

# **LSE-IMF Joint Workshop Social Protection in a Changing World**

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## *Event summary report*

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## **Centre for Analysis of Social Exclusion**

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## **Forward**

Driven by factors such as high inequality, perceived unfairness surrounding the gains from globalization and technological change, and anxiety about the future of work, trust in institutions is waning and social discontent is rising. Adding in population aging and climate change, the present moment surely calls for a re-assessment of existing approaches to social protection to better align policies and instruments with these 21st Century challenges.

As part of its strategic focus, the LSE is putting a high priority on research related to the contours of new welfare provision. At the same time, the IMF is re-assessing the nature and extent of its engagement on social spending policies. In Spring 2019, the IMF will present a paper setting out a new strategic framework for engaging on these issues with its member countries to its Executive Board. This is being guided by a growing awareness that social spending is important for inclusive and sustainable economic growth and financial stability, the key focus of the IMF.

Reflecting this convergence of interests, LSE and IMF jointly sponsored a workshop on 'Social Protection in a Changing World'. The workshop convened leading academics working in the field together with representatives from the IMF and the World Bank. The agenda for the day included discussions on emerging challenges, the role and design of social assistance and social insurance, the balance between universalism and targeting, and financing social protection.

The views in this report are those of the authors and do not necessarily represent the views of the International Monetary Fund, its Executive or IMF management.

## Overview

**Tania Burchardt, Centre for Analysis of Social Exclusion, LSE**



### Opening remarks

Dame Minouche Shafik, Director of LSE, observed that social safety nets had on the whole performed well in the immediate aftermath of the 2007/8 financial crisis, partially cushioning many people from the effects of the macroeconomic shock, but subsequent constraints on public spending, supervening on already high levels of inequality and combined with continuing low growth and fears about the uneven impact of technological change, had deepened social discontent and led to a rise in political populism in many countries. She proposed that a **new social contract** was needed, one that reinstated reciprocity and insurance elements of welfare provision, redressed the balance between labour and capital taxation, and instituted effective 'predistribution' measures such as wage floors, investments in education and skills, boosting social mobility, and infrastructure developments in disadvantaged regions. Minouche hoped that LSE would continue to be a central player in exploring the contours of this new contract, building on its rich tradition of research on the design and economics of welfare.

Dr Vitor Gaspar, Director of the Fiscal Affairs Department at the IMF, reminded us that **growth and stability** were at the core of the IMF's mandate, and he observed that these were increasingly recognised as being **mutually dependent on effective social protection**, and investment in

people through health, education and gender equality. High and persistent inequality undermines the sustainability of economic growth, whilst 'automatic stabilizers' including social insurance may be more effective than discretionary policies in mitigating the volatility of the business cycle, and also contribute to sustaining political stability. However achieving sustainable inclusive growth is not straightforward. It depends in part on state capacity: the ability to collect taxes, deliver services and allocate public spending in an accountable and efficient way.

The IMF is currently developing a framework to clarify the scope, objectives, and boundaries of its engagement with countries on social spending, including social protection, across its surveillance, program, and capacity development work, with a view to issuing guidance on how to assess the macro-criticality of social spending. Collaborating with partners will be crucial in this work and today's workshop is one step along that road.

### **Emerging challenges**

Dr Michal Rutkowski (World Bank), Dr Jeni Klugman (Harvard) and Professors Nick Barr and Ian Gough (both LSE) outlined a range of **inter-related social, economic, political and climate challenges** for social protection in the 21<sup>st</sup> century. Many aspects of demographic change are welcome – more people living longer, changing gender norms and increased participation of women in the labour market – but the design of social protection has not kept pace. Similarly, technological change should increase productivity and free people from drudgery, but if the distribution of skills and work is not addressed, the result will be an increasingly polarised labour market with consequential strains on social protection. Informality and insecurity in the labour market mean social protection cannot be based on the presumption of a stable relationship with an employer. Climate change, and climate-induced migration, introduce new requirements for policies to be not just economically but also environmentally sustainable, and highlight new needs for protection. Those affected are often already the most vulnerable: climate change is a 'threat multiplier'.

### **Social insurance and social assistance**

Dr Santiago Levy (Inter-American Development Bank), and Professors Armando Barrientos (Manchester), Camille Landais and Robin Burgess (both LSE) debated the functions and forms of social insurance and social

assistance. The speakers agreed that although social insurance was traditionally associated with income-smoothing and risk-pooling, and social assistance was considered a primary tool for poverty alleviation, in practice inter-dependencies between insurance and assistance and their goals needed to be understood and taken into account when evaluating policies and designing reforms. This includes understanding the **combined incentive effects and behavioural responses**, as well as detailed analysis of (potential) beneficiaries including by age, gender and occupational status. Social insurance is sometimes associated with well-organised interest groups, but expansion of social assistance could also be electorally popular.

The rise in **informal employment** in rich countries, and its continuing prevalence in low and middle income countries, limits the reach of conventional social insurance. Conversely the costs to employers and employees of social insurance are much more visible than its benefits; hence social insurance can itself act to incentivise informality. Santiago argued a new architecture is needed with as large a risk pool as possible, and contributions that are independent of the particular form of employment.

The evidence presented on the positive effects on sustained poverty alleviation of **large asset transfers** and skill development in rural Bangladesh generated considerable interest. Robin observed that the income transfers in existing social assistance programmes are often very small compared to needs and that the magnitude of the asset in this example was crucial; transfers below a given threshold did not enable recipients to achieve 'exit velocity' from poverty.

### **Universalism and targeting**

Professor David Piachaud and Dr Abigail McKnight (both LSE) eschewed the binary distinction between universalism and targeting and instead encouraged us to think about different degrees of universalism and different forms of targeting. Moreover the extent to which social protection is 'pro-poor' depends not only on the transfers themselves but also on how the revenue is raised to pay for them: the progressivity of taxes, contributions and benefits need to be analysed together. Abigail's recent evidence based on analysis within a panel of high-income countries over a period of up to 40 years supports Korpi and Palme's original '**paradox of redistribution**': when net cash transfers are *more* concentrated on lower

income households (i.e. more targeted), reductions in inequality and poverty are *lower*.

