Macroeconomic Returns to Social Security

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Chair in the Field of Social Security

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South Africa comparison: percentage of total income earned by the top 10% of income earners

South Africa comparison: percentage of total income earned by the top 5% of income earners

South Africa comparison: percentage of total income earned by the top 1% of income earners

Social protection restructures the relationship between households and economic production.
Market-related work/employment

- Subsistence work
- Unremunerated work
- Leisure

Observed GDP

Unobserved GDP

Total Welfare
Market-related work/employment

- Subsistence work
- Unremunerated work
- Leisure

Observed GDP

Unobserved GDP

Total Welfare
Market-related work/employment

Unremunerated work
Leisure

Observed GDP

Unobserved GDP

Total Welfare
Lorenz curve

Structural increase in social risks

Structural decrease in social risks
Economic returns to SP

- Inequality
  - Reduced social investments
  - Economic growth potential
    - Income/production cycle narrows based on very high income earners

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Social protection pays for itself by reversing the negative externalities of biased economic accumulation.
What does – “who pays” mean?

Correct through both primary (1) and secondary (2) distributions of income

(1) Structure of employment
(2) Explicit income redistribution
Social protection seeks to maximise welfare...

- No trade-off between well-designed social protection and employment/GDP growth
  - SP protects the distribution of income
  - SP protects the distribution of capabilities
- Inequality will increase structurally in the absence of social protection
- Economic development will proceed more normally if overall welfare is seen as integral to the growth process

The distribution of income does not reflect the distribution of capabilities/contribution to output
Impacts on

- Structure of consumption
- Industrial development
- Distribution of human capabilities
- Distribution of welfare/wellbeing
- Political stability

Under normal circumstances the quality of overall social wellbeing is a policy choice and not a function of factors outside the control of governments
South Africa’s Social Security System

System features
- Integrated and coordinated policy platform
- Centralised
- Universal protection
- Risk pooling
- Income transfers

Social outcomes
- Moderate to high risk
- High risk
- Very high risk

Tier 1
- Tier 2
- Tier 4 (voluntary private with no guarantees)

Low income to High income
Balanced Social Security System

System:
- Tier 1
- Tier 2
- Tier 3
- Tier 4

Social outcomes:
- Low risk
  - Tier 1
  - Tier 2
  - Tier 3
  - Tier 4

System features:
- Accountability framework
- Integrated and coordinated policy platform
- Schemes
  - Centralised
  - Decentralised
- Universal protection
- Risk pooling
- Income transfers

Risk pooling
Income transfers
Universal protection
Centralised
Decentralised
Schemes
Integrated and coordinated policy platform
Accountability framework
System features
Social outcomes
System
Low income
High income
END