colonization and post-war agreements among major colonial powers regarding political boundaries often created geographical borders in which ethnic, religious or linguistic groups were put together or separated without any respect for their aspirations (Alesina et al. 2011). About 80 per cent of African borders follow latitudinal and longitudinal lines, which prove that they cannot be natural depending on the geography. Many scholars believe that such artificial borders, which create ethnically fragmented countries or, conversely, separate the same people into bordering countries, are at the root of Africa's economic tragedy. There are four ways in which those who drew these borders created problems. First, they gave territories to one group, ignoring the fact that another group had already claimed the same land. Second, they drew boundary lines that split ethnic (or religious or linguistic) groups into different countries, frustrating the national ambitions of various groups and creating unrest in the countries formed. Third, they combined countries into single country groups that wanted independence. Fourth, even if there were no major ethnic divisions in the new states, they were still a random collection of families, clans and villages that would not have a strong collective national identity.

Posner (2004) offers an interesting "natural experiment" originating from the arbitrary drawing of the border between Zambia and Malawi. At the time of border design, the Chewas and the Tumbukas, two ethnic groups living in the area, were partitioned so that approximately two-thirds of each group remained in Malawi and the rest in Zambia. In Malawi, both groups represent a large fraction of the country's population. They aggressively compete for power at the national level, which is a perennial source of ethnic conflict. In Zambia, however, these ethnic groups represent minority groups and often support the party in power. This kind of artificial boundary formation continues to be a source of inter-country disputes. These situations have repercussions for social cohesion within the country, yielding negative dividends for economic and social development.

Mauritius escaped the worst effects of colonization seen in Africa and elsewhere, which tended to materialize upon independence. This difference can be attributed to Mauritius' fully coastal location, zero indigenous population and tiny country size. Since there were no bordering countries, there was no incentive or opportunity for colonizers to carve artificial borders. Similarly, despite the high level of ethnic and cultural differences in Mauritius, partitioning designs among different groups were not feasible through artificial boundary designs because of the small size of the island both geographically and demographically. It has been suggested that this small size makes the inhabitants more open to the outside world and therefore more cooperative inside the country. Moreover,

the lack of indigenous population has been a unifying force, as all the immigrants were settling down in a foreign land without any claim that the country belongs to one ethnic group or the other. Nevertheless, ethnic divisions were perpetuated during colonial rule by divide-and-rule policy.

Lange (2009) attributes Mauritian development success to the fact that the island was under direct British rule during its colonial history, as opposed to indirect rule in the case of some other African countries. According to the author, such control facilitated the prominence of effective legal and administrative mechanisms, leading to more efficient bureaucracy and stronger unity. This tendency weakened hierarchy and inequality in Mauritian society, promoting the rule of law, a vigorous civil society, and reduced hierarchical abuses. Although Mauritian society was among the most hierarchical and unequal in the world in the early 1800s, these conditions weakened over a short period of time because of growing colonial support to the working classes. In other cases, indirect rule by Britain produced underdevelopment, inefficiency, corruption and erosion of state utility. Lange (2009) defines a range of societies in a simplistic binary of success or failure, and attributes the most significant legacy to the fact of British power and whether it qualified as direct or indirect. The methodology used to measure a former colony's success or failure involves a combination of GDP, infant mortality, presence or absence of democracy, level of average education, and standards of governance as dependent variables. He shows a negative correlation between indirect rule (measured as the percentage of total court cases heard in "customary" courts) and development outcomes (per capita income, average schooling, infant mortality rate, democratic and governance indicators).

Bertram (2004) advances a more general hypothesis that the per capita GDP of small island economies, and their growth through time, can be explained to a large extent by two variables: the closeness of the political linkages tying each island to a corresponding metropolitan patron in the core of the world system, and the level of per capita GDP in the metropolitan patron economy. Small islands thus converge to the income levels of their patrons, not to each other. Regression analysis of 22 Pacific island economies, and of 60 small islands worldwide, provides support for this hypothesis, at least over the last three decades of the twentieth century. Those island economies whose close political linkages to former colonial powers survived the transition to the post-colonial era were the ones which exhibited greatest prosperity at the end of the century. Colonial links are thus an important determinant of contemporary economic and social performance, especially in a small economy like Mauritius.

## **2. Post-Independence Politics and Governance**

The colonial history of Mauritius is characterized by a smooth transition to the independence. Unlike other ex-colonies, there was not a long and violent struggle for the freedom. In fact, Mauritius was obtained as a concession emanating from a series of discussions and consensuses between the British government and local politicians. One of the major issues that should be highlighted at the outset is that the decision on independence was entrusted to a (very) democratically elected Parliament, which already had some political and governance experience. But behind these peaceful negotiations, there was inter-community opposition and violence that has left a durable impact on

inter-ethnic relations. Social tensions were particularly marked between the Creole and Indian communities, when the rising fortunes of the latter as against the former were most apparent. In 1909, 30 per cent of land under sugar cultivation was in the hands of Indian (mainly small) farmers, but by 1917 this had increased to 43 per cent and by 1922 to 46 per cent; a process greatly facilitated by the development of cooperative credit societies (Robertson 1930). Small landowners were able to invest in education as a means of enabling their children to escape from the sugar field by obtaining better employment in the villages and towns (Houbert 1981, Simmons 1982). By the 1940s, middle class Creoles faced increasing competition from Indians both in the public and private sectors (Sandbrook 2005).

The Indo-Mauritian majority gained progressively at the expense of other groups as suffrage was extended. Tensions arising from group competition were manifested in pre-election conflicts in the 1948, 1953, 1959 and 1967 elections. The suppressed ethnic clashes surfaced as the colonial administration was fading and independence was approaching. Social and economic conditions after World War II also contributed to political and ethnic conflicts. Better provision of health, education, pensions, and other public welfare services and the eradication of malaria and parasitic diseases in the 1940s and 1950s improved the life expectancy of the poor, and population growth rate reached a level of 3 per cent per annum. Family planning measures reduced the population growth rate in the 1960s and 1970s, but the labour force continued to increase rapidly and unemployment stood at more than 12 per cent of the work force on the eve of independence in 1968. The ethnic rioting in 1964 and 1968 were unprecedented on the island. Hindu and Creole communities clashed in the village of Trois Boutiques, outside Souillac, in May 1964. One police officer and one Franco-Mauritian were killed. In early 1968, just six weeks before independence, violence erupted between Creoles and Muslims in Port Louis, the capital city, in which about 25 people died and hundreds were injured before British troops intervened.

Besides these ethnic tensions, there is evidence of income and class conflicts that took the form of a movement among urban middle-class Creoles to mobilize support for changes to the Constitution of 1885 that would enfranchise them, without also enfranchising the Creole and Indian working classes, and enable them to dislodge the large landowners from power (Simmons 1982). In 1907 they founded Action Liberale as an organizational vehicle to campaign in the January 1911 Governing Council elections and set out to mobilize the middle classes of all ethnicities. Though they won two seats in Port Louis, the landowners took the remaining eight rural seats. Rioting and looting by Creoles broke out in Port Louis, directed at the property of wealthy Action Liberale opponents, but few people were injured and none killed. Action Liberale was disbanded shortly after. The Constitution was, however not amended, and the power of the small class of White and Creole landowners that it guaranteed remained untrammelled.

The extent of communal disharmony can be discerned from the fact that about 48 per cent of Mauritians, mostly Creoles and some minority Indian communities voted against freedom from colonial rule, and many of them left the island for France and England, fearing a sense of insecurity in the hands of the Indian majority. The introduction of a multiparty democracy went a long way towards ending the economic and social capture of the island by the French oligarchy through its alliance with British colonialism. The

leader of the Mauritian Labour Party, Sir Seewoosagur Ramgoolam, became Prime Minister after the national parliament was established. The sugar economy remained in the hands of relatively few French families, but there was substantial dispersal of both political and economic power, and gradually the state and the public sector was dominated by the ruling party, mostly representing the majority population of Indo-Mauritians. The sugar sector remained the mainstay of the economy. At the time of independence, sugar accounted for 93 per cent of exports and 94 per cent of all cultivated land, with production being concentrated in 19 large estates, 15 of which were privately owned by Mauritians, 3 by foreign capital (Lonrho), and one by the state. About 60 per cent of the crop was grown on large sugarcane plantations and the rest was organized as cooperatives of small planters.

### ***Impact of pre-independence political developments***

While Mauritius achieved independence in 1968, the struggle for power between political parties started during the colonial period and was influenced by colonial politics and links with India and China. Long before independence, the constitution of colonial Mauritius was introduced in 1885. There were two political parties, namely the Mauritian Labour Party (MLP or Parti Travailleiste/PT), which modelled itself on the British Labour Party, and the Parti Mauricien Sociale Democrate (PMSD), with more indigenous Franco-Mauritian elite roots. The MLP had a larger following for various reasons. The onset of the Great Depression in 1929 led to a fall in the international sugar price and caused great hardship in Mauritius for the working class and for small farmers as incomes fell and unemployment rose (Simmons 1982; Brookfield 1957). After the depression, in 1936, the MLP was formed under the leadership of Maurice Curé, a Creole medical doctor who had been an active social campaigner and was radicalized by the poor living conditions on the sugar estates (Simmons 1982; Sandbrook 2005). The MLP's programme included higher wages for workers, better housing and health care, the decriminalization of trade unions and the extension of the franchise, that is, right to vote, to the working class (Simmons 1982). The leadership of the party was heterogeneous, as was its membership, for it reached out to urban and rural workers, the unemployed and small farmers, regardless of ethnicity or religion (Simmons 1982; Houbert 1981).

In the elections of 1963 and 1967, the MLP won by 40 per cent and 56 per cent of the vote, respectively. These election results show that both political parties and voters were highly divided and that this political competition had roots in ethnic and religious fragmentation of society. It is, however, heartening to note that guided by patriotic feelings, both secular and communal parties felt the need to form coalitions and foster unity. Nevertheless, the rising influence of the Left-wing party, the Mouvement Militant Mauricien (MMM), comprising younger members and rebellious trade unions in the General Workers' Federation, was a significant source of instability hampering the formation of a stable government.

### ***Post-independence politics and elections***

It is instructive to note that the independence of Mauritius coincided with social and political unrest, which shaped the social and political map of the island. Responding to the social and political crisis, in the very early years of independence, the government declared a state of emergency, jailed the rebellious leaders, banned public meetings and

called off the 1972 general election. The democratic system, which had been taking shape during colonial rule, was temporarily suspended to preserve political stability and social cohesion. However, there was a redeeming factor during this period of political instability, in the form of the sugar boom in the early 1970s, which expanded the fiscal capacity of the state for undertaking welfare measures. The spending policies implemented by the MLP and its allies during the boom years was in line with the ideology of the MMM. A series of measures aimed at improving social services, education and health and conditions of work were implemented. These measures, however, could not impart stability as there were divisions within the government over the design of foreign policy, presumably due to the political dimensions emanating from colonial rule. These factors made it unfeasible to continue the state of emergency, and the only alternative that was considered pragmatic at that point of time was a political consensus, which led to a forced general election in 1976.

Nevertheless, populist welfare measures during the boom years of the 1970s and a pledge to continue these welfare policies earned the MLP enough seats to form another coalition government and remain in power. But the MMM came up as the single largest party and emerged as a major political force in independent Mauritius. The poor design of populist policies implemented during 1976–1979 swelled the budgetary deficits and slowed down growth momentum. Structural adjustments and austerity measures were implemented under pressure from the International Monetary Fund (IMF) and the World Bank, which gave opposition parties grounds to bring down the government for undermining the national interest by accepting an inappropriate package of policies from international institutions. While the government did not accept the full package of IMF/World Bank recommendations, this stance was one of the major developments after independence that changed the profile of political parties.

These developments weakened the political image of the MLP and gave way to phenomenal growth of the MMM. The latter exploited this opportunity by softening its Left-wing extremist orientation, which enabled an electoral alliance with the Parti Socialiste Mauricien (PSM), a moderate, predominantly rural Hindu group. While the moderate socialist measures of the MMM resulted in their victory in 1979, this approach eroded the more radical base of the party. Some post-election measures, such as a proposed reduction in rice and flour subsidies and a proposed downward revision in sugar export taxes, aroused widespread dissatisfaction, and the MMM had to pay the price in terms of discontent and lack of support. Moreover, personality conflicts and ethnic friction worsened the situation, leading to the break-up of the coalition after nine months in power. The MMM, under the leadership of Paul Berenger, joined the opposition bench. The then prime minister, Sir Aneerood Jugnauth, formed a new party, the Mouvement Socialiste Mauricien (MSM), which comprised his MMM followers (mostly Hindu) and the PSM.