A range of explanations for the paradox have been put forward, amongst them the extent to which political support for transfers may be undermined when an increasingly small proportion of the population are seen to be beneficiaries. Political sustainability was one of three criteria proposed by David for the assessment of social protection, the other two being efficiency in reducing poverty (including poverty gaps), and labour market and demographic behavioural effects. Evaluating Universal Basic Income against these criteria produces an unfavourable result: with low poverty-reduction efficiency, potentially damaging behavioural effects and low political sustainability in the face of 'free rider' problems. By contrast, '**tagging**', that is, **concentrating transfers on groups with clearly identifiable characteristics** associated with increased risk of poverty – children, elderly people, those who are unemployed or disability – scores well on David's criteria, and is superior to conventional income-targeting in terms of political support and behavioural effects.

### **Financing social protection**

The final session of the day picked up a number of themes from earlier discussions – the implications of increased informal employment and limited state capacity, the overlapping functions of social assistance and insurance, the joint significance of financing and transfers in achieving redistribution, and the central importance of political sustainability alongside economic sustainability. Each of the speakers tackled different problems and proposed solutions. Dr David Coady (IMF) put the case for consumption taxes as an important source of revenue for developing countries, and argued that they could be combined with transfers based on **proxy means testing** (PMT) to achieve 'progressive universalism'. Although limitations of PMT were acknowledged, these were mitigated if it was used to differentiate levels of transfers rather than to determine eligibility overall.

Dr Barry Herman (New School University) proposed that countries should be able to **ring-fence spending on a social protection floor**, certified by the ILO and IMF and backed by a compact with creditors, for example through a GDP-linked bond. This would insulate the social protection floor against the claims of creditors if and when the country experienced a debt crisis. It could be justified on economic grounds because of the strong

countercyclical benefits of social protection spending, but also on social grounds (embedding the need to meet Sustainable Development Goals) and political grounds (enhancing political stability and confidence in government).

Dr Andrew Fischer (Erasmus University) argued that **external donor-funding** of cash transfer programmes could be problematic. Whilst donors believe they are contributing aid to support social protection floors, and expect a degree of accountability for the programmes they are funding, recipient governments resist the heavy-handed conditionality associated with some previous interventions by international financial organisations and seek to preserve room for manoeuvre to meet domestic political economy priorities. Depending on the consequent adjustments and spending substitutions, the overall effects on poverty can be positive or negative.

### **Reflections on the day**

An encouraging aspect of the workshop was the atmosphere of open and constructive dialogue. Many participants commented on the renewed willingness and commitment that became apparent through the day to **work across traditional boundaries** to tackle the challenges of providing social protection in the 21<sup>st</sup> century. This encompasses disciplinary boundaries within academia - for example, between economics, social policy, development studies and political science - and the boundaries between academia, NGOs and international organisations such as the IMF and the World Bank. It also encompasses the divisions and tensions that sometimes exist within organisations between departments responsible for policy development and the teams charged with implementation in particular countries and contexts. As we develop initiatives to follow up on the workshop we have the importance of these cross-disciplinary, cross-sectoral and cross-functional links very much in mind.

Another clear message from the day was that lack of clarity over concepts and terminology hampers effective dialogue. One person's universalism is another person's targeting (for example, with reference to taxable child benefits); one person's social insurance is another person's social assistance (for example, where contributions are nominal or payments income-related); and the delineation of 'social protection' itself is unclear. Evolving a **common vocabulary and set of definitions** will be an important to ensure future exchanges can be as productive as possible,

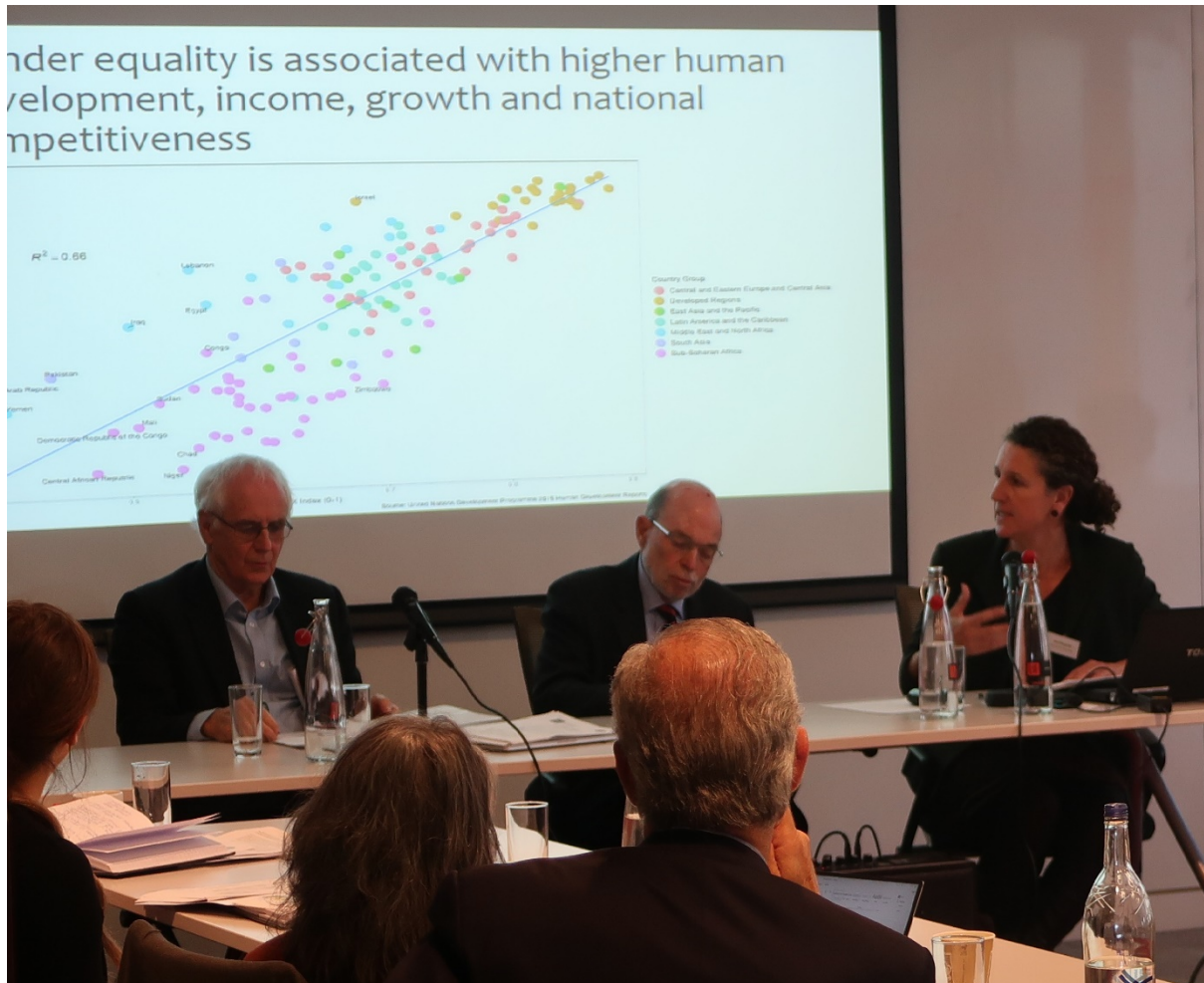


based on a critique of the contents of proposals rather than the labels attached to them.

