

## Social Protection and Economic Transformation: The Case of Mauritius

*“Suppose someone were to describe a small country that provided free education through university for all of its citizens, transportation for school children, and free health care – including heart surgery – for all. You might suspect that such a country is either phenomenally rich or on the fast track to fiscal crisis. But Mauritius, a small island nation off the east coast of Africa, is neither particularly rich nor on its way to budgetary ruin. Nonetheless, it has spent the last decades successfully building a diverse economy, a democratic political system, and a strong social safety net. Many countries, not least the US, could learn from its experience.”*

Joseph E. Stiglitz, “The Mauritius Miracle”, March 2011

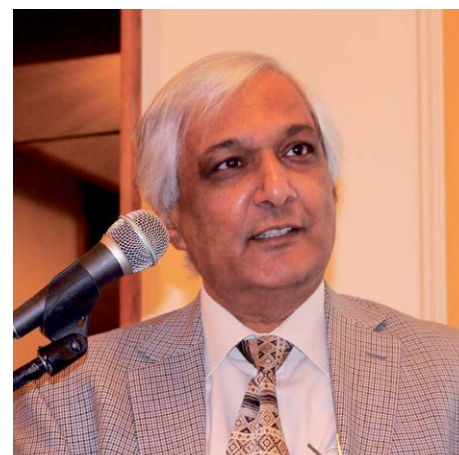
The above quote from Stiglitz aptly describes in a nutshell the Mauritian Welfare State. My paper uses the Mauritian example to illustrate how in practice elements of social protection (especially the concept of welfare state) have contributed to economic growth.

Political commitment towards inclusive economic development is a necessary but not sufficient condition for effective social protection. It should be noted that the Labour Party in Mauritius which formed the first government at independence was greatly influenced by Fabian Socialism. And the foundations for the economic and social transformation of Mauritius were laid by two academics from LSE, namely Meade<sup>1</sup> who elaborated the economic policies and Titmuss<sup>2</sup>

who worked on the social policies that moulded the early development of Mauritius in the 1960s and 70s. They were members of a Royal Commission invited by the Governor of Colonial Mauritius in 1960 to report on measures to be taken to rebuild the Mauritian economy after it had been destroyed by a cyclone in 1960.

This paper will sketch broadly the following:

1. The economic trajectory of Mauritius
2. Social protection measures over time
3. Sustainability of the Welfare State



**Nikhil Treebhoohun**

Chairman,  
Oxford International Mauritius (OIM)  
email: [ntreebhoohun@oxfordmu.com](mailto:ntreebhoohun@oxfordmu.com)  
website: [www.oxfordmu.com](http://www.oxfordmu.com)

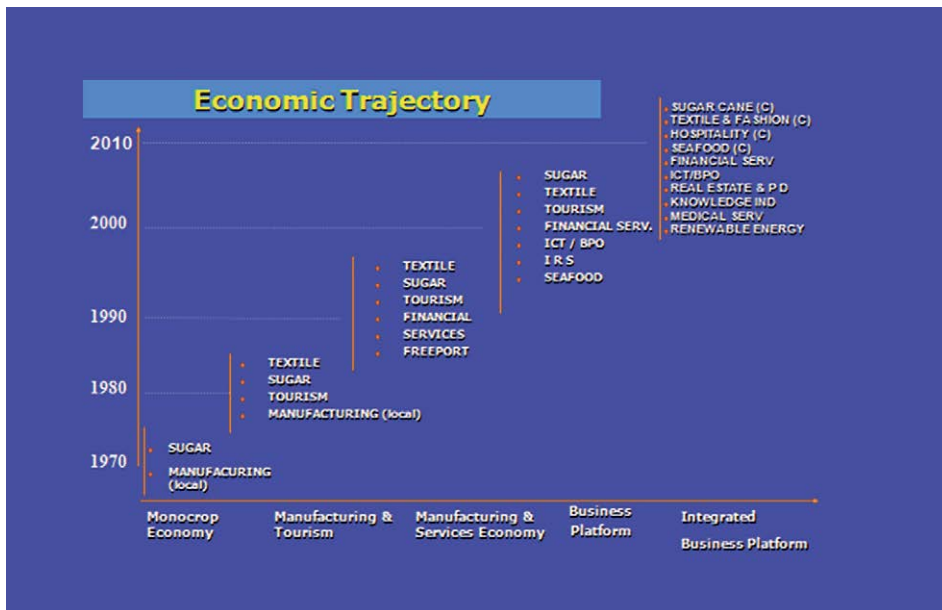
In 2015, SASPEN and Friedrich-Ebert-Stiftung Zambia hosted a high level **international expert conference on Sustainability of Social Protection in Johannesburg, South Africa, Oct 20-21.**