When a new election was called in 1983, the MSM formed an alliance with the MLP and the PMSD. The supporters of the MMM now consisted of urban, mostly Muslim, workers, but most of the support came from the poorer and the more radical members of the island's ethnic groups and intellectuals. The MMM won 46 per cent of the popular vote, but it could capture only 22 parliamentary seats, leaving 48 for the MSM and its allies. The ruling coalition, headed by Sir Aneerood Jugnauth, represented a wide

spectrum of political support, which suffered setbacks due to personal enmities and scandals. But rapid economic growth, dubbed the “Mauritian miracle”, helped the political survival of the alliance. The same alliance again won the election under the leadership of Sir Aneerood Jugnauth with a new alliance with the MMM in 1991. This alliance, however, could not complete its five-year term as there was a split, leading to another election. The MSM lost elections in 1995 despite a good economic track record. This was principally due to the MLP’s alliance with the MMM; that is, coalitional politics overpowered good economic management. The alliance with the MLP was also short-lived and the MMM bounced back to the opposition. The MSM and the MMM later formed a strategic coalition to overthrow the MLP in 2002. In this way, the coalitional politics in Mauritius can be described as a convergence of ideologies among politicians for their survival. The positive aspect of this political management under uncertainty has been that there were no major policy shifts with severe consequences for economic and social development. Since the democratic roots were deep, these political uncertainties did not result in any political crisis or social unrest.

The last two elections, 2005 and 2010, add further weight to this contention. The 2005 parliamentary elections indicated how strongly the majority system reacts to small changes in voting. The alliance between the MLP and several smaller parties won 38 seats, meaning the coalition between the MSM and the MMM was defeated, having won only 22 seats. While the MLP had been strong, their coalition with MSM, a very new development in the political history of Mauritius, won the 2010 election, leaving other political parties in jeopardy.

To avoid ethnic imbalance in the Parliament, eight best losers seats are allocated under a complex formula. These candidates, selected by the electoral commission, are allocated seats by ethno-religious affiliation in order to correct any imbalance in the representation of the various communities that may result from the direct election. Every candidate who runs for parliament must state to which of the four official communities they belong. These are Hindus, Muslims, Sino-Mauritians and the residual category of Franco-Mauritian white and Creole Christians, lumped together as the “general population”. If the proportion of elected members is less than that community’s percentage of the population, candidates from such under-represented ethnic communities are declared best losers to make up the difference (Mathur 1991, 1997; Nave 1998). This provides a balancing factor and enhances the participation of different ethnic and minority groups in the assembly. In the National Assembly, eight seats in addition to the 62 elected seats are awarded to candidates defeated in the general election: four to those candidates who fared the best in relation to the other defeated candidates, and four on a party and community basis. Electoral reforms have been debated in parliament and in the media, with a focus on adding a degree of proportionality and public funding of political parties to the system. But the constitutional reform drive, ultimately, has stalled.

The post-independence period is characterized by a relatively stable party system consisting of three major parties. These parties value political cooperation as it is a proven fact that they will not win an election on their own. So they adhere to pragmatic policies and learn how to change their strategy for political survival. In other words, these political parties began with socialist, social-democratic or social-revolutionary leanings, but ultimately ruled the country in a pragmatic and at times innovative way. The multi-party

system can be said to have effectively achieved a high level of political development and sophistication.

### ***Ethnic groups and sociopolitical characteristics***

Immigrants came to Mauritius in successive and dramatic waves spread over a long period of time. This is demonstrated through the official census, first published in 1846. In that year, the total population was 158,462. The white and coloured population was 102,217, and the Indian population was 56,245. In 1861 the total population reached 310,050. The white and coloured population increased to 115,864. The Indian population more than tripled, to 192,634, to become the majority, and the Chinese population was first registered at 1,552. In 1921 the white and coloured population decreased to 104,216, the Indian population increased to 335,327, and the Chinese population increased to 6,745, making a total population of 376,485. The next census was in 1952, which showed the total population at 501,415. The white and coloured population was 148,238; the Indian population once again increased in number to 335,327; and the Chinese population reached 17,850. The 1962 census combined white and coloured people to become the “general population” and separated the Indians into Hindus and Muslims. In 1983, the census stopped ethnic comparisons altogether in favour of religious groupings.

The Franco-Mauritians, the sugar-baron *Grands Blancs*, remain the country’s wealthiest group; many are prominent in banking and insurance and, since the 1970s, they have invested in the manufacturing sector. They are followed by the Chinese, Muslim and Hindu groups working in commerce, with the Chinese dominating this sector, though there are also wealthy Muslim textile and grain traders and Tamil merchants in Port Louis, the capital. Hindus and mulatto Creoles (mixture of Franco-Mauritian and Creole) dominate government bureaucracy; the Tamil, Marathi and Telegu groups, in particular, have been prominent in the civil service and police forces. Hindus also tend to own small sugar plantations. Mulattos are found in the professions, along with Muslims, though many are also artisans and work in the sugar mills. At the bottom of the socioeconomic scale are the Hindu plantation workers and Creole factory workers, dock workers, fishermen and domestic servants. Given their occupations, Chinese, Creoles and Muslims tend to live in towns. The Chinese comprise 10 per cent of the population of Port Louis, while the Hindu population remains more rural, living in plantation villages.

The current distribution of wealth has its roots in the country’s social history. A brief overview of the ethnic make-up of Mauritius is important to gain a better picture of the ethnic distribution of wealth and incidence of poverty. In 1972, ethnic communities in Mauritius could be broadly categorized into four groups: Hindus (forming 51.8 per cent of the population), Muslims (16.6 per cent), Sino-Mauritians (2.9 per cent) and the general population (28.7 per cent). Hindus and Muslims in Mauritius (also known as Indo-Mauritians) trace their ancestry from India, while the Sino-Mauritians (locally called “Chinese”) originate from China. The “general population” is a heterogeneous catch-all category of those who do not fall in the first three groups. In practice, this population includes the Franco-Mauritian white population (“Whites”) as well as the “Creoles” who are descendants of former slaves from various parts of Africa, particularly from Madagascar, who were forced to work on the Franco-Mauritian sugar plantations (Eriksen 1998).

The Franco-Mauritians are a small group forming about 2 per cent of the Mauritian population. This community has built on the wealth that it amassed during the pre-independence slavery period by branching out into all areas of economic activity. This group is generally perceived to control most of the private wealth of the country. A survey of the 100 largest companies in Mauritius suggested that 51 of their chief executives were of European origin—a disproportionately large share given that this group makes up just 2 per cent of the population (MRC 1999a; Business Magazine 2001). While not all Franco-Mauritians are rich, this community is wealthier on average than any other in Mauritius.

According to Hollup (1994), the majority of Indian immigrants to Mauritius (60 per cent), including Muslims, came from eastern Uttar Pradesh and western Bihar, relatively poor regions in India, while 33 per cent came from southern India (Tamils and Telugus) and 7 per cent from Maharashtra (Marathis). After coming to Mauritius, they were equal in terms of their treatment as indentured labour. Nevertheless, the Indians were quite heterogeneous in terms of caste, religion, linguistic affiliation and regional origin. Most of them were poor peasants, artisans and agricultural workers, but they were not all of low caste. More than half of the Hindus belonged to agricultural, shepherd and artisan castes, referred to as clean castes in northern India. The low castes amounted to 27 per cent, and there were approximately 5 per cent tribals (Munda, Oraon and Santal) recruited from Chota Nagpur in Bihar. The high castes (Brahmin and Kshatriya) constituted some 13 per cent of the immigrants. In the initial phase of indenture, women constituted less than 10 per cent of the immigrants. In the 1850s steps were taken to increase the proportion of women and they soon constituted one-third of the immigrants.

Hindus form the majority of the population in Mauritius. Among this group, class relations are structured around a rural-urban divide. Historically, most Hindus have lived and worked in rural villages on sugar plantations, though a few came to Mauritius to establish successful commercial ventures. Until the turn of the twentieth century, rural Hindus were almost invariably poor and illiterate, and most lived on the periphery of Mauritian society. Upper-class Indo-Mauritians learnt English, studied abroad, and acquired professional careers in law, medicine, and eventually politics. Even though data is scant, we conjecture that this pattern of income distribution has perpetuated itself over the years. As discussed earlier, most Hindus in the “poor” category live in rural areas, while the relatively higher-income Hindus reside in urban regions (in the districts of Plaine Wilhems and Port Louis). In contemporary Mauritius, the educated Hindu elite essentially control the apparatus of the state, including the executive and the bureaucratic machinery of public administration.

The ancestors of the Hindu and Muslim populations came predominantly from the Indian subcontinent, and, from the censuses of 1846 to 1952, were classified as “Indo-Mauritians”. The ancestral language of most Hindus is Hindi or Bhojpuri, with a minority of Tamil or Telegu speakers. Hindus in Mauritius tend to follow the Indian caste system to a certain extent, though, because of their relatively small population in comparison to India, the system has become less complex and in some cases completely overlooked. When they arrived in Mauritius, many members of lower castes upgraded their status to join the Vaishya (Vaish) middle caste. Although the caste system was not linked to the occupational structure as in India, minority members of the high Brahmin and Kshatriya castes sometimes joined with the Vaish to exclude lower castes from top

civil service and political jobs, which has had an impact on their income opportunities. For the most part, however, the caste system is not an important factor in social organization and, if anything, lingers mainly as a basis for choosing spouses. Most of the Hindu populations adhere to the orthodox rituals of the Sanatanist branch of the religion. These Hindus observe their rituals in rural community centres called *baitkas*. The Arya Samajists adhere to a reform branch of Hinduism popular with the lower classes and became instrumental in the Indo-Mauritian community's political and cultural development in the early years of the twentieth century.

By organizing themselves in socio-cultural associations, these groups have evolved as important interest groups bargaining for their share of state resources (particularly employment) distributed through political patronage. In fact, with the passing of political power to the Hindus, caste has taken on new dimensions in political interest groups and corporate groups for political purposes (Hollup 1994). The Hindus, with other ethnic categories (Tamils, Telugus, Muslims and Marathis), and their exclusive socio-religious associations, organize themselves to lobby for the allocation of benefits and privileges to members of their community. In this way, the existence of these subgroups (North Indian Hindus, Marathis and South Indian Hindus, namely Tamils and Telugus) has produced minority groups within the Hindus, which operate as independent groups on the lines of Creoles and Muslims. We do not have data on the resource ownership of these self-created minorities to examine economic and social inequalities. But it can be conjectured that incidence of poverty will be distributed across all segments of the Hindu population depending upon their land ownership, employment and political lineage. The most important caste category, Vaishya, is a caste of planters and traders, and is numerically the largest and the most prominent, politically and economically (Bowman 1991).

The Muslim population is approximately 95 per cent Sunni and Hindi-speaking. Other languages include Bhojpuri, Gujarati, Urdu and Arabic. Among the Shia minority, some have their origins in different parts of India, others are adherents of the Agha Khan from East Africa, and still others are Ahmadist from the Punjab. The Muslim community, like the Hindus, descends largely from Indian indentured labourers, but some Muslims immigrated to Mauritius during the nineteenth century to establish their commercial trading ventures, forming the private sector elite (Eriksen 1998). Though some wealthy Muslim families have succeeded in private enterprise, several poor Muslim wage labourers inhabit ethnic enclaves near the outskirts of Port Louis. Others work on rural sugar plantations alongside Hindu Indo-Mauritians. There are also minorities, such as Sikhs, Hare Krishnas (popular throughout the 1970s) and non-religious. There is also a small Buddhist population and the followers of the Baha'i Faith. Sino-Mauritians make up a small fraction of the population of Mauritius. They generally own and operate commercial and mercantile ventures. The elites among this group have moved from small trade to transnational investments and factory management (Eriksen 2005). The earliest Chinese immigrants to the island came from the Canton region and spoke Cantonese, but most Sino-Mauritians descend from Mandarin-speaking settlers from Hunan. Some adhere to Buddhism and other Chinese religions, but many converted to Roman Catholicism in the twentieth century. Poverty levels are much lower among the Sino-Mauritians. Being a small minority, they have developed as a very coherent group in economic and social interactions.

Unlike members of these specific population categories, those grouped under the “general population” rubric do not share close ethnic and cultural bonds. Members of the general population have in common only the fact that they do not belong to the other three groups. The only factors holding this rather unusual “general population” category together is adherence to Christianity, mainly Catholicism, and that its members are not a part of the other three groups. Creoles are divided by origin and class, which accord to some extent with skin colour (Bowman 1991). This category includes Franco-Mauritians, other European immigrants and Creoles.

The Creoles are ethnically diverse, some with black African ancestry, others of mixed descent, and still others from parts of Asia. They share a common language, which is a patois based on French, and the Roman Catholic religion. The Creole population constitutes the majority of the general population. The common perception is that this group generally occupies the lowest and least secure rung of the social hierarchy. Reports on poverty by the Mauritius Research Council (1999b) indicate that Creoles have been disproportionately represented within the category of the poor. This is perhaps because the Creole community controls few economic resources and lacks the cohesion of a common descent, with less emphasis on common ethnic identification in this community than in others (Eriksen 1998). Exclusion from robust ethnic networks in other communities has contributed to the *malaise creole*, a native term that captures this sense of marginalization.