Finally, and related to both the previous observations, there was striking consensus on the desirability on the one hand of articulating a **clear vision of what social protection should achieve**, and on the other hand, of **avoiding dogma when it comes to identifying the mechanisms** to deliver those goals. Ideas matter, and can set the framework for, and give the impetus to, the identification of new solutions. But it does not make sense to start from a fixed commitment to a particular type of solution – such as targeting or consumption taxes or universalism - given the diverse functions of social protection (poverty alleviation, income smoothing and insurance, human capital development, counter-cyclical macroeconomic effects, and promoting social and political stability to name but a few); given the necessity to articulate solutions with what already exists in any given country, for example recognising path dependencies with respect to existing social insurance schemes; and given that the context of state capacity, social provision (especially of health and education), and labour market policies with which social protection interacts varies so widely from place to place.

## **Session I report: Emerging challenges for social protection**

**Clément Julien, LSE**



*Professor Nicholas Barr, LSE, started the first session of the day with a description of the major changes that western societies have undergone since the post-war era, when social protection systems were first created, and the challenges these present for social protection today.*

### **I. Professor Nicholas Barr: Emerging challenges for social protection.**

#### **• The world now and then.**

When social protection was introduced in Europe, there was one overwhelming type of family structure. People would get married and stay

married and the male bread-winner model was seldom challenged. The nature of work men undertook was also much more homogenous. The vast majority worked full-time in jobs that they would often retain for their entire working lives. Accordingly, the skills they acquired would last their whole career.

Nick discussed how life in advanced economies now holds very few similarities with this picture. The nuclear family structure has been eroded by the steep rise in divorces and parenthood being less closely tied to marriage. Although undermined by persisting gender gaps, a great number of women have entered the labour market (Dr Jeni Klugman's presentation, reported below, delves into the macro-critical consequences of persisting gender gaps). The nature of work itself has become ever more diverse and complex. An increasing number of individuals find themselves working with less conventional contracts (part-time, zero-hours contracts, gig economy, etc.) or are unemployed. Workers are also likely to move across these categories during their career.

- **Implications for social protection.**
- **A more complex labour-market matching problem.**

Greater volatility on the labour market as well as new demands for more diverse and shorter-lived skills makes it a lot harder to solve the riddle of demand and supply of skills. Nick referred to the need for workers to have 'stackable credentials', a term used by Dame Minouche Shafik in her opening remarks – alluding to the idea that training needs to be understood as lifelong learning. Training should be made available with more flexible pathways.

Nick referred to the Scandinavian welfare model as an inspiration, which triggered a reaction from Professor Torben Andersen. Torben emphasised that whilst Scandinavian countries indeed provide good universal protection and focus on supporting the skills of workers, they are very sensitive to levels of employment and face mounting fiscal constraints. He took the example of his home country, Denmark. Over recent years, universality of social protection has been challenged. For instance, restrictions have been imposed on access to unemployment benefits, especially with the 'A-Kasser system'.<sup>1</sup> Torben posed the question of how those claiming that restrictions are necessary due to immigration can be addressed. Professor Joakim Palme, answering Torben, asserted that migration was not a question of economic sustainability but a political one. Joakim pointed out, along with

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<sup>1</sup> <https://www.a-kasser.dk/unemployment-insurance-in-europe/denmark/>

others, that universalism was essential to maintain social cohesion at a time where social and political divisions are rising.

- **Less reliance on contributions related to employment status.**

Nick claimed that linking social protection contributions to employment status is not as relevant any more. He referred to the seminal work of Dr Santiago Levy<sup>2</sup> to highlight the central risk of employment-related contributions: they discourage formal work. As Santiago would explain further in Session II, this has especially been an issue in low- and middle-income countries where informality is very high already.

Nick articulated a basic rule of thumb when it comes to financing social protection: the contribution base (input) should be congruent with the programme/benefit delivered (output). Earnings-related benefits clearly must be contributory. However, they could be improved, perhaps using innovative electronic means such as a smartphone app.<sup>3</sup> By contrast, poverty relief, by definition, requires redistribution from richer to poorer. It should be financed from general taxation such as income tax, VAT, corporation tax, etc. Insurance such as healthcare should be financed not by a tax on formal employment but from broadly-based taxation or a dedicated revenue source unrelated to employment.

**Nick ended his presentation on the need to have a holistic understanding of social protection.** He described today's world as characterised by greater complexity. The hardest task for researchers and policy-makers alike is not to identify risks - risks are well known. The greatest challenge is uncertainty, especially about the interconnections between risks. Some connections are now well-established, but many others need to be investigated. In discussion with Dr Vitor Gaspar (IMF), he added that there was no one model for what a 21<sup>st</sup> century social protection system should look like, because the risks, and existing systems and infrastructure, vary from one context to another. But in all cases, it was important to consider the inter-relationship between social protection and other forms of social provision such as healthcare and education. The magnitude and nature of the problems that social protection needs to address depend on the effectiveness of these other services.

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<sup>2</sup> Levy, S. (2008) *Good Intentions, Bad Outcomes: Social Policy, Informality, and Economic Growth in Mexico*. Brookings Institution Press  
<https://www.jstor.org/stable/10.7864/j.ctt6wpfgq>

<sup>3</sup> <https://www.ft.com/content/567f4684-8084-3f5b-82b0-9a150de7b3a6>

## **Dr Michal Rutkowski: Social protection and changing labour markets: global convergence of the nature of work.**

Michal's presentation focused on the need for a new social contract in the context of the changing nature of work. Michal first deplored that technological change was too often described as the unique driver of change for the nature of work. According to Michal, the disruptive power of technology is undeniable, but many other drivers need to be accounted for (migration, de-industrialisation, social and demographic changes, etc.). Michal offered an optimistic judgement regarding technological change itself. Implicitly relying upon the well-established theory of 'creative destruction'<sup>4</sup>, he discarded the fear of work becoming scarce. According to him, whilst technological progress is likely to destroy jobs, it is likely to create even more as was the case with past waves of technologies. Dr Duncan Green (Oxfam) later challenged his optimism. Stating that the past is not always a good predictor of the future, Duncan asked what the consequences would be for social protection if this recent wave of technology was to be different indeed, and destructive.