All Conference Proceedings including this brief are available at:  
<http://www.saspens.org/home/en/conferences/sustainability-of-social-protection-international-conference-2015>

1 Meade, J. E., The Economic and Social Structure of Mauritius, 1961

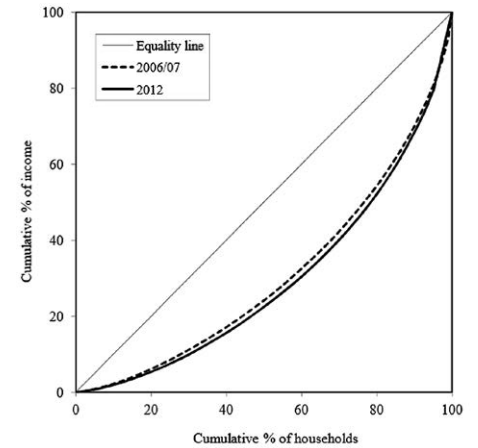
2 Titmuss R.M., Social Policies and Population Growth in Mauritius, 1968

**Figure 1:**  
**Mauritius Economic Trajectory**



Source: R. Makoond, JEC, Mauritius 2011

**Figure 3: Lorenz curves,**  
**2006/07 & 2012 HBS**



Source: Statistics Mauritius, Household Budget Survey 2012

**The Economic Trajectory**

The major transformations over the last forty years can be summed up as follows: **(I) at the national level** – shortly before independence Mauritius embarked on an import substitution industrial strategy aimed at developing a local class of entrepreneurs to diversify away from sugar, and this was complemented by an export oriented industrialisation strategy since 1970 based on EPZ (Export Processing Zones); eventually in the late 70s it had to embark on a structural adjustment programme to ensure policy coherence and to become fully outward-looking while putting in place the necessary institutional framework to ensure effective implementation; **(II) at industry level** – as the WTO era swept in and protectionism started to be eroded, the sugar industry was faced with the prospect

of seeing its guaranteed quota disappear and thus had to restructure to ensure its survival; similarly the textile and garment industry had to transform itself from a producer of low value-added products dependent on labor cost competitiveness into one producing higher value-added products.

Figure 1, sums up the structural transformation of Mauritius from a mono-crop economy to an integrated business platform where services exports are gaining importance. There have been different phases and strategies:

1. Breaking the dependence on sugar (1970–79) by setting up Export Processing Zones as well as encouraging import substitution activities.
2. Focusing on export oriented industrialization, specifically the textile and garment sector (1979–92) as

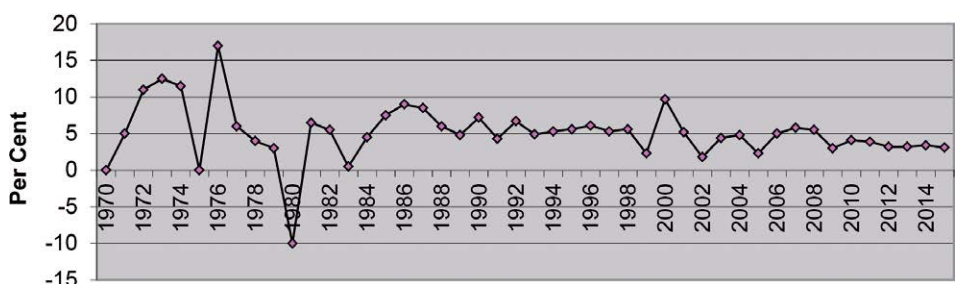
well as implementing structural reforms;

3. Laying the foundations for the growth of a services economy (1990–2012);
4. Looking to the sea (2013), i.e. elaborating strategies for exploitation of maritime resources as the maritime zone of Mauritius covers some 2 million square kilometers.

