Promoting Shared Prosperity:
The Relevance Of Social Cohesion In Developed And Developing Countries

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KEYWORD	ABSTRACT
Social Cohesion Developing countries Prosperity	In April 2013, the issue of greater inequalities and social exclusion reckoned to be the result of economic growth led the World Bank to set the new goal, to end extreme poverty and promote shared prosperity. Interestingly, the approach of the contemporary solution is largely in consonance with the maqasid or objectives of the Shari'ah. Islam is a universal religion and addresses the entire mankind, not the believers alone. It is, therefore, no surprise that people irrespective of faith do often think along the Islamic lines. The notion of social cohesion is often used with different meanings, however its constituent elements remain the same which includes social inclusion, social capital and social mobility. This study analyzed the impact of the social cohesion, by adopting a cross-country approach. Specifically, the study examined the impact of social cohesion to the poorest quintiles of the population by evaluating the relationship between the factors and the changes in the per capita income of the poor of the developed and developing countries. Panel regression was applied to examine the significance of the social cohesion towards the shared prosperity of the developed and developing countries. It is hoped that this study will serve as an effective mechanism for poverty eradication in the respective countries.

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INTRODUCTION

Promoting shared prosperity has been declared by the World Bank in 2013 as one of their goals together with ending poverty in tackling the issues of inequalities and social exclusion. As defined by the World Bank, promoting the shared prosperity means working towards the increments of the income and welfare of the poorer segments of society wherever they are, be it the poorest of nations or thriving, middle income countries. The shared prosperity goal has become significant especially in the developing countries as they grow their economies and lift millions out of poverty and this leads to a growing inequality. To demote inequality and fostering shared prosperity is one of the central principles of sustainable development where development is driven by fully considering the future impacts. OECD (2011) defined social cohesion as a cohesive society that works towards the well being of all its members by fighting the social exclusion and marginalization in society as well as creating the sense of belonging and promoting trust. The definition was argued by X.Fonseca et al (2018) led to define the social cohesion as the "ongoing process of developing well being, sense of belonging, and voluntary social participation of the members of society, while developing communities that tolerate and promote multiplicity of values and cultures, and granting at the same time equal rights and opportunities in society. The notion of social cohesion is

often used with different meanings, however its constituent elements remain the same which includes social inclusion, social capital and social mobility. It is suggested that social cohesion deemed as the key for social sustainability that responsibles in sustaining development of the nation.

Poverty and Shared Prosperity

As reported in the World Bank Report (2013), the level of poverty has declined rapidly over the past three decades. It is revealed that the reduction in poverty has been due to contribution of a fast growth initiated by developing countries especially in China and India. There is also evidence of the association between a rapid growth and a sharp decline in absolute poverty in all regions of the world (Dollar & Kraay, 2014). However, the humanity is still in exigent and defiant atmosphere. It was stated that 1 billion of the world community is still in the state of poverty even in the availability of resources and technology today (Worldbank, 2013). Furthermore, the issue of inequality and social exclusion complements the escalating prosperity in many countries. Consequently, the World Bank Group has established two goals to guide its strategy in tackling these issues. The first goal is to end extreme poverty. More specifically, the World Bank Group seeks to orient its programs so that the global extreme poverty rate declines to below 3 percent by 2030. The second goal is to promote "shared prosperity" by helping every country to foster income growth of the bottom 40 percent of the population (World Bank, 2013).

Shared prosperity is defined "in terms of the growth rate of incomes in the bottom 40 percent of households", and the World Bank has made a public commitment to support policies that foster shared prosperity in the developing world. Concerns about shared prosperity are also widespread in advanced economies, where many fear that growth no longer benefits the bottom half in terms of income distribution (World Bank, 2013). The shared prosperity goal focuses on the promotion of a combination of growth and greater equality to complement the poverty mitigation target. It is crucial to consider that the process in achieving these two goals is sustained over time and across generations - which requires promoting social justice, equality and maintaining distribution of wealth. The situation brought this study that aims to investigate how the elements of social cohesion can supplement the shared prosperity in mitigating poverty.