Michal then focused on another mega-trend: the changing nature of employment relationships. In high-income countries, as described by Nick Barr, the nature of work is becoming more diverse and labour markets more fluid. In turn, there is wide-spread persistence of informality in low- and middle-income countries. The conjunction of both trends means that there is a slow convergence between lower-income and higher-income countries towards more informal, fluid work and away from the 'standard employment relationship'. Most of the challenges faced by short term or temporary workers, even in advanced economies, are the same as those faced by workers in the informal sector. The main implication is that social protection based on employment is increasingly irrelevant.

Michal's presentation echoed Nick Barr's call to reduce reliance on contributions related to employment status and use innovative ways to collect tax. According to him, when it comes to protecting the poorest in society, financing social protection should draw on the broadest tax-base possible, rather than linked to employment. This suggestion was well-received by the audience.

Michal gave support to the idea that consumption can be much easier to monitor than income and could be used as a proxy in low-income countries

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<sup>4</sup> Creative destruction refers to the incessant product and process innovation mechanism by which new production units replace outdated ones. It was coined by Joseph Schumpeter (1942)

where informality can be as high as 90%. The challenge of bringing social protection to those who remain in the informal sector can also be done ingeniously by using behavioural insights such as automatic-enrolment. He praised India for working on a scheme to provide pension, insurance against disability and death, as well as medical and unemployment coverage to all workers in the informal labour sector.<sup>5</sup>

## **II. Professor Ian Gough: Social protection: the challenge of climate change.**

Ian aimed at broadening the scope of the conversation from fiscal sustainability to environmental sustainability. Ian focused on three main consequences of climate change for social protection.

- 1) The most direct impacts are on habitats. The report from the Intergovernmental Panel on Climate Change (IPCC), released in October 2018, clearly established the likelihood for heatwaves intensity, length and frequency to increase. IPCC also warned against the rise of sea levels and consequent flooding of large areas of land amongst other risks. Ian used the example of the recent devastating effects of Hurricane Maria in Dominica, to warn that extreme weather events in the future would become more frequent, with consequential demands on emergency and longer-term social protection.
- 2) In turn, impacts on habitats have direct consequences on livelihood and human wellbeing. He stressed that the greatest impact is always on the most disadvantaged communities as climate change effectively works as a 'threat multiplier'.
- 3) Last but not least, climate change has indirect impacts on livelihoods and wellbeing. Induced migration is for instance set to become a great challenge, especially as there is no UN recognition of climate refugees so far.

According to Ian, the priority is now to proceed to a drastic unprecedented decarbonisation of the global economy. The later it is left, the faster it will have to happen. However, Ian warned against putting the burden of decarbonisation on developing countries. He advocated for calculations of consumption-based emissions rather than production-based emissions of carbon. Indeed, consumption emissions show that both within and between

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<sup>5</sup> <https://www.firstpost.com/business/govt-working-on-universal-social-security-scheme-aims-to-cover-workers-from-informal-sector-4292247.html>

countries the better off are the ones who have the worse carbon footprint. Ecologists have long used the word 'Anthropocene' to describe the period during which human activity has impacted climate change. Ian preferred the word 'Plutocene'<sup>6</sup> to reveal the unequal sharing of responsibilities between rich and poor. Ian warned against climate policies that risk reinforcing human welfare inequalities. He strongly advocated for global equity to be back on international climate agenda after having been marginalized at Paris' COP21 and by the 'green growth' discourse in general.

He offered concrete policies to attain decarbonization whilst fighting inequalities. For instance, he called for the recomposing consumption. Carbon pricing impacts more on the poor as necessity goods are often more carbon intensive than luxury ones.<sup>7</sup> Adopting social tariffs for energy and water which would lower initial charges for necessary consumption could be compensated by a rising tariff for luxury consumption. In fewer words: lower taxes for low carbon necessities, higher taxes for higher carbon luxuries. Ian then turned to the importance of social protection to increase resilience to these new heightened environmental risks. Ian deemed the IMF definition of social protection too narrow. He called for the IMF to adopt the ILO Recommendation n°202 on social protection floors which prioritises the establishment of national floors of social protection accessible to all in need. Finally, he questioned the assumption of endless growth at the heart of all mainstream economics. In simple terms, he stated that limited resources were not compatible with the concept of endless growth.

Vitor acknowledged that the Fund was still struggling to include climate change within its framework of sustainability. He asked Ian what how he thought it could be included. Ian answered that the mainstream answer to this question is to include climate change in macro-economic models as 'natural capital'. To him this is a weak version sustainability. A stronger sustainability vision would see climate change as a precondition, not a variable in the model. It should have priority over any other, less existential threat.

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<sup>6</sup> Coined by Andrew Glikson in *The Plutocene: Blueprints for a Post-Anthropocene Greenhouse Earth*, Springer, 2017

<sup>7</sup> Gough, Ian (2015, p.9-11) *Macroeconomics, climate change and 'recomposition' of consumption*. PRIME. pp. 1-17.  
[http://eprints.lse.ac.uk/64438/1/\\_lse.ac.uk\\_storage\\_LIBRARY\\_Secondary\\_libfile\\_shared\\_repository\\_Content\\_Gough%2C%20I\\_Macroeconomics%20climate%20change\\_Gough\\_Macroeconomics%20climate%20change\\_2015.pdf](http://eprints.lse.ac.uk/64438/1/_lse.ac.uk_storage_LIBRARY_Secondary_libfile_shared_repository_Content_Gough%2C%20I_Macroeconomics%20climate%20change_Gough_Macroeconomics%20climate%20change_2015.pdf)

### **III. Dr Jeni Klugman: Gender equality and emerging challenges for social protection.**

Jeni started by welcoming the accumulating evidence about the instrumental value of women's economic empowerment. She referred to studies from the IMF, McKinsey and others that show the gains to economic growth from boosting women's labour market participation, especially in aging economies and those where participation has traditionally been low. Jeni alluded to the recent High-Level Panel on women's economic empowerment<sup>8</sup> which stated that gender gaps in the world of work are large and pervasive, as well as persistent. Amongst the main drivers of gender gaps, Jeni quoted unpaid work at home, and the smaller proportion of women in work. Globally, only half of women are in paid work, compared to  $\frac{3}{4}$  of men. She expressed concerns over the fact that the global gender gap in labour force participation has not narrowed over the 1990-2015 period. Whilst the gap has been reducing in developed regions and Latin America and the Caribbean, it has been overshadowed by the increasing gap in Asia. Even when women are employed, they tend to work in low-paid sectors. And within any sector, women have lower pay than their male counterparts.