Carroll and Carroll (2000) conclude that it is the mixture of history, culture and institutional shortcomings that helps to explain why Creoles, on average and in comparison with other Mauritians, sometimes seem to demonstrate less ambition, less determination to provide their children with a good education, less ability to work cooperatively for their collective welfare, and less interest in planning and sacrificing for the longer term. Unsurprisingly then, some sections of the population have inherited economic disadvantages from previous generations due to their family structures and in the absence of an effective social policy. These sections of population are therefore considered socially excluded. As discussed earlier, the incidence of social exclusion is high among Creoles, but such economic disadvantages are also found in some sections of the Hindu population. Surveys and opinion polls give some estimates of the level of social exclusion. According to Keng (1997), about 10 per cent of people are excluded on a national basis. The distribution of exclusion varies from one area to another, being highest in Roche Bois (20 per cent) followed by Tranquebar. Opinion polls confirm that in these areas, more residents have problems with two out of three of the following: housing, education and revenue. The study also revealed differences in terms of employment characteristics when compared with national averages: for instance, the incidence of manual semi-skilled workers is found to be higher in Roche Bois and Tranquebar and the number of manual non-skilled workers is higher in Bambous.

### 3. Social Policy: Evolution and Outcomes

The objectives of social policy can be described as follows. First, social policy intervention is necessary to support the productive activities of citizens through social services, such as health, education, water supply and sanitation (human capital growth). While these activities do support the economy, they also have non-economic benefits, and it is mainly these that explain the emphasis the Mauritian government put on them. Second, social policy intervention is necessary to provide social protection, such as cash transfers, pensions, sickness and work injury benefits, unemployment benefits and social assistance. Third, social policy intervention in the field of reproduction is necessary to create opportunities, incentives and employment by empowering the female population and promoting gender equality. Fourth, social policy intervention is necessary to improve the overall distribution of incomes and opportunities in society.

There are two major channels by which social welfare objectives are achieved, namely labour market policies and social budgets. One of the major ingredients of social policy development is how labour as an agent of production is treated in the process of economic and social transformation. In other words, whether labour is treated as a commodity or as a social welfare component is crucial for this analysis. There is some evidence of decommodification of labour in Mauritius, at least in the large manufacturing sector, when wages increased while labour productivity declined (Madhoo and Nath 2007). This is supported by two important trends in the labour market. First, in the early years of development of the Export Processing Zone (EPZ), labour share in total output increased, but there was a trend of decline in labour share relative to the share of capital in total output. Second, while labour productivity has been sluggish all along, employment and wages have increased. This would imply that labour has not been treated as an agent of production only; there is some evidence of redistribution through market channels, which can be attributed mainly to labour market policies.

Moreover, in recent years, the prospects of such labour market trends have diminished due to decline of the sugar sector and international competition in the apparel and textiles markets. Nevertheless, labour scarcity has increased, making Mauritius a high labour-cost economy. The impact of international migration (net of international immigration) on labour supply and on wages, however, seems to be minimal as net migration has declined during 1990–2000. Likewise, the impact of import of labour from other countries on domestic labour supply is likely to be insignificant because of several restrictions on the growth of such channels of labour supply. To sum up, while increase in labour cost has adverse implications for economic growth in labour intensive sectors, welfare implications of such trends can be substantial for those who are in employment. On the basis of these trends, it can be inferred that more importance has been given to the social realities and disadvantages of the work force and the political philosophy of the state.

While labour market policies are conducive to labour welfare in general, social budgetary policy may work to improve socially desirable outcomes as a compensatory mechanism. The forthcoming sections discuss various components of social policy, namely human capital (education and health), housing and water supply, and social security and safety nets. The analysis is carried out in terms of physical achievements of social policies and growth of social expenditures through budgetary means.

## **Human capital growth**

### *Educational status indicators*

The education system in Mauritius has been influenced by the British system, consisting of government and private sectors. There are four segments of the education system: pre-primary, primary, secondary and tertiary. The medium of instruction in schools is predominantly English but French medium private schools are also found. In 2004, there were 1,075 pre-primary schools, of which 839 were private, 174 were state-owned and 62 were maintained by local authorities. Publicly provided education at this level is free. The predominance of private nursery schools can be explained by the limited number of government and local authority schools and parents' preference. The government has been supporting this sector in a variety of ways; for example, by giving grants to Parent Teacher Associations, soft-term loans for improvement of schools and meeting costs of teacher training (Parsuramen 2001). Access to pre-primary schooling is almost universal; the net (excluding repeaters) enrolment ratio was 89 per cent in 2005, while gross enrolment ratio was 100 per cent (CSO 2006).

Publicly funded primary school is free and, since 1993, primary education is compulsory. In addition, the government provides free textbooks, medical care and training of teachers. School meals were provided with the assistance of the World Food Programme until 1996. Over 90 per cent of primary schools in 2004 were publicly operated, with 75 per cent of students attending these schools. The main problems emerging for primary education are rate of repetition and growing significance of private tuition at the end of primary schooling. Besides tuition at home for individual students or groups, teachers are allowed to use the school and college premises to give tuition after school hours. This has lowered the integrity of formal education during school hours as teachers use tuition hours to catch up and give attention to selected students. The financial pressure of mounting tuition fees on low income households has escalated in recent years. A positive development, however, is that pre-vocational and training schools have been introduced by the government for students who fail exams and would like to be trained for other jobs in the formal and informal sectors.

In recent years, attempts have been made by the government to upgrade the performance level of low achieving schools. This initiative was first known as Project Schools, then later changed to Special Support Schools, and today is strategically redefined as Zones d'Education Prioritaires (ZEP). In the first two initiatives, emphasis was placed upon improving the overall school infrastructure and to a limited extent on pedagogical innovations with a view to raising the level of achievement. This approach, although it had some strength, proved to be insufficient and limited in scope. The philosophy of ZEP is to create favourable learning conditions for children living in the less developed areas of Mauritius. This approach aims to reduce school inequalities and, from a broader perspective, to combat social inequalities by providing equal opportunities to all primary school children.

Secondary education in government-run colleges in Mauritius has been free since 1979. Over 20 per cent of the secondary school population attends state schools and about 5 per cent of total government expenditure is allocated to this sector. The government provides textbooks to needy students in secondary schools and assistance with

examination fees through the Ministry of Social Security. With regards to private secondary schools, the government meets their operational costs, and a loan scheme has been established to enable them to invest in infrastructure development. The main problems in secondary education are the wide disparity between schools, inequalities between rural and urban schools and an insufficient number of good quality secondary schools.

The adult literacy rate in Mauritius, both for males and females, was high in 1980 and this rate has increased slightly over the past two decades (CSO various years). Primary enrolment has always been high because this education is free (since 1956) and compulsory (according to the Education Act 1993). All children enter primary schools, with a gross enrolment ratio of over 100 per cent since the 1970s. The comparative picture shows that the primary completion rate in Mauritius is above world average and is impressive at close to 100 per cent. However, not all children who complete primary education move on to secondary education. This situation is largely due to a mismatch between supply and demand for secondary education. Secondary schools are not sufficient to accommodate all students exiting primary school and primary students are screened through national examinations, Certificate of Primary Education (CPE). In 2004, only 64.2 per cent of students exiting primary school progressed to secondary school, while 12 per cent of those who failed in the CPE exams ended up in vocational schools (CSO various years).

Secondary school enrolment rates, although initially fairly low, increased very dramatically, from around 30 per cent in the 1970s to over 60 per cent by 2004. This rise was particularly significant for females, who have overtaken males in terms of secondary gross enrolment rates. Completion rates in secondary schools are well below international standards (World Bank 2004): 33 per cent in Mauritius compared to over 90 per cent in fast-growing Asian countries. Between the 1970s and 2004, teacher-student ratios—a measure of education quality—have improved marginally for primary students and significantly for secondary schools. In terms of gender parity in primary and secondary education, Mauritius performs better than the sub-Saharan African average and the global average.

There are currently nine public, 35 private and 50 tertiary educational institutes in Mauritius. As information technology, management, engineering, medicine, education and commerce are the most popular courses in the country, most of the private tertiary educational institutes in Mauritius compete to attract students in these areas. However, the overall enrollment rate is higher in the public tertiary education institutes in Mauritius. University of Mauritius (UoM) and University of Technology Mauritius (UTM) are two full-fledged public universities. The local tertiary education scene also comprises four tertiary education institutions with a regional vocation, namely the University of the Indian Ocean (UIO), the Institut de la Francophonie Pour L'Entrepreneuriat (IFE), the Sir Seewoosagur Ramgoolam Medical College (SSRMC) and the Mauritius College of Dentistry (MCD). The activities of these institutions are geared towards programmes in very limited or specific disciplines. The provision of tertiary education extends beyond the local tertiary education institutions, given that a significant number of Mauritian students either go overseas or use the open learning model to pursue their studies.

Despite the fact that all full-time undergraduate courses are free in Mauritius, the tertiary education enrolment rate is low, at 25 per cent, compared to more than 50 per cent in the United Kingdom and France and 39 per cent in Singapore. Per student spending is also well below most middle-income countries (IMF 2006). There are only two universities in Mauritius and they have developed ties with a number of foreign universities and centres of excellence for curriculum development, exchange of scholars and external examination. This trend can be explained by online and physical access to foreign universities. There are several Mauritian and foreign government sponsored scholarships and attractive bank loans for education within the country and overseas that have a dampening impact on the growth of local tertiary educational institutions.

A comparative analysis of educational indicators using cross-country data yields interesting results. Public expenditure as a percentage of GDP in Mauritius is much lower than most island countries, and it has not grown over the period 2002–2005). A figure of about 2 per cent is significantly lower than the world average of 4 to 4.6 per cent. During the same period, this percentage increased from 3.9 to 4.9 in Seychelles and from 5.2 to 10.2 in Maldives. Mauritius does better than Singapore but this comparison may be misplaced as Singapore has attained the status of a very high income country, making it possible for citizens to have access to privately funded educational facilities. Primary school completion rate in Mauritius, which was high at 96 per cent in 1995, increased marginally to 97 per cent in 2005. These figures are higher than the world average (80 per cent), sub-Saharan Africa (59 per cent) and South Asia (80 per cent) in 2005 and compare favourably with East Asia and the Pacific (98 per cent) and Latin America and the Caribbean (99 per cent). Coming to the transition rate from primary to secondary education, this is alarmingly low at 64 per cent as compared with 100 per cent in Fiji in 2003. This rate is found close to the sub-Saharan African average but is significantly lower than in other parts of world. As regards the ratio of girls to boys in primary and secondary education, this is 100 per cent and is higher than world average (96 per cent), East Asian and the Pacific South (99 per cent), Asian average (89 per cent), sub-Saharan average (85 per cent), but lower than the average for Latin America and the Caribbean (103 per cent).

### Health service trends

Public health care is free in Mauritius. Anyone, including foreign national and international tourists, can visit government hospitals and primary care centres for free consultation, treatment and medicines. A primary health care network was created in the 1970s and 1980s ensuring that all were within three miles of a health care centre and that portable water and sanitation were universally available (Sandbrook 2005). As a consequence, infant mortality halved from 64.1/1,000 to 32.3/1,000 from 1965 to 1980, and crude death rates fell by 16 per cent from 8.6/1,000 to 7.2/1,000 over the same period (World Bank 1983). In 2007, there were in all 13 public hospitals (general and specialized), 26 area health centres and 127 community health centres. Private health practitioners are common in dental services (53 clinics in 2007). Fourteen private clinics operate in the field of general health. In 2007, nearly 41 per cent of doctors and 72 per cent of dentists were private practitioners. On the other hand, we find that more than 92 per cent of qualified nurses and midwives work in government health services.

Life expectancy and number of doctors per 1,000 people has increased since the 1970s. Life expectancy in Mauritius in 2006 was above the average level for upper middle-income

countries at 72.5 years, compared to the average of 70.5 years (CSO 2006). There has been little change in the availability of hospital beds and the prevalence of undernourishment. The infant mortality rate has decreased significantly and is considerably lower than the average for upper middle-income countries (22 per thousand live births). In terms of births attended by skilled medical staff, Mauritius performs better (99 per cent) than world average (65 per cent) and East Asian average (87 per cent). The number of HIV positive cases has increased from 4 to 454 during 1987–2006.

Mauritius spent through its government budgetary channels about 4.5 per cent of its GDP on health and related services during 1998–2005. This figure is lower than the world average of 5.6–6.0 per cent, and also lower than what is spent in the Seychelles (6.0 per cent in 1998), Fiji (5.6 per cent in 1998), Vanuatu (8.0 per cent in 2005) and Maldives (7.7 per cent in 2005) (IMF 2009). However, in terms of physical achievements, Mauritius ranks high in terms of births attended by skilled medical staff. While the incidence of HIV was zero in 1995, it increased to 1 per cent of the population in the age group of 15–49 in 2005. This incidence, however, is lower than for Jamaica and Trinidad and Tobago (2 per cent) and is much lower than the sub-Saharan African average (5–6 per cent) during 1995–2005 (UNDP 2010).

### *Housing and water supply*

Housing and water supply services are another group of public services that contribute to human capabilities. Public spending on housing made available to low-income groups has shown a distinct increase during 1977–1981, which was a period of austerity and structural adjustment. This shows the social orientation of government and political parties in power, in that the social policies were not compromised during the financial resource crunch period. The second phase of enhanced allocations to housing started in 1992, which continues as an important segment of social policy. Overall, the share of public expenditure on housing increased from 0.57 per cent to 2.17 per cent of GDP and from 2.37 per cent to 7.98 per cent of government expenditure during 1972–2006. On the water and sanitation front, 100 per cent of the population has access to a sustainable source of improved water. Moreover, improved water and sanitation services are available to almost all inhabitants residing in rural and urban areas in Mauritius (99 per cent overall in 2006). This full access to water supply is comparable to Singapore in the list of countries included and is much higher than world and sub-Saharan averages.