Shared Prosperity in Mitigating Poverty and Sustainable Development

There is a general consensus that economic growth is necessary but not sufficient for poverty reduction. Traditionally, economists have measured growth in terms of increasing per capita income or gross domestic product. But if the distribution of income is skewed and the poor part of the population is getting poorer even while the average income increases, people would hesitate to call this as development. As a measure of the potential for maintaining well-being in the long term, however, GDP is an inappropriate and even misleading measure. A high level of income today is no guarantee of the same in the future. Indeed, it may actually reduce well-being in the future if some of the income is generated by consuming society's capital base. Thus, GDP per capita is not coherent with any approach to sustainable development. In all countries, especially developing economies, economic growth would be effective in fostering poverty reduction and broad-based prosperity, if the pattern of growth becomes more sustainable and inclusive.

The concept of "sustainable development" was popularized as a normative goal by the World Commission on Environment and Development in their 1987 report. Sustainable development was defined as a development that "meets the needs of the present without compromising the ability of future generations to meet their own needs". This definition suggests the need to balance two concerns, one having to do with the present (intra generational) needs and the other having to do with the future (intergenerational) needs. Therefore a high, sustained, and inclusive growth requires high rates of investment in physical and human capital. Henceforth, ending extreme poverty requires an economic growth, which is sufficiently fast but also one with a pattern that fosters inclusiveness while ensuring sustainability.

Development is reported in Qur'an as God says: "It is He Who hath produced you from the earth and settled you therein" (Surah Hud, verse 61). In the Hadith, Prophet Muhammad (peace be upon him) said: "if the Final Day comes upon you while you were planting a seed, then continue on planting it". Sustainable development may be defined, from an Islamic perspective, as a multidimensional process that

seeks to strike a balance between economic and social development on one side, and the environment on the other. It urges humans to use resources in the best possible way, accounting for the environment upon which those resources rely (Nouh, 2013).

As noted by Ahmad, Bhatti and Arshad (2013), Islam is a universal religious and provides the path to lead life. Therefore, Islam brings prosperity not only in the worldly life but also in the hereafter. They mentioned that some studies conclude that religions have relationship with economic growth and human development. If the glorious principles of Islamic teachings are implemented, then there will be peace and prosperity all over the world. Islam explains the role of state, social and economic justice, concept of brotherhood, principles of earning and spending and all other related rules and regulations for the smooth running of social and economic systems. These principles ultimately establish economic growth all over the world.

This highlights a distinct concept of superior purification validated according to the degrees of sustainable benefit engendered in human society. They added that the quality of human's reactions and attitudes to environment and the shaping of our general perception of sustainability deeply reflect our spiritual maturity and state of mind. It is probably with this in mind that the Qur'an places heavy emphasis on the need for changing the self first, while setting individual change as a fundamental pre-requisite to broader reforms (Qur'an 13:11).

Social Cohesion as the Key of Sustainable Development in Mitigating Poverty

According to McKenzie (2004) social sustainability is a positive condition marked by a strong sense of social cohesion, and equity of access to key services including health, education, transport, housing and recreation. It is the combination of various functions of various institutions aiming to ensure the sustainability of social development between different social groups in ensuring enhancement of social cohesion. In turn, social cohesion would contribute to economic growth as it would enable confidence and collaboration between individuals in economic.