She stressed how financial inclusion was essential for women for a wealth of reasons. It allows them to accumulate savings and increase spending on necessities. They are better able to manage risk (like job loss or crop failure), start or invest in a business, and fund large investments like education. When women can access and control their own assets, they have greater control in their lives overall.

She acknowledged that the difficulty of reducing gender gaps is that much of it is caused by systemic constraints such as adverse social norms, discriminatory laws and gaps in access to digital, financial and property assets. She nevertheless offered concrete proposals. According to her, the design and delivery of social protection can become more "gender intentional" - something that has been rare among programs to date — and thereby advance gender equality. Jeni highlighted the approach and programs being supported by the Gates Foundation<sup>9</sup>— to digitize, direct and design programs in ways that expand women's financial inclusion and economic empowerment, and thereby contribute as well to growth and broader prosperity.

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<sup>8</sup> <http://hlp-wee.unwomen.org/en>

<sup>9</sup> <https://www.gatesfoundation.org/What-We-Do/Global-Growth-and-Opportunity/Financial-Services-for-the-Poor>



She concluded by bringing back to the attention of the audience that the costs of large and persistent economic gender gaps are substantial and macro-critical. However, she was hopeful that social protection has major potential to help close these gaps. In discussion, Professor Naila Kabeer warned against viewing social protection only as a safety net, or as a sticking-plaster for emergency need in the face of market failures. Instead, she sees market failures as pervasive. Supporting Jeni's presentation, she advocated for social protection to be seen as part of the under-pinning of the market and as a positive investment. She pointed to the growing literature showing the positive outcomes for growth of investment in social protection.

### **Commentary**

The first session unveiled the meta challenges of holding a discussion around social protection. Unclear definition of social protection itself revealed the necessity for academics and practitioners to tighten up their use of key terms. Certain dichotomies were also criticized for impeding debates rather than facilitating them. Professor Robin Burgess warned against the dichotomy between growth and social protection: development is often the best protection for the most disadvantaged in society. According to him, the main challenge is to get people into better employment activity. Michal Rutkowski questioned the classical opposition of universalism VS targeting itself. He insisted that targeting had a role to play, notably as a path to universalism. In a broader sense, he emphasised that social protection financing needs to be tailored more specifically to the nature of shocks and losses, as well as the extent of market failures.

Most of the audience thought universalism should play a larger role in facing the challenges of the 21<sup>st</sup> century. One reason behind this support is the growing realization that the potential of social protection for improving social cohesion cannot be overlooked anymore. Over the recent years, many democracies have experienced the rise of populism and growing divides within the population. From the election of Donald Trump to Brexit, national cohesion seemed to have weakened. Many participants considered that this political context should tilt the balance towards universalism and against targeting which tends to lead to stigmatisation and polarisation.

Finally, Professor Tim Besley highlighted that the first condition to create any social protection system was state capacity. As the co-director of the Commission on State Fragility, Growth and Development, he warned against the lack of realism of the international community in terms of development. He took the example of Yemen, which he thought was

representative of a global trend and the default answer of the international community. In Yemen, the international community set unachievable standards with unrealistic timetables and ended up being completely ineffective in the context of fragility. Tim's comment was welcomed by the audience and reiterated many times throughout the day.

## **Session II report: The Role and Design of Social Insurance and Social Assistance Programs**

**Domingo Hernandez, School of Government-ITESM, Mexico, and Centre for Analysis of Social Exclusion, LSE**

Speakers and topics:

- Dr Santiago Levy, Brookings Institution: Social Insurance in Latin America
- Professor Armando Barrientos, Global Development Institute, University of Manchester: Social assistance in the 21st century
- Professor Camille Landais, STICERD, LSE: Social Insurance Design
- Professor Robin Burgess, International Growth Centre, LSE: Productive Welfare
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### **Global context and challenges**

In a global context characterized by profound technological changes, new scenarios of competition and pressures on traditional labor relations, and increases in the levels of economic and social inequality, interest in the design of social insurance and social assistance programs has intensified. During the 21st century the architecture of social protection institutions has developed, including for example the construction of the Sustainable Development Goals and a large expansion of social assistance provision in middle income countries. At the same time, in lower income countries, the expansion of social assistance programs has become a recurrent

component of the political agenda and a factor in social mobilization (Armando Barrientos).

However, constructing the architecture of social protection involves multiple challenges. These include: the need for a unifying conceptual framework which supports the congruence and integration of an institutional architecture; the combination of social protection and incentives for productivity and growth (Santiago Levy and Robin Burgess); and more evidence to support the design of social protection systems that take into account likely interactions between different insurance and assistance components (Camille Landais). A particularly relevant point is to reduce asymmetries in access to (high-quality) social protection and the political and social tensions associated with it (Santiago Levy). This is especially significant in middle income countries, where the existence of dual social protection institutions generates economic distortions and social tensions, but faces strong barriers to being transformed (Armando Barrientos).

### **Situation, dilemmas and future agenda**

#### **▪ Conceptual framework**

In relation to a conceptual framework, it is helpful to distinguish between the needs that are addressed by social insurance and social assistance programs (Santiago Levy). Social insurance is more related to protection against risks such as illness, longevity, disability, unemployment, and so on. During working life, these often require only temporary or short-term benefits (Armando Barrientos). On the other hand, social assistance focuses on reducing the poverty and vulnerability generated by economic system and commonly implies the use of regular and reliable transfers, generally in the long term. Nonetheless both dimensions are complementary and necessary for the construction of safety nets (Levy and Barrientos).