### **Social security and safety nets**

#### *Social pensions*

In Mauritius, every resident above 60 years of age receives income support from a non-contributory pension system that dates back to 1950. This pension scheme became universal in 1958, following the abolition of a means test. The qualifying age for receiving pensions was initially set at 65. In 1953, the age for women was reduced to 60, and the qualifying age was lowered to 60 for everyone in 1965. The government reintroduced a mild form of means testing in 1965, disqualifying elderly people who earned enough income to be subject to tax payments (Willmore 2003). From 1957 the basic pension stagnated at Rs 22 for more than 14 years; it was increased to Rs 25 in 1971. Subsequent increases followed in 1973 and 1975, but these did not match the rise in the cost of living. In 1976, the government sharply increased the size of non-contributory pensions

and abolished the means test. The coverage rose from 93 to 98 per cent from mid-1976 to mid-1977. Thus, with this reform, pensions became truly universal. Table 3 shows a steady upward trend in real average pensions since 1972. In 1983, as a result of an important reform, higher pensions were allocated to people of higher age groups, with this amount being revised upwards in later years. Moreover, since 1998, additional monetary benefit is allocated to pensioners who are severely disabled (for instance, the completely blind or paralysed.) In mid-1997, about 11 per cent of pensioners were entitled to this type of disability supplement (CSO 1999). Moreover, basic non-contributory pensions also benefit widows and orphans under the age of 15 (or 20 if in full-time education). It is worth noting that while non-contributory basic pensions in Mauritius are not income-tested or retirement-tested, they are taxable as income (Willmore 2003). In this way, pensioners who work or have other income sources return some of the pension money to the state in the form of tax payments. Deductions are allowed for dependents.

**Table 3: Pension benefits in Mauritius**

	1972	1975	1980	1985	1990	1995	2000
GDP (Rs Million)	1,520	3,887	8,168	15,489	36,451	66,063	113,265
Elderly persons	50,200	57,300	63,859	75,528	87,527	95,393	105,234
Pensioners	46,747	52,415	63,000	74,168	87,195	101,665	111,885
Average pension (Rs 000)	289	485	1,298	2,277	4,264	9,666	19,738
Per capita GDP (Rs 000)	1,796	4,385	8,523	15,235	34,540	59,113	95,953
CPI (1995=100)	8.83	14.84	32.28	49.8	71.01	100	135.44
Real average pension	3,273	3,268	4,021	4,572	6,005	9,666	14,573
Pension costs (% of GDP)	0.89	0.65	1.00	1.09	1.02	1.49	1.95

Source: Willmore (2003)

The pension level is independent of the work history or earnings of the beneficiary, but takes into account beneficiaries' individual characteristics, using a benefit schedule that increases with age. This benefit is also indexed for inflation, which makes the system much more welfare oriented. The fiscal importance of this scheme will increase in the medium term rapidly as the population is ageing quickly. The civil service pension scheme is another non-contributory scheme designed exclusively for civil servants. It is calculated according to service, seniority and salary and can reach a maximum of 67 per cent of the last salary drawn for civil servants with a 40-year career in the government. While non-contributory basic pensions worked well, in view of the rising burden on the government's budget, the government did not abandon the plan of establishing a contributory system. Contributory pensions were introduced in 1978 alongside the non-contributory system. Contributors to the National Pension Welfare scheme benefit from life and disability insurance during their working lives. Participation is mandatory for workers between 18 and the normal retirement ages of 60, or 65 for employees wishing to work longer. The coverage includes employees from the private sector, parastatal organizations, employees who were not members of the Sugar Industry Pension Fund in 1973 and expatriates (starting from their third year of residence in Mauritius). Employees with very low earnings, the self-employed and public sector employees are exempt from contributions to the national pension fund. Self-employed workers and the unemployed

are offered incentives to participate (paying two-thirds of the contribution for the same benefit), but few do. Workers in the public sector have no need to participate because the government meets their retirement income needs with generous pensions that are income-related and non-contributory. As a result, the scheme only covers about half the labour force (Willmore 2003). Contributory pensions have eased government budgetary constraints by providing investment funds from the surpluses of a pre-funded pension scheme on which precise quantitative and qualitative information is not available.

Subramanian (2001) compares the Mauritian social security system with those of developed countries and concludes that:

Social protection in Mauritius is similar to that seen in the industrial countries: a large and active presence for trade unions, which are able to engage in centralized wage bargaining, and generous social security benefits, particularly for the elderly and civil servants. Social protection is also afforded through price controls, especially on a number of socially sensitive items. In contrast with the member countries of the Organization for Economic Cooperation and Development, however, generous social programs in Mauritius have thus far not necessitated high taxes, reflecting both strong growth and favourable demographics, a large proportion of the population being of working age.

### Subsidies and social transfers

The composition of subsidies and transfers in Mauritius is reported in table 4. Social assistance subsidies are (i) targeted at essential commodities (for instance, old price subsidy on rice and flour implemented in 1972/73), (ii) targeted at a section of the population (for instance, a newly established free transport programme for students, elderly people, disabled people and social assistance recipients), and (iii) ad hoc targeted welfare assistance schemes for the needy, often growing into general assistance. Besides subsidies on rice and flour, there are petroleum subsidies, electricity subsidies and water subsidies. Other transfers include recurring grants to educational institutions and parastatal bodies as a budgetary support. Electricity subsidies proved to be a successful social policy initiative, resulting in a higher standard of living and early diversification of the economy in the 1960s and 1970s.

There are also various housing benefits and social aid programmes in Mauritius. These are targeted, means-tested allocations of housing and education schemes for people on low incomes and families that are rendered homeless during natural disasters (for example, cyclones, floods and landslides). Housing loans are typically available through commercial banking channels, but the state-owned National Housing Development Corporation and the Mauritius Housing Company Ltd provide soft loans to low-income inhabitants for housing. Furthermore, ZEP primary and secondary schools provide free lunch and free school material to all students. Free bus transport is provided to students (all levels) and senior citizens.

**Table 4: Composition of subsidies and transfers in Mauritius**

	1985/1986 – 1999/00 (Average)	2000/01	2001/02	2002/03	2003/04
		(Per cent of GDP)			
Total subsidies and transfers	8.1	9.6	9.5	9.7	9.3
Subsidies and other current transfers	7.0	8.2	8.4	8.4	8.4
Local government	0.8	0.6	0.6	0.6	0.6
Education	1.4	1.7	1.6	1.6	1.5
Public service pensions	1.2	1.4	1.4	1.3	1.3
National pension fund	2.0	2.8	2.7	2.8	2.7
Rice and wheat flour	0.4	0.3	0.3	0.3	0.3
Other current transfers	1.1	1.5	1.7	1.8	2.1
Capital transfers	1.1	1.4	1.0	1.3	0.9
Local government	0.0	0.0	0.0	0.0	0.0
Public financial institutions	0.1	0.2	0.1	0.1	0.1
Nonfinancial public enterprises	1.0	1.2	0.8	0.9	0.4
Other capital transfers	0.0	0.0	0.1	0.3	0.4

Source: IMF (2008).

Social aid transfers (under the Social Aid Act 1983 and the Social Aid Regulations 1984) aim at protecting the most vulnerable groups of the population. Vulnerability-based targeting includes those individuals who are temporarily or permanently incapable of earning their livelihood because of illness, separation from spouse or sudden loss of employment, or those with meagre resources to support themselves. The programme verifies the household's socioeconomic conditions. The effectiveness of this means testing depends on the investing offices' ability to collect accurate and up-to-date information. The level of social aid is calculated as half of the difference between household total income (adjusted for structure of the family) and the administratively determined cut-off level per household. Moreover, all beneficiaries of social aid are entitled to rice and flour allowance, as are needy beneficiaries of basic pensions, and widows and orphans who would have qualified for social aid if these pensions were not payable. On average, social aid accounts for 16–42 per cent of total expenditures for beneficiary households in the bottom two deciles (IMF 2006). In the 2006/07 budget, food subsidies were further reduced or in some cases removed. The savings generated were used to fund school meal programmes, provide income support for those most in need and to retrain workers displaced from the sugar industry (Sparks 2008; IMF 2008).

## 4. Budgetary Performance of Social Policy

### ***Composition of social budget***

Apparently, there has been little change in the size of the government budget in Mauritius; total government expenditure has been around 25–26 per cent of GDP during recent decades. Nevertheless, this proportion is high by international standards (Nath 2001). There has also been a perceptible shift from expenditure on public administration and economic services to social services (CSO various years). The aggregate expenditure on social services (education, health, social security and welfare and other social services) as a proportion of total government expenditure has increased from 37 per cent to 55 per cent during 1987–2008. Total social spending growth over the past two decades has considerably improved the social orientation of budgetary policies and can be taken as an indicator of increased provision efficiency.

Public expenditure on education as a proportion of total public expenditure increased marginally from 12.3 to 14.9 per cent from 1987 to 2008. Secondary education receives the highest proportion of total educational expenditure in Mauritius, followed by primary and tertiary education. Public expenditure on health stabilized at about 8–9 per cent of total expenditure between 1987 and 2008. While recurrent expenditures on health and education have stagnated, capital expenditures have shown some increase. In other words, expenditures on construction, capital equipment, medicines and training have increased. It is important to note that more emphasis is given to curative health programmes; expenditure on preventive care represents less than 15 per cent of the health care budget.

Government expenditure on social security and welfare has shown a perceptible change in relation to total government budget, 13.8 per cent to 22.8 per cent during 1987–2008. Other social services have also witnessed an increase, moving from 3.3 per cent to 8.6 per cent during the same period. While the growth of budgetary allocations on social security and social protection is encouraging, the sustainability of growth in such expenditures may be questioned. Since these expenditures are more in the nature of providing social protection, which do not use productive real resources, their importance is underplayed in the public finance and development analysis. To appreciate their role in social and economic transformation, it will be necessary to understand the linkages between egalitarian social policy and economic growth. While the research on such linkages is far from settled (Nijkamp and Poot 2004), it goes without saying that social development is an important ingredient of inclusive growth, which takes account of the distributional dimensions of economic growth.

### ***Buoyancy of social spending***

Although the relative size of the social budget has shown an upward trend, it is worthwhile examining whether public sector allocations respond to growth in income and population. The latter are two important determinants of growing demand for social goods and services, such as education, health and social security. Adopting the expenditure buoyancy method, social expenditures exhibiting buoyancy greater than one with respect to income and population growth would indicate that expenditure allocations are in general adequate to respond to growing demand. In other words, as income and population increase, government expenditure growth should respond more than proportionately to take care of expanding needs. This is based on the premise that as

income increases, the demand for social services increases and at the same time the spending capability of the government is enhanced to undertake such responsibilities. The needs of regions and gender and ethnic groups will depend on their population, income and poverty level. In the absence of disaggregated income data according to population categories and on poverty over a long period of time, social expenditure elasticity is estimated with respect to GDP and different population categories. The regression method is used in which social expenditures are regressed on income and population using a functional form that generates buoyancy estimates directly. The data used cover the period from 1988 to 2008. The results are presented in table 5.

Low buoyancy of social expenditures on health and education reveal that these allocations do not adequately respond to income and population. However, buoyancy estimates greater than unity for other social expenditures indicate higher allocations; that is, more resources have been devoted to these services, particularly social security. Population buoyancy estimates confirm that real social expenditures (nominal social expenditure deflated by inflation rate) have increased much faster than population growth, indicating that these services on a per capita basis have expanded for all types of social services with more emphasis on services other than health and education. These allocations, however, are lower for the female population both in terms of income and population growth, indicating gender inequity in social policy achievements.

**Table 5: Buoyancy of social expenditure on income and population**

Expenditure	Explanatory variable			
	GDP <sup>a</sup>	Population <sup>b</sup>		
		Total	Male	Female
Health	0.9805	5.2583	5.5559	4.9876
Education	0.9785	5.1016	5.3985	4.8352
Total social welfare and protection	1.1886	7.2702	7.7201	6.8668
Social security	1.2743	8.5239	9.0539	8.0420
Social welfare protection	1.0884	6.9026	7.1088	6.3341
Housing	1.3356	9.5669	10.1498	9.0524

<sup>a</sup> Regression estimates using nominal values <sup>b</sup> Regression estimates using real values. **Source:** Authors' estimation.

The following conclusions clearly emerge from the preceding empirical analysis: first, social services, which support production activities, such as human capital formation (health and education), are lacking. It may be emphasized here that health can be regarded as a benefit to individuals in its own right, and not only as a service to the economy; education can be regarded as an underpinning of democracy rather than simply educational advancement and job training. Second, transfers to provide social security and protection have received more attention. Third, although budgetary activities to empower women have expanded, these have not had a perceptible impact on gender equality as in the early days of Mauritius having an EPZ, with greater employment opportunities for female workers. Female social welfare has an important role to play in improving the family environment and quality of human resources. Lastly, social expenditure buoyancy estimates contribute to the contention that population groups

exert varying degrees of influence on social expenditures and provide evidence for both inadequacy and gender inequity of social services.