(Ritzen, 2000) define social cohesion as a state of affairs in which a group of people demonstrate a capacity for collaboration that produces a climate for change. It is a concept that includes values and principles which aim to ensure that all citizens, without discrimination and on an equal footing, have access to fundamental social and economic rights. While, Government of Canada interpreted social cohesion as "an ongoing process of developing a community of shared values, shared challenges and equal opportunity within Canada, based on a sense of trust, hope and reciprocity among all Canadians" (Jeannotte, 2003). OECD (2011) defined social cohesion as "the cohesive society that works towards the wellbeing of all its members by fighting the social exclusion and marginalization in society as well as creating the sense of belonging and promoting trust". The definition was argued by X.Fonseca et al (2018) led to define the social cohesion as the "ongoing process of developing wellbeing, sense of belonging, and voluntary social participation of the members of society, while developing communities that tolerate and promote multiplicity of values and cultures, and granting at the same time equal rights and opportunities in society.

The notion of social cohesion is often used with different meaning; however its constituent elements remain the same which includes social inclusion, social capital and social mobility. (Cloete, Kotze, & Groenewald, 2009) examine social cohesion as a teleological (normative) concept in the sense that it suggests action towards a goal, informing us how to achieve it. Its normative nature connects it to a number of contributing factors and consequences. At its essence it refers to a desired quality in social relations that bind people together. As a quality of social relations, social cohesion is manifested in meaningful social interaction, social structures and processes (the organized patterns of social life and how these patterns come about) and culture (including belief systems and ideology).

A study in United Kingdom revealed that social capital is perceived as a key resource to ensure "system stability". With its notions of consensus and harmonious interaction by different groups, social capital is in some senses the practical tool to achieve social cohesion (Zetter, Sigona, Flynn, & Pasha, 2006). Defining social capital as the norms and networks that enable people to act collectively, (Woolcock & Narayan, 2006) trace the evolution of social capital research as it pertains to economic development and identify four distinct approaches the research has taken: communitarian, networks, institutional, and

synergy. The evidence suggests that of the four, the synergy view, with its emphasis on incorporating different levels and dimensions of social capital and its recognition of the positive and negative outcomes that social capital can generate, has the greatest empirical support and lends itself best to comprehensive and coherent policy prescriptions.

While Human Capital Theory, Schultz (1972) viewed human capital as a demonstration of human abilities or capacities not merely individual characteristics, which are useful on their own in production processes. This theory has strong link with the present study which has includes education, as an important dimension of social cohesion. (Gradstein & Justman, 2002) explores the relation between social cohesion, education, and growth in the context of a dynamic model in which the productivity of economic transactions depends on the social distance between the transacting agents, and expected individual income decreases as a function of average social distance from one's cohort (from some point on). The authors examine implications in the analytical context of a model of endogenous growth in which education plays the dual role of building human capital and determining social orientation. These two dimensions interact through the adverse effect of social polarization on the productivity of human capital. Relevant theoretical underpinnings suggest that higher education, continuous professional development and training provide numerous opportunities for societal advancement. (Camilleri & Camilleri, 2015) deliberates how education fosters social cohesion based on Malta's National Reform Program, an assessment of economic, social and environmental condition in Malta in order to meet the European Union's (EU's) 2020 strategy. The authors indicated that with better education leadership, there may be implications for economic growth, job creation and competitiveness. This is further supported by (Mariana, 2015) who finds that higher education have an important positive effect on economic growth.

Lewis theory, as one of the earliest known theories of economic development was put by the Nobel Laureate, W. Arthur Lewis. It was later modified and extended by John Fei and Gustav Ranis. Lewis Two Sector Theory i.e. capitalist and subsistence, had become a general Theory of Development in surplus labour. According to Lewis, there is unlimited supply of labour in the subsistence sector. Transfer of surplus labour from the subsistence sector to the capitalist at a wage rate of about 30 per cent higher than the average productivity of labour leads to capital accumulation which in turn enhances economic development which turn out to be one of the three essential factors in sustainable development. The major implication is that surplus labour could constitute human capital when properly controlled. The theory of unlimited supply of labour has its relevance in the present study where a detailed analysis of the impact of human capital on real economic activity. Diffusion of human capital activities lead to worldwide economic growth (Mincer, 1984). Scarcity of skills that is the root cause of rising inequality and reduces economic growth (Murphy & Topel, 2016). Thus, social relations provide opportunities for mobilizing other growth-enhancing resources where the nature and extent of the interactions between communities and institutions hold the key to understanding the prospects for development in a given society (Woolcock & Narayan, 2006).