#### **▪ Dichotomy within social security**

Around the world, access to social insurance depends on workers' status in the labor market. This fact impacts the population covered, the risks against which households are protected, the effectiveness of the coverage and the behavior of firms and workers, with spillover effects on productivity

and growth. This situation is especially noticeable in Latin America, where the asymmetry in social insurance between contributory social insurance (CSI) associated with formal work and non-contributory social insurance (NCSI) creates negative effects on productivity, and incentives for the preservation of high levels of informal and illegal work (Santiago Levy). Countries need to escape from the dilemmas created by the CSI-NCSI dichotomy. Broadly, they need to transit towards unified social security regimes. In fact, there are strong equity and efficiency reasons for “universalism” (Santiago Levy).

- **Work and productivity**

The strengthening of social protection also involves changes in occupations, labor conditions and incentives for productivity (Robin Burgess). This is because social security for workers employed in very low productivity jobs raises the relative economic costs. Jobs with higher productivity mean less expensive social security and more effective anti-poverty programs.

In this way, transfers that enable people to significantly improve their economic activities can be an effective form of social protection, for example through substantial asset transfers (Robin Burgess).<sup>10</sup>

In Latin America, the fiscal costs of being in the formal sector make companies prefer to establish informal and short-term labor relations. This impedes on-the-job learning and reduces the opportunities for training of workers, lowering their productivity and their earnings over their working life (Santiago Levy).

- **Identification of the problem**

From the outset the nature of the problem that needs to be addressed must be clear, for example, the existence of a problem of equal access to opportunity for people with different circumstances or a problem of unequal access to opportunity for people with the same characteristics. This is because depending on the situation one specific intervention of social insurance or social assistance will be the most effective in terms of its social and economic costs and benefits (Robin Burgess). The identification of the problem and the integral evaluation of the possible alternatives of

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<sup>10</sup> Such as BRAC’s Targeting the Ultra-Poor initiative  
<http://www.brac.net/program/targeting-ultra-poor/>

intervention (considering costs and benefits) is fundamental for a good design of social protection interventions (Camille Landais).

### **Design of social insurance and social assistance programs**

From the above, it is clear that the design of a social protection system should be based on a holistic approach, considering the different social and economic dimensions and the evidence available to take decisions (Camille Landais). In the dimension of social assistance, it is clear that large transfers of assets may be required to reduce poverty. The transfers of current social assistance programs are often very small compared to needs (Robin Burgess).

The design of social insurance programs implies trade-offs between the value of transfers and incentive costs. The value of the transfers can be diminished by the existence of incomplete markets, asymmetric information, uninsurable risks and changes in behavior with negative externalities (Camille Landais). Currently the discussion about the design and feasibility of protection systems has focused on their costs, but little on the value of their interventions. More evidence is needed on the value of social security interventions that specifically identify investment and returns in monetary and social terms (Camille Landais). There is empirical evidence that certain types of transfers for social security do not necessarily imply sustained improvements in the beneficiaries' consumption or welfare. The social security design must consider this type of evidence (Camille Landais).

In this sense, the case of Latin America shows the need to consider the incentives implicit in social insurance programs. Who qualifies for what? Who pays for what? How do households, firms and workers react to those rules and differences in revenue sources? (Santiago Levy).

Debate centers on the architecture of social insurance, not on individual programs. An integrated view that ensures incentive compatibility across all programs is essential. We need to go beyond the usual impact evaluation of individual programs and develop a view of how all the pieces of the puzzle fit together (Santiago Levy).

## **Session III report: The Balance Between Universalism and Targeting**



### **Andrea Brandolini, Bank of Italy, DG Economics, Statistics and Research\***

The idea of Universal Basic Income (UBI) goes well back in time but has been put into practice very rarely and never on a national scale – not even “partially”, at a level below the poverty line. The recent surge of interest, which also involves international organisations, stems from the view that UBI could offer the modern response to radical social and economic changes brought about by demographic trends, globalisation, and digital revolution. As explained by Professor David Piachaud, up to now real-world welfare systems have instead relied on some forms of “targeting”, at either income (means-testing) or specific socio-demographic groups (tagging), or a combination of both. Which approach is to be favoured depends on the evaluation criteria: efficiency in tackling poverty and behavioural effects in the labour market or in demographic choices, but also political sustainability, because without political support nothing will endure.

Income targeting must cope with the difficulty of ascertaining incomes, both conceptually and in practice. One needs to account for the pooling of income within the unit of assessment and its volatility over time, which is a particularly serious problem for agricultural labourers but also for the gig economy workers. If perfectly implemented, means-testing would in principle ensure that the whole spending goes to those in poverty. In practice, however, it suffers from two opposite drawbacks: on one side, the take-up by those who are entitled to the benefit may be low; on the other side, the benefit could be paid to people who are not entitled to receive it.

A further weakness of means-testing is its damaging impact on people's behaviour through the creation of poverty traps. These arise when support ends at the poverty level which implies a marginal tax rate of 100% above this level, although corrections may be adopted through well designed tax allowances.

Tagging is common for certain population categories (children, elderly, unemployed, disabled people). Each of these groups tends to have higher poverty rate than average in absence of income support, but some people in these groups are not poor. The efficiency of tagging in reducing poverty is then partial, and depends on how poverty is concentrated in targeted groups. Behavioural effects tend to be low, at least when tagging is based on categories which are readily observable such as age and disability.

UBI is attractive because it is simple to administer, while providing everyone with some income, although only a "full" UBI set at the poverty line would be sufficient to live on. On the other hand, since it covers the entire population, it treats poor and non-poor identically. Hence, it is far more costly than any existing social protection scheme: if UBI is set at 50% of average income and an additional 20% is needed to finance remaining government expenses, the flat-tax rate should be as high as 70%. Disincentives to work may be considerable when UBI is set at a very high level.

For any scheme, political support reflects people's willingness to pay for it as well as their views on whether its recipients "deserve" it. Willingness to pay depends on the cost (relative to earned incomes), the perceived risk of needing the benefit at some time in the future, and the opinion on the fairness of the system. What causes poverty (external forces vs. personal responsibility) and the degree of solidarity or identification with recipients matter instead for identifying those who are seen to deserve the benefit.

Political support for income targeting is likely to be mixed: most support some level of minimum protection, but few accept it to go to those judged undeserving. Support for tagging is generally high for children, who are seen as not responsible for their conditions, and for the elderly, owing to the respect for old age and the common expectation of growing old; it is somewhat weaker for disabled and unemployed, depending on the nature of disability or the circumstances of joblessness. The political support for UBI is far more controversial, because it is based on a notion of desert that ignores the role of responsibility. Few are likely to support a full UBI for able-bodied persons who choose not to work (e.g. van Parijs's surfers).



