ECONOMICS OF SOCIAL PROTECTION – INVESTMENT WITH RETURNS
Focus of talk

• Helping to build a conceptual framework for engaging on social protection reforms
• Contextualise economic debates
• Raise key issues for social protection design
• Attempt to deal with myths (more in discussion than through the slides)
What is social protection about?

• Much of social protection comes down to transferring risk from individuals and families to groups and/or society as a whole
Mechanisms

- Informal family arrangements
- Private commercial schemes
- Private non-commercial schemes
- Regulated private schemes
- Social insurance
- Government transfers to households
Distinguishing between formal and informal social protection/security

**FORMAL social protection**
- Legislated system of guaranteed protections
  - Publicly delivered
  - Social insurance
  - Regulated private delivery
- Redistributive transfers
  - Vertical – via the tax system
  - Horizontal
    - Tax system
    - Insurance
- **Protection is a right**

**INFORMAL social protection**
- Inter- and intra-household transfers
- Private contracts
  - Employees/employers
  - Individual
- Redistributive transfers
  - Vertical – almost nil
  - Horizontal – limited to insurable risk and income group
- **Protection is not a right**
Multiple financing mechanisms for social protection/security

• Depends on purpose...
  – Poverty prevention/alleviation (which requires a transfer from rich to poor)
  – Efficient risk pooling (which compensates for market failure affecting income earners)
Public versus private provision of social protection – issues to note

- Market and government failures
- Natural monopolies and concentrations
- Public goods and services
- Externalities
- Information imperfections
- Redistributive failures
Broad Schematic of Social Security Mechanisms

Social Security System

Contributory
- Private
  - Pensions
  - Incapacity
  - Loss of support
  - Health
- Public
  - Pensions
  - Health
  - Illness
  - Unemployment
  - Occupational injuries and diseases
  - Incapacity
  - Loss of support

Non-contributory
- Cash benefits
  - Means tested
  - Income Tested
  - Universal
- In-kind
  - Social worker support to households
  - Health
What can be guaranteed?

• Regardless of what is promised through a social protection scheme, or how it is financed, can absolute levels of consumption in the immediate or long-term future be ensured
• Only entitlements to a relative share of total present or future consumption in a given society is possible
• The longer the time horizon, the greater the uncertainty about absolute levels of consumption that can be guaranteed
What constitutes an affordability limit for social security?

• The levels of transfers recorded in national statistics do not appear to correspond closely to the economic potential of the different countries

• When (estimated) informal transfers are included the differences are far less

• World-wide informal transfers = roughly 50% of total transfers

• Most formal transfers in Europe

• Only fraction formal in developing world

• No evidence that formal transfers have become excessive
Estimated total transfers and their composition (as a % of GDP), selected regions, early 1990s

Source: ILO
Evidence on redistributive effects

**Figure 1.8** Pre-tax and pre-transfer versus post-tax and post-transfer poverty rates, selected OECD countries, mid-1990s (total populations)

Source: ILO.
Developing country considerations

• Substantial social movement (rural to urban)
• Economic changes modify society
• Economic growth is not equivalent to improvements in welfare – monetisation of economic production may occur with substantial losses in the hidden non-monetised economy
Zambia: population growth is differentiated by province – reflecting a structural rural/urban shift (over 10 yrs)

National growth rate = 18.2%

<table>
<thead>
<tr>
<th>Province</th>
<th>Population Growth Rate</th>
</tr>
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<tbody>
<tr>
<td>Central province</td>
<td>15.0%</td>
</tr>
<tr>
<td>Copperbelt</td>
<td>18.5%</td>
</tr>
<tr>
<td>Eastern province</td>
<td>13.2%</td>
</tr>
<tr>
<td>Luapula</td>
<td>13.0%</td>
</tr>
<tr>
<td>Lusaka</td>
<td>24.3%</td>
</tr>
<tr>
<td>Muchinga</td>
<td>23.5%</td>
</tr>
<tr>
<td>Northern province</td>
<td>16.8%</td>
</tr>
<tr>
<td>North Western province</td>
<td>13.9%</td>
</tr>
<tr>
<td>Southern province</td>
<td>15.6%</td>
</tr>
<tr>
<td>Western province</td>
<td>9.4%</td>
</tr>
</tbody>
</table>
• Economic growth can either
  – Occur within a narrow enclave (leads to long-term social and economic stagnation); or
  – Represent a broad-based general improvement in welfare (leads to more sustainable and inclusive growth)

• Which route is followed is a policy choice
“Normal” level of social protection

• Approximates the overall level of both formal and informal social protection
• So long as formal social protection does not exceed the normal level no structural problems are likely
• However, formal social protection can be poorly designed, with negative results
• Overall the degree of formal social protection is a choice based on prevailing social values, to the extent that they can be revealed at a national level
Do extensive welfare states affect economic performance?