Although improving society access to social rights remained the center of social cohesion, there are areas that should be given a priority, such as environment in order to assume developing more cohesive societies. M.Fathil et al (2015) suggested that promoting a positive behavior in sustaining the environment is an integral part of the human integrity. It was clearly stated in the Qur'an Surah Ibrahim, verse 32-33 saying that "Allah is He who created the heavens and the earth and sends down the rain from the sky. The he produced therewith fruits as food for you; He has lowered the ships that they may sail through the sea by His will. And He has made subservient (also) to you rivers. And He has made subservient (also) to you the sun and the moon, constant in their courses (in its orbit); and subject to you night and day. Clearly, the God's creation is fully provided for human. It is only the human to sustain or to destroy.

Concisely, social cohesion, to the extent that it is important, comes mostly through its effects in promoting an inclusive economy and prosperous society. However, there is a dearth of empirical studies in developed and developing countries on the impact of social cohesion incorporating the elements of social and economic growth that might be particularly conducive to promote shared prosperity for mitigating poverty. Therefore, this study represents an attempt to provide the analysis empirically.

Objective Of The Study

This study attempts to analyze the impact of social cohesion indicators on shared prosperity, adopting a cross-country approach. Specifically, this study examines the relationship between shura and the shared prosperity of the developed and developing countries. It is hoped that this study will help to determine how social cohesion elements' can be served as an effective mechanism for prosperity sharing in the respective countries.

Method

Data Collection and Sample

The used sample roughly consists of 30 developed countries and 15 developing countries. The period of study is from 2005 to 2014.

The Empirical Model

To achieve the objective of the study, there are two stages of procedure that need to be applied which are first is the estimation procedure and second is the index development.

Firstly, this study used panel regression static model to examine the significance of the social cohesion elements' towards the shared prosperity of the developed and developing countries. Least Square method was used for estimations. This allows checking the problem of heterogeneity of countries. Then, the Hausman test was applied which allows the choosing of specific fixed or random effects model. The general formulation of the model used in this study can be specified as follows:

$$SP_{it} = \alpha + \beta(IP_{it}) + \mu t \; ;$$

Where, SP_{it} = Shared Prosperity$_{it}$ is proxied by Shared Prosperity Indicator developed by Rosenblatt and McGavock (2013) as the dependent variables. The shared prosperity indicator has its intellectual origins in the concept of quintile income. Defined as the per capita income of the poorest quintile (bottom 40 percent) of the population, quin¬tile income was proposed as a simple welfare measure that is both easy to calculate and easy to understand. It draws on Rawlsian notions of promot¬ing the welfare of the least fortunate members of society, and also has the pragmatic feature of comparabil¬ity with traditional macroeconomic welfare measures such as per capita income.

Therefore;

$$SP(x) = \left(\frac{s(x)}{0.4}\right) * y(x)$$

(Equation 1)

Where;

SP(x)   =   shared prosperity index
s(x)   =   share of total income accruing to the bottom 40% of the population
y(x)   =   the per capita income of the total population of a country with income profile x

This expression shows that the shared prosperity indicator is similar to the Sen index of real income which is the product of inequality measure (the income share of the poorest 40 percent) and the per capita income of the total population. In discrete time, the percentage change in the shared prosperity indicator is simply the sum of two growth rates: the growth rate of the share of income accruing to the poorest 40 percent and the growth rate of the per capita income of the total population. The independent variable ("IPt") is the construction of shura.

The indicators used in this study are generally retained in the Democracy Barometer Database (2016) as per Table 1.