### **Social equity in budgetary allocations**

Social orientation of budgetary allocations can be further established by ascertaining how the benefits of social expenditures are distributed over different regional and social groups. In the absence of appropriate information for quantifying expenditure benefits according to these groups, we take an alternate route to determine whether social expenditures are geared towards low income groups. We analysed the available data on four indicators of social deprivation, namely social exclusion, social marginalization, poverty and unemployment.<sup>2</sup> We found that the incidence of unemployment and poverty is higher in rural areas, in the female population and the general ethnic population (defined as the lower strata of Christians also known as Creoles) followed by the population of Indian origin. It can be conjectured that the incidence of social deprivation (social exclusion, social marginalization) is higher in the general ethnic population and some sections of the Hindu population.

Thus, the incidence of these social handicaps has some systematic relation with less privileged regional, gender, class and ethnic groups. Since human capability and empowerment would depend on access to basic economic and social services (Sen 1992), social deprivation means the distribution of benefits due to budgetary activities is disadvantageous to low-income groups, less developed regions and the female population. Among the older population also, the incidence of different types of social deprivation is higher for the female population. The increasing magnitude of social assistance in recent years indicates the rising magnitude of social deprivation.

Social welfare and protection schemes have considerable significance for improving the redistributive effects of welfare regimes. It has been discussed earlier that these government-sponsored welfare programmes are directed toward households that are economically and socially vulnerable. These households have a low income base and include socially excluded and marginalized individuals. It is possible that some of the benefits of social assistance schemes may have leaked out to middle-income households, making the system less progressive (CSO 2002). However, the major beneficiaries of these schemes are targeted households; therefore such programmes can be classified as pro-poor. Another dimension of socially oriented fiscal policy aimed at improving gender balance is tax treatment. In recent years, discriminatory clauses in the Finance Bill with regards to direct tax treatment of female taxpayers have been removed. Some incentive measures have been introduced through budgetary channels to enhance access to bank credit for female entrepreneurs with liberal interest and repayment schedules.

## **5. Institutional Factors Underlying Social Policy Governance**

While the preceding examination of social policy achievements is instructive, it is worthwhile exploring and analysing factors that have been conducive to promoting the objectives of social policies and social development. There are two types of institutional

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<sup>2</sup> Keng 1997; MRC 1999a, 1999b; Duncan and Valenti 2001.

role that characterize good governance: the inward-looking role of the state and the outward-looking power of state jurisdiction. Participatory democracy, welfare orientation and social cohesion are different forms of inward-looking institutions. It is well documented in the literature that these institutions have assumed greater significance in recent years, with some countries growing very fast and leaving social and economic tensions behind. Countries are also globalizing and integrating regionally. The role of these institutions in small countries became more pronounced because they are susceptible to social, economic and environmental vulnerability. A good summary of the various contributions to the literature on these issues is presented in four thematic papers.<sup>3</sup>

### ***Participatory democracy and quality of political institutions***

Lange (2003) suggests that successful state building in Mauritius is linked to two factors: the first involves the creation of a bureaucratic state that started during French and British colonial rule. Second, Mauritius has strong and dense local associational ties at village level, which arose with the acquisition of land in the late nineteenth century. The labour riots (1937, 1938 and 1943) and more direct rule of the British after WWII increased the state-society relationship, giving way to broad-based development. Lange (2003, 2004) further argues that direct colonial rule (absence of customary legal institutions) may explain why certain countries, including Mauritius, succeeded on the political and developmental front in the post-independence era. He also includes Singapore, Hong Kong, Cyprus and Barbados in his analysis.

Table 6 captures six indicators of institutional development and reports information for Mauritius and several country groups. The indicators comprise control on executive power, voice and accountability, political instability, government effectiveness, regulatory burden, the rule of law, and graft and corruption. The higher is the score, the better are the respective institutions. Scales are reported in the table as a footnote. Mauritius fares much better than sub-Saharan African countries for all indicators of institutional development, and is also well above the world average. Fast-growing East Asian economies score higher than Mauritius in terms of government effectiveness, regulatory burden and graft and corruption, whereas Mauritius scores better than East Asian countries for other executive control, voice and accountability, political stability and the rule of law.

It is interesting to note that citizen-voter preference for decentralized governance and local institutions is significant. Nath and Schroeder (2007) showed that in a small island like Mauritius where it is feasible that local public services are provided by central government, residents preferred local level authorities to undertake such functions. It seems that voice and accountability are the guiding force. It has been argued that paying taxes to central government is acceptable as long as a grant system to local bodies is in order and local public services are provided by a level of government that is closer to citizen-voter.

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<sup>3</sup> Hintjens 2007; Bertram 2007; Jensen 2007; Baldacchino 2007.

**Table 6: Institutional variables: Mauritius and other countries**

		World	Sub-Saharan Africa	Emerging Asian economies <sup>b</sup>	Mauritius
Constraint on executive branch <sup>a</sup>		3.65	2.51	3.67	7.00
Voice and accountability	(1)	-0.22	-0.37	0.08	1.01
Political instability	(2)	-0.28	-0.62	0.42	1.14
Government effectiveness	(3)	-0.34	-0.47	0.75	0.17
Regulatory burden	(4)	-0.16	-0.34	0.61	0.22
Rule of law	(5)	-0.31	-0.54	0.78	1.28
Graft and corruption	(6)	-0.36	-0.45	0.53	0.34
Average	(1) – (6)	-0.29	-0.44	0.53	0.69

**Notes:** Scale: Constraint on executive branch 1–10; Scale: (1) to (6) -2.5 to +2.5. <sup>a</sup> Constraint on executive branch in 1990. <sup>b</sup> China, Hong Kong SAR, Indonesia, Malaysia, Korea, Singapore, Taiwan Province of China and Thailand. **Source:** Kaufman et al. 1999.

Table 7 presents further evidence on institutional development and quality. The International Country Risk Guide (ICRG) Index is a measure of the quality of government institutions that affect property rights or the ability to conduct business. It is published by a private firm, the PRS Group, which provides consulting services to international investors. In addition, information is presented on protection against expropriation, level of democracy and the participation index (which measures the extent to which non-elites are able to access institutional structures for political expression). Values for participation and democracy range from 0 to 1, with higher values denoting better quality. The scores for democracy and participation for Mauritius are very high and well above those of Africa, fast-growing East Asian developing countries and other developing countries. The only exception is protection against expropriation, for which East Asian economies score higher than Mauritius.

**Table 7: Quality of institutions in Mauritius and other countries**

Institutional quality index	Mauritius	Africa	Fast-growing developing countries	Other developing countries
International Country Risk Guide Index*	7.23	4.54	6.86	4.29
Protection against expropriation*	8.06	5.75	8.54	6.47
Democracy	0.75	0.25	0.47	0.51
Participation index	0.80	0.30	0.49	0.44

**Notes:** \*For the ICRG Index and index of protection against the risk of expropriation, Mauritius has fitted values. The scale is from 0 to 10, with higher values indicating better institutional indicators. **Source:** Subramanian and Roy (2003), Original Source: International Country Guide Index, the PRS Group; Keith Jagers and Ted Robert Gurr, 1995, Polity III: Regime Type Political Authority, 1800-1994 [computer file] (Keith Jagers/College Park, Boulder, Colorado; Ted Robert Gurr, Maryland); Inter-University Consortium for political and social research, distributor, 1996 (Ann Arbor, Michigan).

While the above indicators suggest that Mauritian institutions rank highly in their overall quality, low government effectiveness and low graft and corruption scores cast doubt on the efficiency of public sector management. It is important to make a distinction between

political effectiveness and government effectiveness. This may suggest that while political processes have tended to produce good policies, either home-grown or externally driven, the governmental machinery has some limitations in their effective implementation. These weaknesses are derived from a variety of sources, in which social segmentation and corruption are two important factors; both having major implications for the effectiveness of government machinery.

### ***Power of jurisdictional resource***

Power of jurisdiction vested in the government is a resource that can be used extensively by governments to raise resources externally and participate in offshore activities in a manner that can expand the economic space and area of influence disproportionate to the size of a country (Baldacchino 2006). This jurisdictional resource can be thought of as an endowment, much like labour, capital and entrepreneurial ability. It helps in the management of external relations for the benefit of the local population at large, with implications for social policy initiatives. The state may use international relations and diplomacy to raise external fiscal resources in the form of grants and concessions, and to attract international remittances, to reserve markets for exports and to facilitate better working conditions for international migrants.

Upmarket international tourism, diversification of export markets in developed countries, and special purpose external loans and grants by the government of Mauritius are suggestive of state jurisdictional power. While foreign direct investment (FDI) reached its peak during 1987–1991, international remittances from Mauritians working abroad supported the government budget when a declining trend was observed in FDI. International remittances constituted about 4 per cent of GDP for more than a decade (1992–2006). Mauritius has extensively used its jurisdictional resource as demonstrated by more recent developments. First, the government of Mauritius contracted a loan from the World Bank in 1999, called the Public Expenditure Reform Loan (PERL) with an understanding that a part of this loan amount would be spent on social security (and other parts on the modernization of civil service and public administration, health and education). The underlying idea was that since the fiscal burden of social security did not allow enough resources for investment in infrastructure and other public capital formation, external funds were used to boost capacity-building efforts. This financial inflow as a source of development finance was intended to contribute to long-term growth by generating higher human capital and investment expenditure. Second, in addition to government sponsored initiatives to revitalize infrastructure growth, a new scheme of public-private partnerships has been introduced to attract FDI in the field of public infrastructure development.

International trade agreements are important jurisdictional resources. For example, with the support of the France and United Kingdom, Mauritius was brought into association with the European Economic Community and through the 1975 Lomé Conventions, it was guaranteed access of a certain volume of sugar exports to the European Union at a price that was on average 90 per cent above world prices between 1977 and 2000 (Subramanian 2001). Preferential access given to textiles and exports has been equally important, particularly the Multi-Fibre Agreement, which was instituted by the United States and European Union to limit imports of textiles and clothing by awarding country-specific quotas. In the early 1970s, the Chinese community attracted investment from

Hong Kong, China, from entrepreneurs who sought overseas locations for their textile operations in an attempt to circumvent the textile quotas imposed on Hong Kong. Foreign investors also came from China (People's Republic of China) and Taiwan Province of China, which contributed to the growth of the EPZs. In recent years, Indian government policies and Indian diaspora initiatives have contributed extensively to the growth of financial services and information technology in Mauritius.

For a small country with little impact on the world market, the importance of regional agreements to expand jurisdiction is vital. Economic opportunities are further enhanced by joining more than one regional block, as some groups may have greater comparative advantage in certain economic activities than others. At present, Mauritius is a member of the Indian Ocean Commission (IOC), Common Market for Eastern and South Africa (COMESA), South African Development Community (SADC) and Indian Ocean Rim–Association of Regional Cooperation (IOR–ARC). These organizations embrace Africa, Asia and Gulf countries in Mauritius' economic space. Regional growth triangles, one of the recent experiments in regional cooperation, have allowed resource pooling between member countries with harmonized policies under Cross Border Initiatives (CBI). The government's recent strategy is to participate more actively in regional blocks to expand the country's economic space and markets, exploit the opportunities offered by emerging financial services, offshore banking, business and free-port services, and enter the rapidly rising global market for information technology. These initiatives have expanded the resource base for the country's economic and social development.

### ***Social cohesion and social capital***

Is homogeneity of population good for growth and social well-being? This question can be seen in different ways. Both size and growth of population have harmful effects. When we take total population and discuss its implications in the process of economic and social development, we treat population as homogenous, that is, each person is similar to the next. This approach does not take into account the fact that total population can be divided along the following lines: gender, age, rural/urban, income, education, ethnicity, language, religion and so on. Whether ethnic diversity is good for growth and social harmony is again an empirical issue. Our concern here is social cohesion, that is, how people divided on these lines interact between themselves, individually or in groups and how these interactions contribute to social harmony. Since social divisions cannot be separated from other divisions, social cohesion issues become very complex. Nevertheless, it will be instructive to analyse social divisions (that is, ethnic, linguistic, religious, and politically conscious divisions) and their effects on growth and social harmony. It is important to note that smaller countries have attained higher levels of development, and it can be conjectured that social capital/cohesion plays an important role during the process of development (see Prasad 2008).