- During 1980s & 1990s the “welfare state” came under political attack
- Neoclassical arguments presented
- Impact on economic performance resulting from these arguments doubtful
- Counter-arguments stress that design is important – SS schemes can have efficiency-inducing effects
Arguments against social protection/security programmes include

- Large welfare states create excessive administrative costs
- Large welfare states give rise to compliance costs and moral hazard
- Large welfare states affect the supply of productive resources
- Large welfare states generate “deadweight losses”
• Large welfare states create rigidities
  – Labour market regulation
  – Social security systems
  – Wage formation process
    • E.g. Minimum wage levels (truncates earnings distribution at a particular level)
    • Restrictions on hiring and laying off
    • Payroll taxes
    • Central bargaining – bargaining power imbalances
  – Employment protection
  – Generous unemployment benefits
  – Openness of the economy
Important to note…

• Income is also expenditure
• Social protection transfers modify the secondary distribution of income
• Can produce more efficient economy through a more balanced distribution of consumption expenditure
• Is a problem only where incentives to engage in economic activity are influenced negatively
Social protection restructures the relationship between households and economic production.
Unblocking complex social problems

- Insufficient incomes/consumption
- Under-developed capabilities
- Food and income insecurity

Barriers to health service access

- Under-supply
- Indirect access costs
- Opportunity costs

Stunting, poor health status, increased stress

Under-utilisation of services

ANC Delivery PNC Nutrition support
Conceptual framework for understanding cash transfers and associated redistributive programmes

Positive social/welfare effects vs Income transfers as a % of GDP

Positive greater than negative effects

Negative effects overtake positive effects
### Zambia – key stats

<table>
<thead>
<tr>
<th>Metric</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Poverty rate</td>
<td>60.5%</td>
</tr>
<tr>
<td>Extreme poverty rate</td>
<td>42.7%</td>
</tr>
<tr>
<td>Total births</td>
<td>647 790</td>
</tr>
<tr>
<td>Births in poverty</td>
<td>391 913</td>
</tr>
<tr>
<td>Births in extreme poverty</td>
<td>274 015</td>
</tr>
<tr>
<td>Urban births in poverty (crude estimate)</td>
<td>73 942</td>
</tr>
<tr>
<td>Rural births in poverty (crude estimate)</td>
<td>295 170</td>
</tr>
<tr>
<td>Urban births in extreme poverty (crude estimate)</td>
<td>35 223</td>
</tr>
<tr>
<td>Rural births in extreme poverty (crude estimate)</td>
<td>218 631</td>
</tr>
<tr>
<td>Approximate number of orphans</td>
<td>1/5 of all children</td>
</tr>
<tr>
<td>Educational attainment</td>
<td>58.7% of formal employees have grades 8-12</td>
</tr>
</tbody>
</table>
Importance of multi-dimensional nature of poverty

• Small number of causes lead to a large number of negative outcomes
  – Short-term distress
    • Reduce access to health services
    • Reduce access to educational opportunities
    • Reduce access to income-earning opportunities
  – Long-term distress - poverty
    • Lack capabilities to access opportunities
    • Lack adequate income to access opportunities
    • Inter-generational transfer of disadvantages
Interventions need to address both short- and long-term distress

- Short-term
  - Income support
  - Services
  - Re-skilling

- Long-term
  - Income support – general
  - Income support – targeted (e.g. periods of high vulnerability)
  - Subsidised education
  - Subsidised health care
Understanding poverty

• Where poverty is widespread and persistent interventions should be structural rather than residual

• Policies that simultaneously address poverty and inequality therefore aim to achieve a structural break in poverty and poverty traps
• Widespread poverty
  – Requires structural interventions
  – Strategies need to be generalised across large groups of people

• Residual poverty
  – Consistent with narrow targeting
Importance of early nutrition

• According to UNICEF the most recent evidence on the irreversible nutritional vulnerabilities arising during pregnancy and for up to two years thereafter have led to a shift in programme focus from children under the age of 5 to the first 1,000 days including pregnancy.

• Nutritional improvements after age two do not lead to a recovery of lost potential.
Unconditional cash transfers

• Unconditional cash transfers
  – Improved child and maternal health
  – Improvements in economic participation
  – Improved health status
  – Improved health and education seeking

• Conditional cash transfers
  – Improved health seeking
  – Improved education seeking
“The key to answering the question as to whether formal social transfer systems are affordable or not does not lie in an abstract analysis of overall expenditure (however tempting that may be), but rather in an analysis of transfer efficiency – that is, whether they achieve the objectives dictated by societal values with the fewest possible resources. If resources are wasted, there are social or economic opportunity costs. The unavailability of those resources for other purposes may have a negative impact on the GDP and hence on the public welfare.” (Cichon et al, 2004)
In conclusion…

• Regardless of the level of economic development, social protection schemes are large and essential to the fair distribution of resources.

• Impacts include:
  – Poverty reduction (both short-term and structural)
  – Fostering economic growth and development
    • Macroeconomic effects (automatic stabilisation)
    • Human development
    • Social cohesion through reducing wide income disparities (both short- and long-term)
• However,
  – Poorly designed social protection schemes can harm development

• Also,
  – Harm may be overstated by vested interests to reverse or prevent social protection schemes

• Therefore,
  – Distinguishing between rational arguments and misinformation requires rigour in planning, maintaining, and proposing social protections schemes
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