The second one is to facilitate the construction of the Index that explains the implication of

social cohesion elements' towards the shared prosperity of the country based on the ranking of the index. The Index expectantly reveals which countries function more sustainably, promoting the shared prosperity based on the social cohesion elements'.

It was done by applying the max-min procedures constructing the index as formulated below:

$$di = \frac{Ai - mi}{Mi - mi}$$

(Equation 2)

where,

Ai is the observed indicator value (after imposition of bounds), and

di is the new, rescaled, index-number representation with a value ranging from 0 to 100.

Subsequently, if all of the variables are available for country i, an equal weight will be given to each variable. The higher the value of di, the higher the country's achievement in dimension i. If n dimensions of Index are considered, then, a country's achievements in these dimensions will be represented by a point X = (d1,d2,d3,....,dn) on the n-dimensional space. In the n-dimensional space, the point O = (0, 0, 0,...,0) represents the point indicating the worst situation (zero achievement) while the point W = (w1, w2,.....wn) represents an ideal situation indicating the highest achievement in all dimensions. The location of the achievement point X vis-à-vis the worst point O and the ideal point W will together determine a country's level of index. An inclusive economy system will have an achievement point close to W and away from O. In our proposed Index, we used a simple average of the normalized Euclidian distance between X and O and the normalized inverse Euclidian distance between X and W.

Finding

Estimation Results

This section describes the indicators for social cohesion's dimension which provide the static panel regression results for developed and developing countries. The techniques of estimations used to study the link between the shared prosperity and the indicators of the dimension of social cohesion are Fixed Effect and Random Effect model. We did the estimation test for all indicators mentioned beforehand.

As shown in table 2, the regression test appreciates the relevance of fixed effects (p<5%) for developed countries and random effects (p>5%) for developing countries intended for social cohesion from dimension of economy sustainability. It is found that a negative and significant result for Gini coefficient in developed countries which underlined that the stronger focus on inequality reduction, will promote the power of economic growth to interpret into the increasing of shared prosperity and better opportunities for all. In addition, for developing countries it shows positive significantly effect for unemployment. This finding is consistent with the fact that the developing countries are facing with the unsteady economic growth as it shows the level of unemployment are the result from conscious economic policy.

Next, table 3 shows the regression results that suggested how the secondary enrolments in developing countries have negative and significantly impacts on the shared prosperity. It provides the evidence that the higher the engagement of people in the next level of education lead in reducing shared prosperity as less people in the job market. However, the higher the education, the better the awareness among the people to demand from their employers to pay them based on education qualification.

Based on dimension of environment, table 4 shows a positive and significantly effect for water while for carbon emission it shows negative and significantly effect for both developed and developing countries evidenced that a healthy environment is needed in promoting shared prosperity. It could help

to complete the sustainable development and lasting prosperity for all. It also important to note that green growth would require the harmonization of clean water and carbon emission that custom-made to the country context.

Hence, based on the estimation results, we believe that it is sufficient to explain the significant effect of social cohesion to promote shared prosperity in the developed and developing countries. Therefore, we proceed with the construction of the index.

Index Development

Once the significant indicators are anticipated, we constructed the index known as SPsc Index to indicate the level of shared prosperity based on social cohesion dimension for both developed and developing countries.

Figure 1 and 2 present the SPsc Index for developed countries, while Figure 3 and 4 are developing countries' index. As evidenced from Figure 2 and 4, there are contra pattern for both developed and developing countries' level of shared prosperity. Developing countries shows an increasing pattern of prosperity sharing while negative for developed countries. This result supported the claimed by WorldBank (2013) which reported that the shared prosperity was in declining pattern in developed countries compared to developing. Concerns about shared prosperity were widespread in advanced economies, where many fear that growth no longer benefits the bottom half in terms of income distribution. From figure 1 and 3, it is found that along the ten years of analysis, Spain scored the highest ranking among the 30 countries of developed countries, while Peru scored the highest ranking among the 15 developing countries.