The assessment of the effectiveness of alternative schemes cannot be limited to theoretical considerations but must be based on empirical analysis. Sometimes, this may lead to unexpected conclusions. A case in point is Korpi and Palme's "paradox of redistribution", whereby universal cash transfers might be more effective than targeted ones at reducing inequality and poverty. Some recent research (Marx, Salanauskaite and Verbist; Kenworthy) challenge these findings, but Abigail McKnight's results support Korpi and Palme's original conclusion by estimating the relationship between concentration of cash transfers on the poorest households and inequality and poverty reduction within a panel of countries over time, rather than simply looking at the relationship across countries at a point in time. Irrespective of the specific conclusion, the frame and limits of the empirical analysis must be clearly defined.

The digital revolution might cause considerable net job destruction, but it would be mistaken to think that social protection can alone protect against being rendered useless. There is an urgent need of a more encompassing approach, which focuses also on policies that shape the distribution of employment. Despite recent interest, UBI is not the only way forward: all policy options need to be assessed in terms of their relative effectiveness in tackling poverty and their political sustainability. On the other hand, political support is itself endogenous and is likely to be influenced by the operation of an adopted scheme: for instance, the more benefits are targeted, the more the principle of solidarity might be eroded, potentially weakening the case for social protection.

\* The views expressed herein do not necessarily reflect those of the Bank of Italy or the Eurosystem.

## **Session IV Report: Financing Social Protection**

**Dr Thomas Stubbs, Royal Holloway & University of Cambridge**



### **1. Dr David Coady, Fiscal Affairs Department, International Monetary Fund Financing social spending: an overview**

David began by emphasizing the need to examine financing (i.e., taxation or other revenue sources) and social assistance transfers together. For David, attention is warranted on the financing side for at least three reasons: it can affect income distribution as much as the transfer side; it can undermine fiscal and macroeconomic sustainability; and it can crowd out future poverty reduction strategies, such as human/physical investment. Yet, financing possibilities and the appropriate policy mix will differ across advanced, emerging, and developing countries.

David's conceptual model drew upon insights from optimal taxation theory, which was then compared against what we see in practice in advanced and developing economies respectively. According to David, advanced economies typically feature the following: progressive income tax (with tax allowance thresholds); consumption taxes; a general minimum income

programme with benefit withdrawal as well as in-work benefits (e.g., US Earned Income Tax Credit and UK Family Credit); and a series of excise taxes (e.g., fossil fuel energy, alcohol, tobacco, sugar). In developing economies, there are important contextual differences in the ability to yield revenues, including a large informal sector and low administrative capacity. Nevertheless, a combination of policy instruments can approximate what, under the assumptions of the model, would approximate an optimal income tax schedule: progressive income taxation with a high exemption threshold; consumption (including excise) taxes; and categorical benefits (e.g., child benefits, social pensions, disabled, proxy-means tests, and so on). However, an issue with categorical benefits is the trade-offs it entails with regards to poverty impact and coverage of the poor. For instance, if a government expands transfers, then there will be less funding for education and health spending.

David referred to empirical data on revenues showing steady progress in developing countries in the last few decades. Most of the average increases in revenues as a share of GDP came from value-added tax (VAT) and personal income taxes, which are the largest sources of revenue and contribute comparable amounts, whereas trade taxes have declined as a share of GDP. In high-income countries, income tax is the largest contributor to revenues.

Based on the data, VAT was at similar shares of GDP for advanced and developing countries, which for David emphasized the need to maintain VAT levels in low-income contexts. He subsequently made the case that uniform consumption tax and flat transfers can make great strides in redistributing income from the highest income deciles to the lowest deciles. David also outlined a path towards universal social protection: 'progressive universalism' based on expanded proxy-means testing (PMT). He acknowledged limitations of PMT, such as substantial undercoverage of poor, issues of horizontal equity, and the structural nature of regression; as well as the trade-off in introducing higher cut-offs to reduce undercoverage, which have fiscal implications and still do not address horizontal equity. He proposed using PMT to differentiate *levels* of transfers, rather than on *eligibility* for uniform transfers.

David concluded with key messages for social assistance as follows: fiscal redistribution requires targeting, on the tax and/or transfer side; and that optimal fiscal redistribution can be approximated with progressive income tax, consumption taxes and means-tested transfers. He identified the main

challenges in developing economies as conducting means-testing of transfers where there are large informal economies and limited administrative capacity. This is because categorical targeting involves trade-offs (undercoverage/leakage and fiscal cost), and although PMT can improve this, issues of horizontal equity will remain—but this can be partially overcome by PMT on transfer levels rather than eligibility. He caveated that ultimately choice will reflect social preferences and constraints, and that policy advice and evolution should therefore reflect these (i.e., implying country-specific social assistance policies that change over time).

## **2. Dr Barry Herman, New School University, New York**

### **The place of social protection floors in macroeconomic and debt policy**

Barry began by noting it is essential that an economy is growing, and that prospects will be good if macroeconomic stability is achieved, underpinned by five key targets: a tolerable rate of inflation, realistic real exchange rates, a sustainable fiscal situation, no large currency mismatches, and adequate external reserve level (possibly with capital controls in place). Out of these, he emphasized that the main threat to macroeconomic stability is a sustainable fiscal situation.

With this threat in mind, Barry proposed a novel *ring-fenced* minimum social protection floor for transfers and services (with the assumption that governments want to deliver this). The rationale for ring-fencing the outlays are: first, social reasons, because the ILO, the UN, and civil society organisations all take seriously the human rights obligations to provide social protection; second, economic reasons, in that automatic stabilisers can ensure that payments can increase in times of economic stress or in disaster response; and, third, political reasons, to ensure confidence in the government and appease donors in striving for SDG 1.3. With regard to political reasons, Barry highlighted a recent salient case where the IMF entered Mongolia and proposed cuts to its child benefits programme. This has political consequences: reneging on commitments to social protection projects is a major danger for political disruption (as the IEO highlighted in their report on social protection).