Meade (1961), Meade et al. (1961) and Naipaul (1972) found that higher levels of ethnic diversity had a negative impact on growth and political integration in Mauritius. Major incidents of ethnically motivated violence are infrequent in Mauritius, compared to plural societies like Fiji or Guyana (Carroll 1994; Premdas 1995). As mentioned previously, ethnic riots occurred in 1964 and 1968 and after independence in February 1999. The 1999 incident, which killed three people and left 100 injured, started as a protest against state authority following the death in police custody of Kaya, a popular Creole singer. As

one of few nationally known, successfully represented individuals in the Creole population, Kaya's death, for many, symbolized the continued discrimination of this community (Eriksen 2004). Though the riots began as a demonstration against extra-judicial killing, the identification of the public sector with the Hindu community helped translate righteous anger into ethnic hatred. Damage was also inflicted on state-owned buses and police stations. Police inaction and rumours that ethnic communities were planning to burn each other's villages and kill each other's children, created a sense of insecurity on the island. According to the government's official commission of inquiry, the five days of intense rioting cost the country almost 1.5 billion Mauritian rupees in property damage and lost productivity, approximately equivalent to 1.5 per cent of GDP (Government of Mauritius 2000).

These ethnic riots certainly had an adverse impact on Mauritius' reputation as an island paradise and its status as an ideal location for business, investment and tourism. Nevertheless, successive governments have made great strides toward restoring social and ethnic harmony (Economist Intelligence Unit 2001). The lack of empirical evidence linking ethnic diversity to higher levels of violence and the fact that other tensions, including class-based conflicts, have occurred even in relatively homogeneous countries, indicate that Mauritian ethnic heterogeneity and experience have some inherent stabilizing tendencies. Furthermore, ethnic conflicts have been mitigated by adapting institutions to the requirements of ethnic structure. Moreover, political leadership and international post-colonial and diasporic relations have extensively contributed to ethnic and social harmonization by increasing opportunities for different groups.

The growth-promoting and social harmony aspects of ethnic fractions can be analysed in Mauritius when we compare this diversity in countries that lack vibrant political and social institutions with countries where institutional development is high. Collier (1998) showed that ethnic diversity is associated with lower growth only in societies where political rights are limited. The role of political, economic and social institutions, networks, bonding, bridging and trust in fostering social harmony and growth cannot be underestimated. Economic and social development and diasporic links have helped the growth of formal and informal institutions in Mauritius to promote social cohesion and social capital. According to Vanhanen's (1999) index, Mauritius has an ethnic conflict score of 60 against its ethnic heterogeneity score of 110. In other words, higher ethnic diversity has not increased the incidence of ethnic conflict. The unicameral Parliament has allowed a balancing of representation of different ethnic groups in Mauritius (Vanhanen 1999). Moreover, regular general and local level elections and dialogue between the government and trade unions have always given the feeling that the distances between different ethnic groups and ideologies can be minimized.

**Table 8: Religious heterogeneity in Mauritius (2001)**

Religion	Population size	Per cent of population	Major aggregate religious group	Per cent of population
No religion	4,912	0.42	No religion	0.42
Buddhist	4,144	0.35	Buddhist	0.35
Chinese	4,007	0.34	Chinese <sup>a</sup>	0.34
Adventist	3,641	0.31	Christian General	32.25
Assemblées de Dieu	9,641	0.82		
Baha'i	841	0.07		
Christian	74,748	6.34		
Christian Tamil	396	0.03		
Church of England	3,102	0.26		
Evangelic	310	0.03		
Mission Salut et Guerison	1,304	0.11		
Pentecotiste Church	3,040	0.26		
Presbyterian	612	0.05		
Roman Catholic	278,251	23.60		
Temoin de Jehovah	2,213	0.19		
Other Christian	2,043	0.17		
Ahir	43	0.00	Hindu General	49.64
Aryan	241	0.02		
Arya Samajist	528	0.04		
Arya Samajist, Hindi- speaking	269	0.02		
Arya Samajist, Other	49	0.00		
Bengali	12	0.00		
Baboojee	24	0.00		
Hindu	420,271	35.65		
Kabir Panthis	157	0.01		
Marathi and Marathi Hindu	19,921	1.69		
Puranic	198	0.02		
Rabidass	15	0.00		
Rajput	10,621	0.90		
Ravived	899	0.08		
Sanatanist	2,527	0.21		
Sanatanist, Hindi speaking	3,041	0.26		
Sanatanist, Marathi speaking	134	0.01		
Sanatanist, Tamil speaking	44	0.00		
Sanatanist, Telegu speaking	105	0.01		
Sanatanist, Other	28	0.00		
Tamil and Tamil Hindu	71,477	6.06		
Telegu and Telegu Hindu	29,687	2.52		
Vaish	647	0.05		
Vedic	23,689	2.01		
Other Hindu	583	0.05		
Ahmadhya	119	0.01	Muslim General	16.65
Islam	71,009	6.02		
Mohamedan	121	0.01		
Muslim	124,943	10.60		
Other Muslim	48	0.00		
Other	944	0.08	Other	0.08
Not stated	3,249	0.28	Not stated	0.28
<b>Total</b>	<b>1,178,848</b>	<b>100.00</b>	<b>Total</b>	<b>100.00</b>

**Note:** <sup>a</sup> Indicated as specific faith. **Source:** [www.gov.mu/portal/sites/ncb/cso/report/hpcen00/Demogra/remauri.htm](http://www.gov.mu/portal/sites/ncb/cso/report/hpcen00/Demogra/remauri.htm)

When we compare the different measures of fractionalization, Mauritius is found to be one of the most fractionalized countries in the world (Posner 2004; Montalvo and Querol 2005). With regard to implications for conflict and social harmony, Vanhanen (1999) aptly shows that it is likely that countries with moderate ethnic diversity will have very intense conflict and that countries with great diversity will have ethnic peace. While Mauritius is characterized by high fragmentation on ethnic, religious and caste lines (see table 8), this great diversity appears to have imparted social harmony and coexistence among its constituents for growth and stability.

What makes such a highly ethnically divided society continue to remain stable after crises such as ethnic rioting is an important question. The form of democracy is of paramount significance in multi-ethnic countries, in terms of understanding the political forces underlying their success and decline. There are two types of democracies that are relevant in the case of Mauritius, a multi-ethnic society that has experienced some ethnic clashes of very limited nature in the past. The first is integrative democracy, in which the democratic regime, for example the electoral system, legislative-executive relations and so on, are structured so that incentives are created for political elites to seek support across ethnic divisions (Horowitz 1999). The goal is thus to create crosscutting cleavages in a society that diminish the importance of ethnic divisions. The second is consensus democracy, as proposed by Lijphart (1999, 2004). The logic of regime design in this approach is to create democratic institutions that institutionalize ethnic groups as political actors, reduce the stakes of politics at the national level by devolving power to the ethnic groups, and create incentives for the ethnically based political elites to cooperate at the national level in broad and inclusive power-sharing governments. In other words, the resulting regime should consist of vertical, ethnic pillars that exist independently of each other, but come together at the national level in the government. These two approaches hence fundamentally differ in the proposed relationship between the democratic regime and the ethnic groups in a society: in consensus democracy, ethnic groups are officially recognized in the structure of the regime, while in integrative democracy, ethnic divisions are depoliticized through structures that incentivize elites to seek non- or cross-ethnic support. Mauritius and Fiji are examples of integrative democracy and consensus democracy, respectively. Unlike Fiji, what is important about Mauritius is that total population of Mauritius consists of immigrants, thereby precluding any conflict between local and foreign origin populations.

Some of the conclusions of a recent study by Beger (2006) are illuminating in this context. The author empirically establishes that the macro institutions corresponding to integrative democracy, presidential form and majoritarian elections are no more stable than consensus democracies with parliamentarianism and proportional representation in multi-ethnic countries when there is no crisis, but more stable during crisis situations. Thus in multi-ethnic countries, integrative democracies are just as stable as consensus democracies in the absence of crisis but more stable in the presence of crises. This suggests that, counter to the conventional wisdom, integrative regimes overall might in fact be a better choice to produce stable multi-ethnic democracies than consensus regimes in societies like Mauritius. Consensus regimes, however, do seem to be more stable than integrative democracies in countries with little or some ethnic diversity. These findings contribute to the contention that ethnic identities in themselves are not the source of

problems; it is the way these identities are organized to share the benefits of growth that can cause social unrest.

It is interesting that nearly every citizen of Mauritius can state his or her ethnic affiliation with certainty and interprets social encounters through the lens of communal identification (Mannick 1979; Eriksen 1998). Nevertheless, there is a sense of accommodation for other ethnic groups. A good deal of intergroup cooperation is infused by community-based social organizations, such as the Mahatma Gandhi Institute and the African Cultural Centre. Ethnic networks have helped members of certain groups maintain or enhance their opportunities in business and employment. Besides the promotion of the feeling of inter-group coexistence, within group cooperation and affinity has helped individual members to harness available opportunities. Simmons (1982) and Mannick (1979) have described how different ethnic groups were mobilized for social, political and economic advances. In the Hindu community in the 1930s, for example, Sukdeo Bissoondoyal and his deeply committed team of educators scoured the countryside providing free lessons in Indian heritage and the Hindi language. They hoped to awaken a sense of community pride and help co-ethnics pass the literacy test that at the time served as a prerequisite for voting rights. Using local religious units known as *baikas* and enlisting the help of local leaders, they educated an entire cohort of rural labourers, substantially increasing the overall literacy rate in Mauritius.

The Muslim community also aggregates around local mosques and *jammats*, which are the centres of social and religious life. Despite sectarian differences, in matters affecting the interests of the community as a whole, *jammats* maintain a common front irrespective of clans and sects, allowing the Muslim community to assume a politically pivotal role in ethnic coalition building despite its internal heterogeneity. Similarly, being a Franco-Mauritian opens doors to exclusive social clubs and networks that provide a virtual guarantee of employment. The lack of ethnic capital-forming institutions in the Creole community is cited as a major cause of the community's continued social exclusion and economic marginalization as the Creole part of the "general population" is less cohesively organized than other communities and has access to fewer social networks and shared resources (Piat 1993).

Multiplicity of ethnic identification has also helped Mauritius to establish several bilateral economic ties, with consequences for economic development (Caselli and Rauch 1997). The majority of the Sino-Mauritian population lives in Port Louis, where the Chinatown district serves as a community centre for establishing social networks and organizations (Mannick 1979). Ethnic identification in the Sino-Mauritian population may have facilitated close economic ties between Mauritius and China (People's Republic of China), Taiwan Province of China and Hong Kong. Bowman (1991) argues that the Mauritian EPZ succeeded in part because the tightly organized Sino-Mauritian community was able to offer investors from Hong Kong a culturally familiar environment. The imprint of Indian culture in Mauritius has also facilitated technological, educational and financial flows between the island and the South Asian subcontinent (UNCTAD 1993). It is no coincidence that of the 19 countries with which Mauritius has signed tax treaties, most have active Chinese or Indian business communities and Mauritius is emerging as a financial centre for India and for eastern and southern Africa; the latter, in particular, is coming to serve as an economic hinterland for

the metropole emerging in Mauritius (Srebrnik 2000). Likewise, ethnic, social and business contacts between the Franco-Mauritian community and European elites in South Africa, Australia and Europe may have been crucial in the development of the tourism industry.

The smallness of Mauritius is relevant when assessing the effect of social fragmentation on growth and social harmony; that is, there is a difference between social diversity in a small country and social diversity in a large country. In a small country, this diversity can take two forms: (i) harmony among groups because of geographical proximity, thereby supporting politics of consensus or (ii) strategic cooperation between groups resulting in high competition and rent-seeking behaviour, rendering each group influential and competitive. Thus it is probable that these fractions will be moderated in small countries, producing harmony and thereby reducing the negative impact of ethnic fractions on growth. Alesina and Spolaore (1997) argued that small country size enhances prospects of cultural homogeneity. It can be argued that the geographic location of Mauritius is another major factor shaping the mindset of citizens belonging to different social and ethnic groups. Mauritius is an isolated island with no close neighbours. External isolation and smallness may result in internal cohesion, resulting in social harmony and growth.

Moreover, there is a difference between ethnic fragmentation in a small but poor country and ethnic fragmentation in an upper middle-income, small country like Mauritius. In Mauritius, all ethnic groups have grown in terms of income, education and health indicators. Although, there is evidence of poverty, social exclusion and marginalization of certain groups (mainly the Creole population and also Hindus with lower income status), the resource profile of ethnic groups in Mauritius is higher and capable of producing harmony if there are conflicting situations. Alesina and La Ferrara (2005) found positive impact of ethnic fractions on growth, when ethnic fractionalization and income levels are considered together. They also argued that a diverse ethnic mix brings about variety in abilities, experiences and cultures that may be productive and may lead to innovation and creativity. In the Mauritian context, this means that negative effects of ethnic diversity are likely to be mitigated by ethnic variety, which would have contributed to unprecedented income growth in a short span of time. It can be argued, in the case of Mauritius, that there have been two factors working together, namely responsible political leadership and accommodating ethnic groups. While policies were made by leaders to accelerate growth as a political device, ethnic groups knew the importance of co-existence to share the benefits of growth dividends. Both tendencies are mutually inclusive and necessary and sufficient conditions for growth and social harmony.

One important unifying factor is the existence of a common spoken language. While Mauritians speak at least 14 different languages, over 99 per cent of citizens are capable of communicating in Mauritian Creole (Economist Intelligence Unit 2001). This has served to reduce linguistic barriers, facilitating social exchange between ethnic groups. It is interesting to note that denomination on the national currency rupee is in English, Hindi and Tamil. Eriksen (1998) describes how a leisurely walk through the capital, Port Louis, may bring one past, within half an hour or so, a Buddhist pagoda, a Sunni mosque, an Anglican church and a Catholic one, and two Hindu temples—one North Indian, one Tamil—and it is by no means uncommon that Mauritians have names like Françoise Yaw Tang Mootoosamy, demonstrating a broad mix in terms of ethnic heritage.