Conclusion

The findings of this study should provide evidence in explaining the most significant indicators for social cohesion that provides a significant impact towards increasing the prosperity sharing of a country. Therefore, it enables the countries to also focus on human development that will continue to help in poverty eradication and in raising the material standard of living.

This paper was designed by the researchers to conduct research in the concept and approach in promoting shared prosperity. Although this is principally aimed at academicians, it is very much relevant for policymakers, as policy targets for inclusive economy are increasingly being formulated at national and international levels. Policy makers and economists must understand this holistic approach to enable them to formulate economic policy and programs that comply with the requirements of Islam. Analysis is only useful once its inferences are adopted by the governments and placed at the heart of credible growth strategies. It is believed that there is a great deal of room for improvement for the governments in strengthening the effort to promote an inclusive e.

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Appendix

Table 1: Proposed Dimension and Indicators

Dimension	Indicator
Access to Economy Activites	GINI
	Employment Rate to Population
	Unemployment Rate
Education	Primary School Enrollment
	Secondary School Enrollment
Environment	Basic Drinking Water Services
	CO2 Emissions

Table 2: Access to Economy Activity Dimension: Developed and Developing Countries

Dependent Variable: Shared Prosperity Index

	Developed Countries		**Developing Countries**	
	Fixed Effect	*Random Effect*	*Fixed Effect*	*Random Effect*
Access to Financial Resource (GINI)	-0.643***(-8.47)	-0.649***(-8.47)	-0.099(-1.09)	-0.099(0.2730)
EMPLTTOPOP	1.049***(5.65)	1.062***(5.67)	0.436***(2.24)	0.433**(2.24)
UNEMPL	0.0181(0.76)	0.019(0.79)	1.001***(2.83)	1.012***(2.91)
Constant	6.832***(8.21)	6.803***(7.74)		2.561(1.31)
No of observations	300	300	146	146
No of groups	30	30	15	15
R^2	0.4275	0.4275	0.0943	0.0943
Post Estimation Tests				
F Test (Wald Test)	0.0000		0.0053	
LM Test		0.0000		0.0031
Hausman Test	0.0354			0.8772

t statistics in parentheses
* p < 0.10, ** p < 0.05, *** p < 0.01

Table 3: Education Dimension: Developed and Developing Countries

Dependent Variable: Shared Prosperity Index

	Developed Countries		Developing Countries	
	Fixed Effect	*Random Effect*	*Fixed Effect*	*Random Effect*
SCHPRI	0.009(0.47)	0.009(0.47)	-0.154(-0.33)	-0.119(-0.26)
SCHSE	-0.077(-0.13)	-0.0075(-0.13)	-0.328***(-6.55)	-0.328***(-6.52)
Constant	8.848***(27.65)	8.848***(28.88)	8.619***(86.78)	8.626***(13.44)
No of observations	300	300	147	147
No of groups	30	30	15	15
R^2	0.008	0.008	0.2485	0.2484
Post Estimation Tests				
F Test (Wald Test)	0.8983		0.0000	
LM Test		0.8960		0.0000
Hausman Test		0.7918		0.1889

t statistics in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

Table 4: Enviroment Dimension: Developed and Developing Countries

Dependent Variable: Shared Prosperity Index

	Developed Countries		Developing Countries	
	Fixed Effect	*Random Effect*	*Fixed Effect*	*Random Effect*
WATER	3.617***(4.11)	3.643***(4.13)	4.361***(10.51)	4.363***(10.59)
CO_2	-0.182***(-4.93)	-0.183***(-4.96)	-0.398***(-5.38)	-0.395***(-5.43)
Constant	-13.244***(-3.28)	-13.364***(-3.29)	-12.359***(-6.63)	-12.366***(-6.26)
No of observations	300	300	150	150
No of groups	30	30	15	15
R^2	0.5993	0.5993	0.5630	0.5630
Post Estimation Tests				
F Test (Wald Test)	0.0000		0.0000	
LM Test		0.0000		0.0000
Hausman Test		0.2282		0.9544