Given these reasons, Barry envisaged a compact with creditors so that when restructuring of debt is required (e.g., when the country is in a debt crisis), then there is an agreement that social protection floors will not be affected during this period. Such a compact with creditors would also pre-

empty arguments made by—among others—vulture fund managers that the beneficiaries of debt relief are often corrupt or incompetent regimes that squander their nations assets and then cry poverty to avoid legitimate debts (i.e., because the ring-fenced social protection floor directly assists the poor). He proposed that the specific form of the compact with creditors could be via a GDP-linked bond. It could be pre-agreed with creditors that when GDP falls, the amount paid to creditors falls, thereby releasing government resources for social spending floors. Debt would in turn be re-profiled and paid later. Barry also gave consideration to how governments can ensure the programme is sustainable. For example, he proposed a commodity producer, such as Chile (i.e., copper), should have a social protection fund that money is put into during boom times, and is drawn from during crisis times. Finally, Barry posed the question of whether or not creditors will believe that the government has a credible commitment to maintain the social protection floor. He proposed a pre-crisis certification procedure, as by the IMF and ILO jointly in some form, to ensure buy-in of creditors to accept potential losses or delayed payment of debt servicing due in socially difficult times. Periodic re-certification would also occur, via IMF Article IVs and through ILO social dialogue.

### **3. Dr Andrew M. Fischer, Erasmus University, Rotterdam** **External financing of social protection**

Andrew examined the political economy of social policy protection and, in particular, donor-funded cash transfers. He challenged the conventional wisdom that sources of financing for social protection *can* be sourced externally—such as through aid, royalties, debt, mineral rents, reserve—based on the fact that the dominant macroeconomic constraint is supply of foreign exchange.

Aid, for example, represents a source of foreign exchange and is absorbed into domestic economies via trade deficits. Here, donor funding may be notionally going to social protection spending. The typical channel is that the foreign ministry that receives the grant money sells it to the central bank in exchange for domestic currency, which is then added to their spending. The central bank can then practice sterilisation to deal with the monetary effects of that inflow, or they can build up reserves to deal with foreign exchange effects of that inflow (although in the current period there has been no need for this because aid flows are small relative to total financial flows). The advantage of aid in that transaction between the foreign minister and central bank is thus that the government can have monetary expansion without building up debt to the central bank (although

the same could be achieved domestically without the foreign exchange via quantitative easing).

With the channelling of foreign exchange into the economy, the donor thinks they are contributing to social protection floors, and expects a degree of accountability and transparency for programmes they believe they are funding; but recipient governments wish to protect policy and sovereign space. Andrew highlights some insights coming from research on the ground in terms of how finance ministers and central banks balance these issues.

One insight is that it is difficult for donors to trace social protection funding because it comes from budget support and programme lending, not through sectoral project lending. Yet, foreign ministries had a perception of budget support as a resurrection of structural adjustment programmes, with more conditionalities attached, and was thus something they wanted to move away from. For instance, in Paraguay an Infrastructure Business Group (IBG) financing of the cash transfer programme had 24 triggers in an effort to trace the money and ensure it is spent in a certain way. In Africa, conditionality around social protection begins with HIPC (Heavily Indebted Poor Country) and PRSP (Poverty Reduction Strategy Papers) processes, and is the basis on which social protection programmes were designed. Another issue is that donors look for increases in spending on social protection based on the amount of aid provided, but not for the substitution effect—reductions in government spending in other areas. The IMF encourages substitution in the sense of reducing subsidies to increase social protection programmes, so there is no net effect except in terms of efficiency. It raises the question: is aid actually being assigned to the social protection?

Third, there are also different perspectives on the role of external financing in social protection programmes. Donors approach it as development partners that are supporting government policies, whereas government foreign and finance ministries are more focused on the external balance. Acquiescing to donor demand was seen as a way to mobilise these grants to reduce the foreign exchange deficit. For instance, in Ethiopia, when the IMF suspended a program and international borrowers and donors were withdrawing, concerns of DFID (Department for International Development) were around fiscal sustainability—whether the government would match the funds being withdrawn. The Ethiopian foreign ministry was

instead concerned with how to maintain the foreign exchange to maintain their import intensive development strategies.

Last, finance ministries' main issue is not a domestic resource constraint but a foreign exchange constraint. In many cases governments maintain their own priorities. For example, in Cambodia what is important for the government in political economy terms is working class mobilisation of the textile workers, so they subsidise minimum wages. When political economy factors are aligned to support particular programmes, money can be found domestically to support it. In Zambia, the country went through a currency crisis so did not spend half the money assigned for a cash transfer programme; but in the meantime was spending four times as much money on a farmer subsidy programme. For Andrew, it highlights the superficiality of a lot of these programs pushed by the international community with respect to the political economy challenges embedded in domestic contexts, which are important for sustainable development of social protection programmes.

### **Open Roundtable Discussion**

A number of discussion points were raised around David's presentation. First were issues related to donor funding of social protection. In Ethiopia when donors pulled out in 2006-2008, donors still wanted to introduce social protection programmes. The donors thought they would not be financing the government through these programmes, but did so indirectly through aid substitution effects (cf: Andrew's talk). In addition, donor funding for social protection is often assigned to pilot projects, which is problematic because it has an endpoint. Second, with regards to the SDGs, the additional spending necessary for countries to achieve these goals (e.g., universal social protection) was quoted as around 20% of UK's GDP per year. So either low income countries will not achieve these goals by 2030, or they will need assistance to do so. The help will need to be transitional, as they will eventually need to fund social protection domestically. There is also a question of good will of the community can be deployed to that end. Third, David noted the importance of information about the spending. In low income countries it is a major issue, and programs need to have a serious attempt to improve information on spending allocation and the efficiency of spending. In addition, David clarified proxy means testing as a response to the information problem: incomes, especially at the bottom of the distribution, are typically unknown. Proxy means testing uses a regression model based on known information (e.g., number of children) to determine eligibility, but can give rises to

problems of horizontal equity. While eligibility can be relaxed to lessen the problem, the trade-off is a larger budget or lower transfers to the poorer people.

Discussion also considered points from Andrew's presentation. First, the importance of understanding the incentive structures of governments was highlighted, as it can exacerbate concerns around transparency by the donors. Second, it was noted that the Ethiopian state has a genuine developmental vision, but is struggling to sustain it as China and donors are withdrawing. As the model is dependent on high trade deficits, if sources dry up it gives greater power to external actors with sources of foreign exchange. Ethiopia had achieved high growth, but in a context where the balance of power was with foreign investors and less so the donor. Third, the lack of domestic resource constraint was raised in regard to Paraguay: the big five soya companies receive massive subsidies that are many times the social protection funding which the government struggled to finance, but the domestic political economy means these subsidies are politically difficult to remove.