On the political front, post-independence, the new political elite designed an elaborate system of inclusive institutions meant to secure the cooperation of minority communities through the use of integrative side payments in political, economic and cultural domains. The spatial admixture of ethnic groups in Mauritius may have produced norms of accommodation that facilitated inter-communal harmony, whereas segregation in Guyana allowed the seeds of division to fester and grow (Premdas 1995). Moreover, as noted by Eriksen (2005), important economic sectors in Mauritius are increasingly becoming post-plural, in the sense that the ethnic divide does not matter. For example, the emergent industrial and tourism sectors are not organized on the basis of ethnicity, even if ethnic networks are important for job allocations. Moreover, the urban professional class (for example, solicitors, software programmers, accountants and university lecturers), which is only diffusely connected to ethnicity, has grown rapidly.

The effective functioning of an ethnically diverse structure is a good example of a developmental society. As Dovidio et al. (2009) postulate, cooperation and conflict among groups are developmental processes in the life of a group and constructive resolution of conflicts depends on whether the different needs of each group are properly addressed. In this case, cooperation from each group becomes conditional. The social policy making in Mauritius is based on the premise that the needs of different ethnic groups, namely Hindus, Creoles and Muslims are integrated in legislation and social budgets to elicit their conditional support. This is analogous to a situation described by Gächter (2007) where a social group consisting of only conditional cooperators would need policies to sustain beliefs for cooperation of its constituents. The conditional cooperation strategy is suggested by Gangopadhyay and Nath (2001) to describe the game-like conflict resolution mechanism in local assembly to distribute funds over different public services; a mechanism that would further explain the Mauritian ethnic harmonization experience.

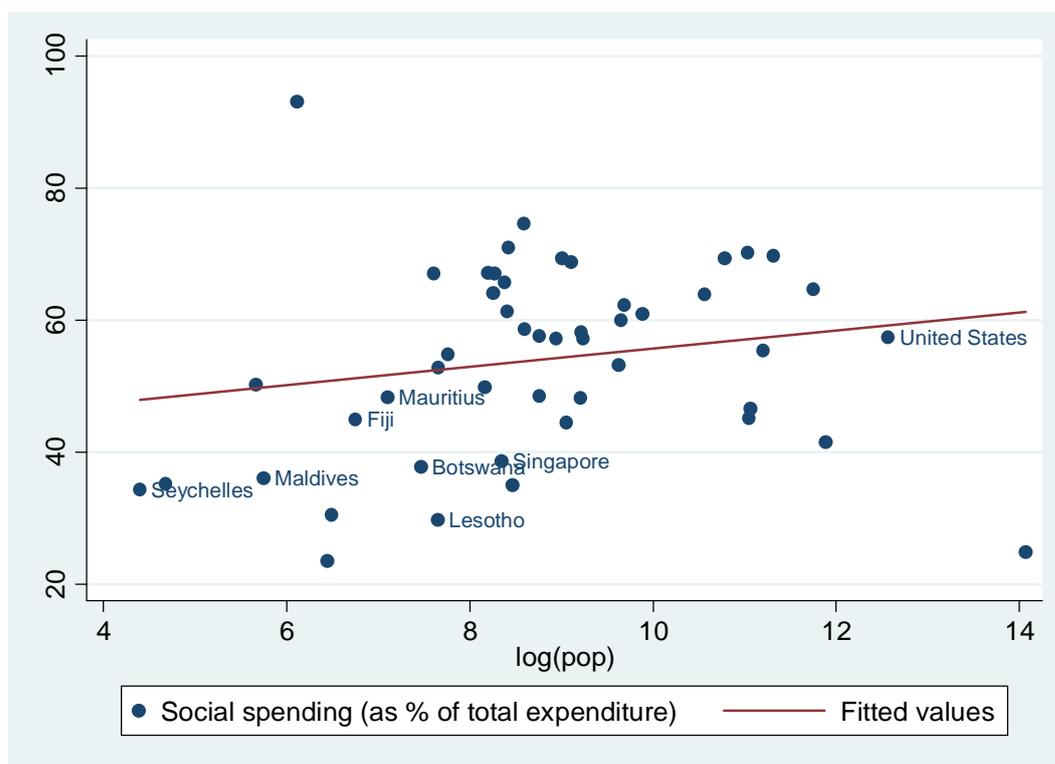
While outbreaks of ethnic conflict in Mauritius are rare, ethnic or communal differences are significant in the daily social and professional lives of Mauritians (Caroll and Caroll 2000). Nevertheless, the three ethnic groups have tended to believe that it would not be beneficial to follow a policy of isolation and conflict because this may give opportunity to any two groups to cooperate and share most of the benefits in a majoritarian parliamentary democracy. This shows corroboration on several issues by voters from different ethnic groups as well as assertion of identity reflected in heterogeneity of preferences among voters from various ethnic groups. These ethnic experiences also explain the tendencies observed in comparative field studies in Sierra Leone and Liberia following post-election conflicts (Batty 2011). The strength of the Mauritian experience is that while ethnic groups seem to retain a strong sense of ethnic identity, they do recognize the benefits of co-existence and sharing. So different groups often want the same political and social outcomes, which is conducive to social peace.

## **7. Analysing Welfare State Orientation of Social Policy**

Social expenditures are an important instrument of social policy. Moreover, allocations to social categories would largely depend on economic development, size of the government budgets and socio-political characteristics of population. In small countries, government size is bigger relative to large countries because of diseconomies of scale due to

indivisibility of fixed expenditure on public infrastructure and governance (Alesina and Wacziarg 1998; Rodrik 1996). Furthermore, the level of government expenditure in small countries, which are more open to international trade, is expected to be higher due to the counter cyclical role of stabilization by government against external shocks (Rodrik 1996). As indicated earlier, the government budget size in Mauritius (measured by government expenditure as a proportion of GDP) is not small in international comparisons, at about 25–26 per cent of GDP. While different components of welfare regimes, namely health and education, social security and welfare transfers have shown different growth patterns, aggregate social spending has shown an overall upward trend. The latter doubled from 27 per cent to 52 per cent of total government expenditure. Whether this increase in aggregate social spending is an indicator of the growing social welfare orientation of the government budget would depend on the need responsiveness of various social welfare regimes, growth of the economy, size of the government budget and the government willingness to undertake social fiscal responsibility. Nevertheless, these evolutionary patterns would have to be judged in the light of international trends.

**Figure 2: Total social expenditure as a percentage of total government expenditure**



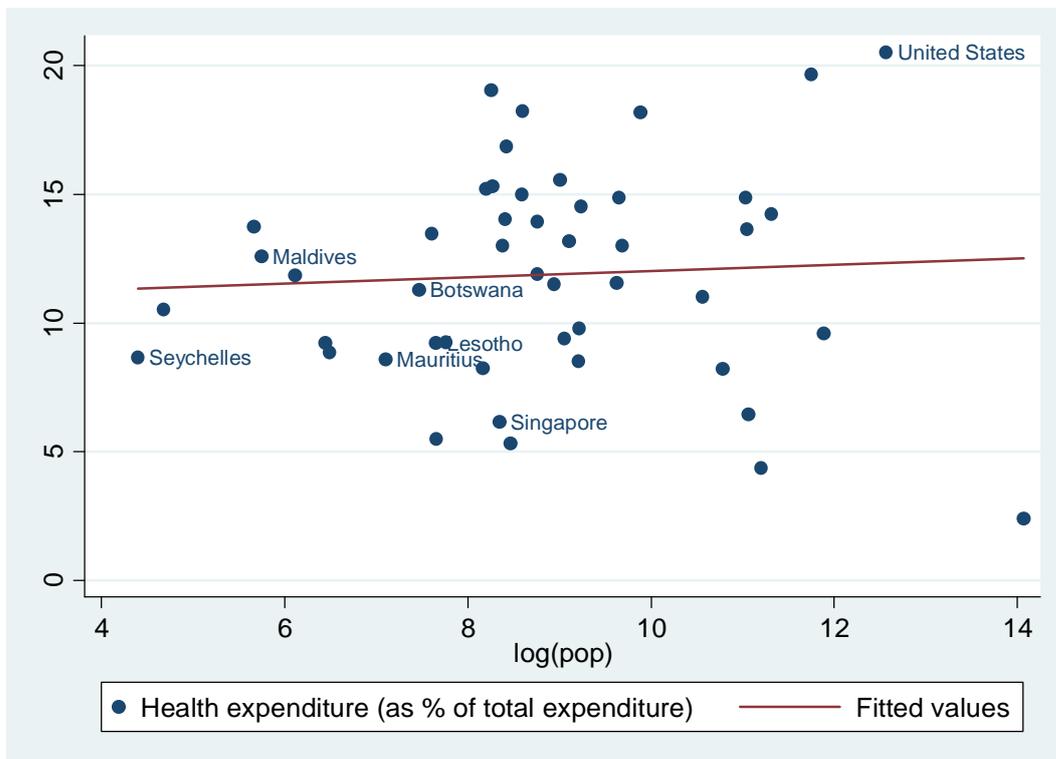
Source: IMF GFS Yearbook (various years).

It has been noted that the budgetary allocations to social sectors (aggregate as well as individual sectors) have followed the growth trajectory in Mauritius. However, it will be instructive to analyse whether social budgetary indicators of Mauritius compare favourably on an international scale of social budgetary allocations. Figures 2, 3 and 4 portray international allocations to social expenditure in general and to the health and educational sectors in particular. The analysis is performed for small and large countries, where country size is proxied by population. It will be observed that as country size increases, social budget size increases (figure 2). That is, smaller countries are allocating

smaller portions of their total budget to social sectors. This trend is not found in public expenditure on health and public expenditure on education. It is, however, shown that the health budget appears to grow marginally with country size (figure 3) but the educational budget share declines (figure 4). Put differently, as country size (measured by population) increases, health expenditure as a share of total budget marginally increases, but educational expenditure as a share of total government expenditure declines. This comparison clearly highlights that small countries have allocated relatively larger budgets to education. As regards allocations to health, there is a slight deterioration in social budgets in small countries, which can be regarded as a comparable performance on the part of most small countries. These figures also show that Mauritius has outperformed global averages only in educational allocations and the health sector remains the critical sector for social policy attention in the future.

When compared against other small and upper income countries in sub-Saharan Africa, Mauritius has outperformed Seychelles in allocations to social expenditure in general and to health and education in particular. Mauritius has also outperformed Botswana in total social expenditure allocations, suggesting significant outlays on social welfare in general, but allocations to education and health have suffered. This indicates phenomenal increases in government expenditure on social security and protection. The dismal performance of Mauritius compared to Botswana in sectors like health and education, however, casts doubt on the effectiveness of catch-up policy and warrants more aggressive social budgetary policy to register improvements in human capital. The social policy emphasis on human capital formation should constitute the long-term growth strategy and the pressing needs of social empowerment.

**Figure 3: Health expenditure as a percentage of total government expenditure**

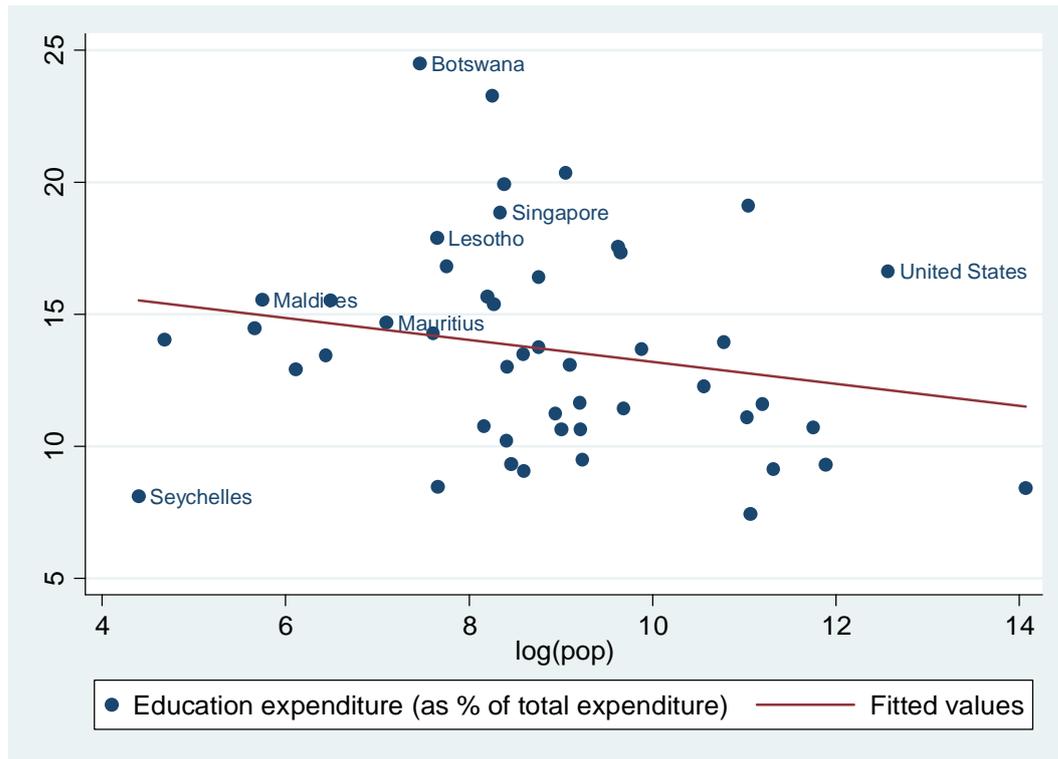


Source: IMF GFS Yearbook (various years).