t statistics in parentheses
* $p < 0.10$, ** $p < 0.05$, *** $p < 0.01$

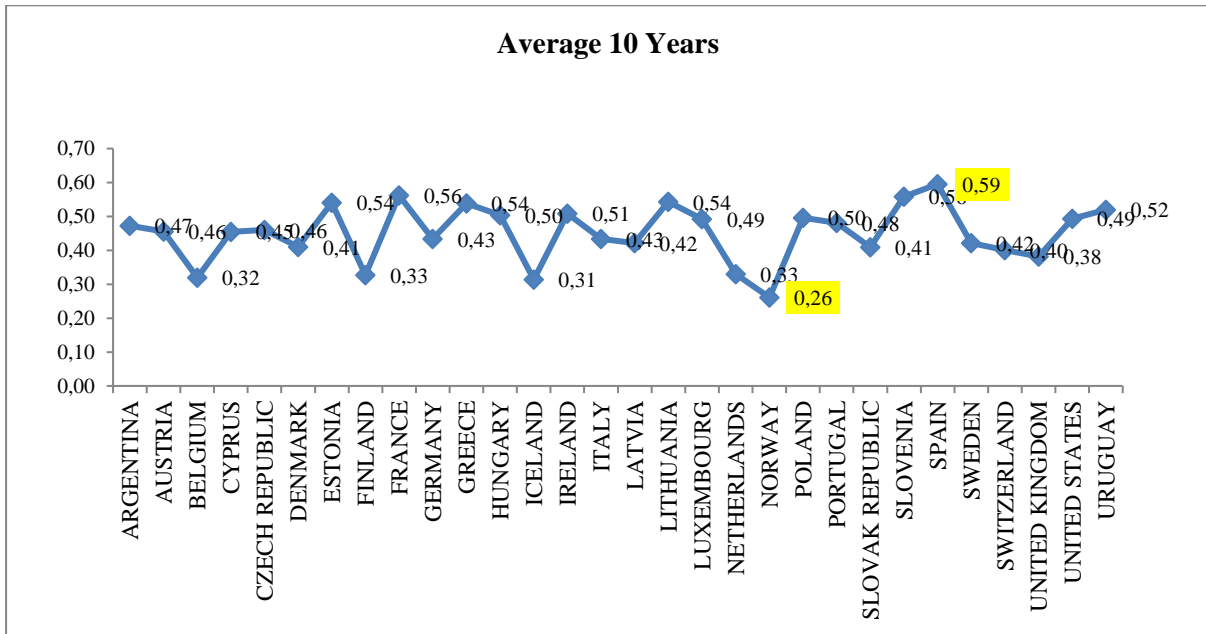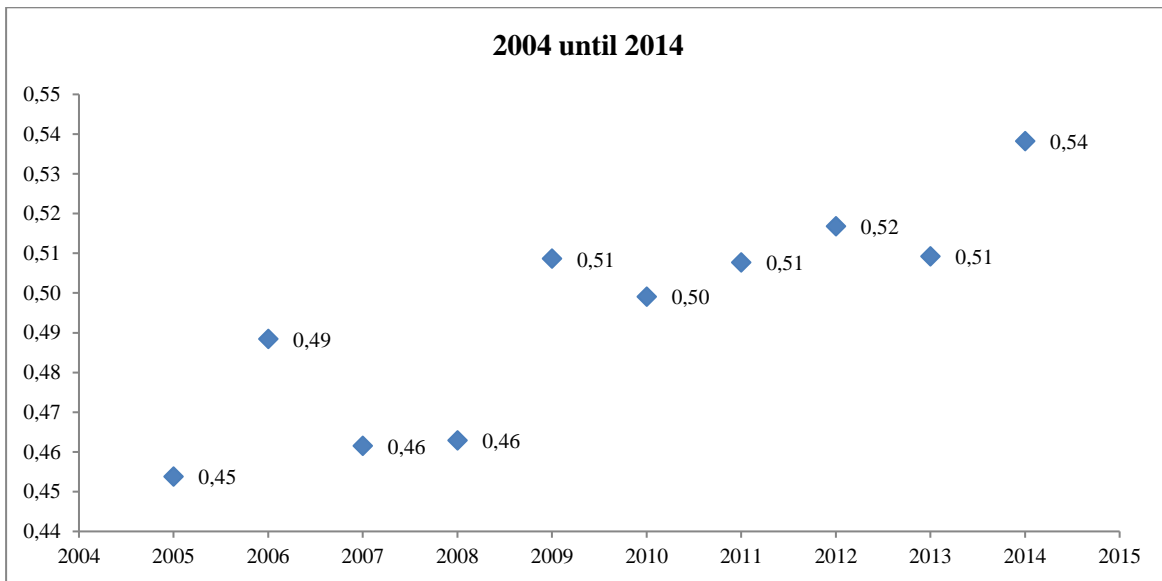Figure 1: SPsc Index by Countries (Developed)