The growth rate averaged 5 per cent in the 1980s following the structural adjustment reforms and fell slightly to 4 per cent in the 1990s (ref. Fig. 2).

As from 2000 the average growth rate has been around 3.5 per cent. In the early years social protection (free education and health, subsidies on staple food) helped to keep the cost of labour competitive and thus provided a boost

**Figure 2: GDP Growth rate 1970–2015**



Source: Statistics Mauritius, various issues



**Table 1: Share of Income Owned by the Top 1 percent, Worldwide**

	Year	Per cent of income owned by top 1%	Annual growth rate of top 1% income share since 1980 (in %)
Argentina	2004	16.7	
Australia	2008	9.2	2.2
Canada	2010	12.2	1.5
China	2003	5.9	4.7
Denmark	2005	4.3	0.3
Finland	2009	7.5	1.9
France	2006	8.9	0.6
India	1999	8.9	
Indonesia	2004	8.5	0.8
Ireland	2009	10.5	1.5
Italy	2009	9.4	1.5
Japan	2010	9.5	0.9
Mauritius	2011	7.1	0.2
New Zealand	2010	7.3	0.9
Norway	2008	7.9	1.8
Portugal	2005	9.8	3.3
Singapore	2010	13.4	0.8
South Africa	2009	16.6	1.4
Spain	2010	8.2	0.3
Sweden	2011	7.0	1.8
United Kingdom	2009	13.9	2.6
United States	2012	19.3	2.7

Source: Alvaredo and others, The World Top Incomes Database. Available [online] at: <http://gmond.parisschoolofeconomics.eu/topincomes>. Accessed in November 2013.  
Note: Cina: annual growth rate 1986–2003. Indonesia: annual growth rate 1982–2004. South Africa: annual growth rate 1990–2010.

**Table 2: Unemployment in Mauritius, selected years**

Year	1994	1998	2000	2004	2008	2012	2015
Unemployment rate (%)	4.6	6.9	8.8	8.8	7.2	8.1	7.9

Source: Statistics Mauritius, various issues.

**Table 3: Some selected measures of monthly household income**

Measures of monthly household income	1975, 1980/81, 1986/87, 1991/92, 1996/97, 2001/02 and 2006/07 HBS						
	Household Budget Survey						
	1975	1980/81	1986/87	1991/92	1996/97	2001/02	2006/07
Average monthly household income (Rs)	740	2,212	3,496	6,503	10,179	14,232	19,083
Median monthly household income (Rs)	552	1,518	2,663	5,300	7,870	11,150	14,640
Gini coefficient	0.420	0.445	0.396	0.379	0.387	0.371	0.388
Mode (Rs)	469	1,276	2,498	3,959	6,000	6,000	13,340
Semi-interquartile range (Rs)	261	885	1,237	2,367	3,459	5,043	6,670
Half-Median (Rs)	276	759	1,332	2,650	3,935	5,575	7,320
One third mean (Rs)	247	737	1,165	2,168	3,393	4,744	6,361

Source: Statistics Mauritius, Household Budget Survey

to the emergence of an export-led strategy based on the creation of EPZs (Export Processing Zones). However by the late 70s the economy was in a dire strait and the country embarked on a Structural Adjustment Programme with the support of the Bretton Woods institutions. Macroeconomic and institutional reforms were undertaken but basic social protection was maintained.

### Social Protection

The overall approach of consecutive governments to social protection has been to: i. Provide emergency housing and social protection measures to vulnerable groups. ii. Assist vulnerable groups that are making an effort to get out of their vulnerability status (e.g. funding of the laying of slabs for individual households); iii. Reduce the risk of people sliding back into poverty through various measures (Temporary Unemployment

Benefit, Youth Employment Programme and other schemes like Trust Fund Micro-credit Loans, Development Bank of Mauritius Booster loans to assist individuals to start small businesses.)

A few of the social benefits are enumerated here to provide an insight into how vulnerable groups are protected: while the whole population aged 60+ enjoy an old age pension, there is an enhanced basic retirement pension for severe handicap, a Carer's allowance, Widows allowance payable to widows under the age of 60, Orphans and a Child's allowance payable to the children of a Basic Widow's Pension or Basic Invalid's Pension recipient. These are in addition to the general benefits mentioned by Stiglitz in the opening quote.