While the analysis of budgetary allocations to social sectors indicates some signs of catch up in recent years, it will be instructive to discern the impact of various factors governing social allocations. Level of economic development, measured by growth in per capita income, is a major determinant of social spending. This variable will also capture the fiscal capacity of the state to undertake social policy initiatives. However, there are factors other than income that policy makers may have taken into account while designing social budgets, such as institutional quality, socio-linguistic structure and income inequality. We use an international data set of 45 countries and perform a cross-country regression analysis where the dependent variable is social spending as a share of total government expenditure and explanatory variables are log of per capita income, ethnic diversity (measured by ethno-linguistic fractionalization), Gini coefficient (a measure of income inequality) and democracy index (a measure of institutional quality). The postulated impact of income inequality on social expenditures is positive, signifying that the larger the inequality, the greater the need for social expenditures to meet the challenges of human capital needs and social welfare. The impact of ethnic diversity on social budgets may be indeterminate as it is difficult to assert whether ethnic factors influence social spending in one way or another. If the government takes into account ethnic factors in determining social budgets with a view to reducing social tensions, the impact nevertheless is expected to be positive. The impact of income and democracy should be positive, that is, the higher the institutional quality in terms of this political development, the higher will be allocations to social sectors.

Social expenditure in the present exercise includes expenditure on housing, health, education, recreation and social protection (IMF 2009). The reference year for different countries depends on data available for the latest year. The sources of data on variables used in the exercise are as follows (see table 9). Log income is the natural log of real GDP per capita in 2006/2007 (World Development Indicators); Ethnicity is ethno-linguistic fractionalization in 1985 (see Roeder 2001). Gini refers to the Gini index (cross-section data from 1995–2002 varying by country) from UNDP (2004) and Democracy is the Freedom House democracy indicator ranging from 0–10 where 0 is least democratic and 1 is most democratic (cross-section 2000–06).

Figure 4: Educational expenditure as a percentage of total government expenditure



Source: IMF GFS Yearbook (various years).

The results of cross-country regressions are presented in table 9. The impact of per capita income is assessed along with other explanatory variables taken together and also one by one in different estimations reported in 1-5 columns. The statistical significance of estimated coefficients is indicated at levels ranging from very high (1 per cent) to reasonably significant (12 per cent). The sample size varies between 42 and 48 countries.

The regression results confirm our *a priori* expectations in the case of per capita income and democracy. These variables exert a positive impact on social expenditures, thereby raising the share of these expenditures within total budget. As regards the impact of ethnic diversity and income inequality, the results are quite revealing. The coefficient on the ethnic diversity variable is not statistically significant, but bears a negative sign. Since these results are not supported by the significance test, it can be concluded that the impact of ethnicity on social spending is inconclusive, because there are both positive as well as negative effects. But an overall negative sign on the coefficient may imply that the negative effects are stronger than the positive effects. These results would therefore contribute to the contention that ethnic or religious factors do not have any perceptible impact on social budgets. Alesina et al. (2001), in a cross-country regression analysis found a significant and inverse relationship between the size of government social spending and transfers relative to GDP on the one hand and ethnic fractionalization on the other. They concluded that redistribution through social spending and transfers across social groups can be viewed as a public good in a society that values equality as a public benefit. It is therefore highly likely that the objective of redistribution through social spending may have been misplaced. Different ethnic groups may compete to get social advantages to the extent that ethnic diversity does not emerge as one of the determinants of social spending.

**Table 9: Institutional determinants of social expenditure**

Explanatory variables	Dependent variable: Social expenditure as a percentage of total government expenditure				
	(1)	(2)	(3)	(4)	(5)
Log income	7.548 <sup>c</sup> (3.62)	7,009 <sup>b</sup> (2.63)	5.956 <sup>b</sup> (2.61)	6.824 <sup>b</sup> (2.68)	4.447 <sup>γ</sup> (1.61)
Ethnicity	-10.24 <sup>a</sup> (-1.81)			-4.158 (-0.50)	-6.813 (-0.78)
Inequality		-0.398 <sup>b</sup> (-2.36)		-0.377 <sup>a</sup> (-1.96)	-0.383 <sup>a</sup> (-1.92)
Democracy			1.560 <sup>b</sup> (2.43)		0.837 (1.21)
Constant	-8.663 (-0.44)	8.703 (0.29)	-9.668 (-0.49)	11.00 (0.39)	26.85 (0.99)
N	48	42	45	42	41
R <sup>2</sup>	0.393	0.508	0.455	0.513	0.529
Adjusted R <sup>2</sup>	0.366	0.483	0.429	0.475	0.477

**Notes:** Robust t statistics in parentheses;  $\gamma p < 0.12$  (significant at 12 per cent level); <sup>a</sup>  $p < 0.10$  (significant at 10 per cent); <sup>b</sup>  $p < 0.05$  (significant at 5 per cent); <sup>c</sup>  $p < 0.01$  (significant at 1 per cent). Lower significance level indicates higher confidence level attached to estimates. The statistical significance of estimated coefficients is indicated at levels ranging from very high (1 per cent) to reasonably significant (12 per cent). The sample size varies between 42 and 48 countries. **Source:** Author's computations.

Regarding the impact of income inequality on social spending, income inequality is found to have a dampening effect on the growth of social spending. Since the associated coefficients are statistically significant, our results may have some far-reaching implications. What is suggested is that as income inequality increases, share of social spending in total government expenditure does not increase. This means that if social budgets have the explicit job of addressing the problem of income inequality, this objective is apparently not being achieved. These results, however should be handled with care. The income inequality measure employed in this analysis captures only the income dimension, leaving aside poverty, social exclusion and labour market distortions, which are perhaps equally pertinent dimensions of social inequality.

## 8. Conclusions and Summary of Policy Issues

The present study critically examines the links between economic growth, institutional change and social development in the context of the economic success story of Mauritius. Social policies are not only products of history, culture, institutions and geography, but they derive substantial strength from economic success and failure episodes during early phases of social transformation. While a good deal of social development would have occurred as a by-product of economic development, the role of concerted social policy interventions seems to be vital. Some strategies devised to address specific social problems may be home grown, but many of them could be standard solutions designed elsewhere and replicated in different situations. The implementation of such policies is the fundamental issue that deserves more in-depth investigation in relation to similarly placed islands in the Indian Ocean and elsewhere.

While the country is regarded as a role model of socioeconomic development, social deprivation and poverty among vulnerable groups poses a major threat to Mauritius' social fabric. These disparities can be found in terms of incomes, capabilities and

opportunities, with wide-ranging consequences for the growth of human capability and social welfare. While social security budgets are mounting, social expenditures on health, education and social welfare have been extraordinarily sluggish.

Some other conclusions are worth noting. First, health is regarded as a benefit to individuals in its own right, and not only as a service to the economy. Similarly, education can be regarded as an underpinning of democracy rather than simply educational advancement and job training. Second, transfers to provide social protection have received more attention. Third, although budgetary activities to empower women have expanded, these do not have a perceptible impact on gender inequality. It is yet to be recognized in Mauritius that female social welfare has an important role to play in improving the family environment and quality of human resources. Lastly, social expenditure buoyancy estimates contribute to the contention that male and female population groups exert varying degree of influence on social expenditures. There is evidence of both gender inequity and inadequacy of social services.

Nevertheless, Mauritius has maintained good performance in terms of human development, ranking second for HDI after Seychelles in the top 10 performers in Africa in 2007. The strengths of Mauritius' growth, however, stem from the strategy of economic diversification, political stability, high-quality policy making and a reasonable governance structure. Despite changes in government, with different political coalitions coming into power, there is a remarkable tradition of successive governments continuing economic and social policies. Commitments to move toward a market economy have been maintained, but social orientation has not been compromised. Moreover, while the quality of government policy making is high, there is some slackness at the level of implementation due to weaknesses in governmental machinery.

Excessive dependence on labour markets for socioeconomic development has manifested in market failures in Mauritius; in turn, overemphasis on public policies for correcting these market failures using social transfers has resulted in government failures. It has been documented that while the labour share of GDP has declined over time, a centralized system of bargaining and wage determination has pushed wages higher than the market can bear, transforming Mauritius into a high-cost economy. This is good news for those who are employed but bad news for the rising army of unemployed youth. The labour market is also characterized by decommodification of labour, in that labour is no longer treated as a commodity. This social orientation means that compensation for labour is not directly related to its market value.

The 1999 social unrest experienced in Mauritius demonstrates the constraints faced by both labour market and social budgetary policies. Generic public policies assume that socioeconomic dislocations can be minimized by correcting both market and government failures. The appropriateness of policies and quality of institutions have both contributed to the success of public interventions in terms of generating favourable socioeconomic outcomes in recent years. The success of Mauritius' welfare state has largely depended on effective social policies, which have integrated the advantages of the labour market based social outcomes into mainstream social policy. It can be argued that providing employment has been a major channel by which the benefits of growth have been shared more equitably in Mauritius. However, the predominance of public sector employment

may raise cause for budgetary concern; public employment may not be sustainable even in the short run.

This research also focuses on the design and implementation of social policies in the light of institutional development. The important role of such institutions as participatory democracy, social welfare regimes, power of jurisdictional resource and social cohesion/capital has been analysed. This institutional analysis would provide interesting lessons for other sub-Saharan African and developing countries. In particular, the government has accessed jurisdictional resources to expand Mauritius' economic space. It has used outward-looking resources, including external debt financing of development and social projects, mobilizing international remittances and diasporic links for investment and international business. Moreover, attempts have been made for accessing markets for raising international tourism, joining regional and global integration movements and deploying international diplomacy to improve access to global public goods and markets for finished products.

The analysis further reveals that ethnic factions in Mauritius have not resulted in conflict for power and resources as in some Sub-Saharan African countries. Rather these factions recognise the benefits of sharing, thereby producing a congenial environment for social cohesion and social capital growth. The ethnically divided Mauritian society has proved to be growth and welfare promoting because of small country size, colonial and diasporic links and a high degree of fragmentation, resulting in a variety of human resources and experience. Rapid economic development, institutional quality and improved income distribution work as additional harmonizing factors.

Empirical analysis of social expenditures yields some interesting trends. As expected, income and democracy have positive impact on social expenditures. As regards the impact of ethnic diversity and income inequality, the results are quite revealing. Our findings do not contribute to the contention that ethnic or religious factors exert any perceptible influence on social budgets. Coming to income inequality, what is suggested is that as income inequality increases, share of social spending in total government expenditure does not increase commensurately. This means that if social budgets have the explicit job of addressing the problem of income inequality, this objective is apparently not being achieved.

In the cross country context, it is observed that small countries have allocated relatively larger budgets to education. As regards allocations to health, there has been a slight deterioration in health budgets in these countries. Keeping the same trend, this analysis further shows that Mauritius has outperformed global averages only in educational allocations and health remains the critical sector for social policy attention in the future. Our analysis nevertheless demonstrates that there is some evidence for the effectiveness of catch-up policy on social fronts in terms of budgetary allocations.

When compared against other small and upper income countries in sub-Saharan Africa, Mauritius has outperformed Seychelles in allocations to social expenditure in general and allocations to health and education in particular; and it has outperformed Botswana in social expenditure allocation, suggesting significant outlays on social welfare in general rather than on education or health. There is a phenomenal increase in government

expenditure on social security and protection. The dismal performance of Mauritius compared to Botswana in sectors like health and education may cast doubt on the consistency of effectiveness of catch-up policy and warrants more aggressive social budgetary policy to register improvements on the front of human capital formation.

Two important questions can be asked with respect to linkages between social and economic development in Mauritius: to what extent social development is a by-product of economic success and to what extent social policy and institutions have shaped the social landscape. While the impact of economic success will be significantly felt in terms of overall social performance, social policy effects would need to be more targeted and redistributive. Among the factors that have contributed to growth of social spending, the role of growth in per capita income and institutional quality is clearly established. As regards the significance of income inequality and ethnic diversity, the findings are inconclusive, but nevertheless illuminating. It seems that social budgets have responded weakly to income inequality. Whether social budgets are influenced by ethnic diversity in Mauritius is another pertinent issue. From our empirical analysis, it is apparent that social expenditure policies may not be based on ethnic diversity. But overall performance of social budgets may indicate that higher expenditures have been allocated to social assistance to foster social harmony. Whether ethnic diversity and income inequality have any perceptible impact on social budgetary decisions are research questions that need additional investigation.

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