Figure 2: SPsc Index by Year (Developed)
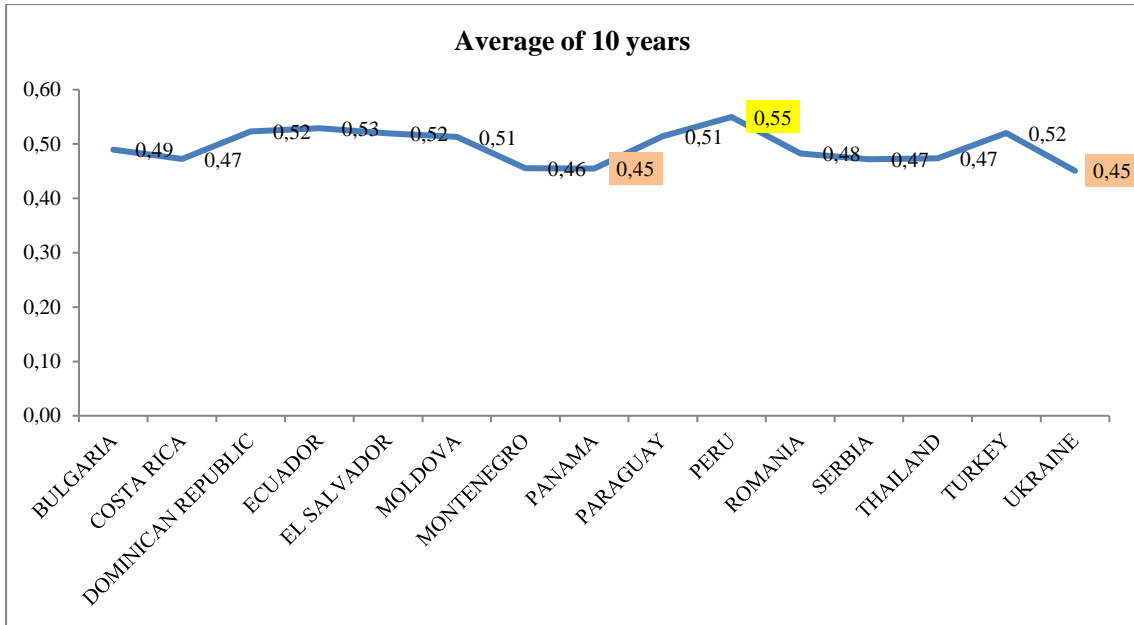
Figure 3: SPsc Index by Countries (Developing)

Average of 10 years

Figure 4: SPsc Index by Year (Developing)

2004 until 2014