These benefits have inter alia ensured that income inequality fell over time: While the economy grew, income distribution became fairer as revealed

by the Gini coefficient (0.37 in 2001). However, inequality has been increasing since 2006 as illustrated by the Gini coefficient reaching 0.41 in 2012. Unemployment has been rising - which signals that the time for further macro-economic reforms has come.

## Sustainability of the Welfare State

It is to be noted that Mauritius financed its SP from its own fiscal revenue (ref. study by OIM for the ERD 2015 on the financing of economic transformation which showed that ODA accounted for no more than 12 per cent of budget expenditure). The Private Sector in Mauritius is made to share the burden of financing SP through a Corporate Social Responsibility (CSR) tax of 2%. If government revenue is utilized efficiently (wastage is avoided – every year the Director of Audit reports on huge sums of money wasted) then there is no doubt that SP can be fairly easily sustained. However, the harsh reality is that all these benefits have a significant cost.

For 2012 expenditure on Social Security and Welfare represented 27.3% of total government expenditure and 6.7% of Gross Domestic Product. As Mauritius has an ageing population it is estimated that basic retirement pensioners would more than double to reach 368,000 in 2052 from 169,847 in 2012. Therefore, Mauritius is now confronted with the challenge of defining the extent to which social protection should be provided in a country that is on the brink of attaining

the high income status. Paradoxically, the prolonged global recession as well as the pause in reforms during the last five years has led to low growth, thus effectively reducing the country's ability to sustain the Welfare State in its present form in the long term. There was an attempt at providing old age pensions only to those below an income threshold. However, the government had to back down due to popular pressure fuelled by politicians.

Unfortunately, political commitment to SP can sometimes be an electoral ploy aimed at seducing the poor with populist policies that ultimately keep them in a state of dependence on the politicians (as a lumpen proletariat?). If enough wealth is not created in the country then the government may have to resort to targeting. The private sector is already contributing through the CSR. Therefore, long term sustainability depends on the economy's capacity to grow, to generate jobs, to develop an entrepreneurial culture, to promote good governance and to reduce wastage (*muda*) generally, i.e. to develop a productivity culture.

## Key Lessons

Social protection has helped to make Mauritius competitive during its take-off phase. However, once it has reached a middle income country status, new challenges crop up and the type of social protection provided may need to change. Good macroeconomic management is essential to ensure that the ranks of the

poor and vulnerable are not swelled over time. Indeed, structural reforms are important to stimulate growth, to create jobs and reduce income inequality. Today Mauritius finds itself in a difficult economic situation as productivity has declined, eroding its competitiveness and increasing vulnerability.

### About SASPEN

The Southern African Social Protection Experts Network, SASPEN, is a not-for-profit loose alliance of stakeholders, scholars and consultants who engage with social protection in the SADC region. It promotes the fostering, expansion and improvement of social protection in SADC countries and engages in dissemination and sensitisation by providing platforms for exchange regarding social protection programmes, frameworks, research and consultancies and by creating network structures to link participants with each other and to relevant institutions. Activities of the network may include country workshops, international conferences, seminars, publications, joint research, dissemination of information.

The network aims to provide a basis for (i) sharing of experience and information based on research and in-depth knowledge of social protection issues, (ii) constructive debate, discourse, discussion and reflection among experts and with stakeholders and role-players, and (iii) rendering a range of services to support the promotion, development and implementation of social protection in SADC countries, with reference also to strengthening social protection floor initiatives – on a commissioned, requested or self-initiated basis.

The exchange and interaction within the network is guided by the principles of independence of individual participants, collaboration in network activities, professionalism and objectivity.

**Affiliate yourself to the network online**  
[www.saspen.org/network](http://www.saspen.org/network)



### Southern African Social Protection Experts Network – SASPEN

Lusaka, P.O. Box 30554, Zambia  
[info@saspen.org](mailto:info@saspen.org)  
[www.saspen.org](http://www.saspen.org)  
 ISSN 2412-6055

Commercial use not permitted. Readers are encouraged to quote or reproduce material for their own publications, as long as they are not being sold commercially. As copyright holders, SASPEN and Friedrich-Ebert-Stiftung Zambia ([www.fes-zambia.org](http://www.fes-zambia.org)) request due acknowledgement and a copy of the publication.