Using efficiency to build equity: The case for global social protection

The Problem

- 5.1 billion people without access to social protection

- The policy focus is on providing a social protection floor, which is linked to “the principle of leaving no one behind”.

- The focus is on helping people cope and exit poverty.

- The reality is that poverty is driven by vulnerability and inflows of previously non-poor that cannot cope with external shocks in the absence of social security.

A Theoretical Solution

- That is consistent with First and Second Welfare Theorems

- That is consistent with principles of social justice in a liberal egalitarian sense.
  - Emerging political consensus evident in shift away from utilitarian principles of maximising outcomes for the greatest numbers, to prioritising protections for the least advantaged.

Benefits

- Stops inflows into poverty
- Makes spells in poverty shorter
- Builds capacity in states
  - Institutions and systems
  - Legitimacy and social trust
  - Create capacities to build national social insurance funds to generate income for the state
- Over the longer term, has the capacity to reduce dependencies on social transfers

Potential objections

- Reinforces existing social inequalities and unequal power structures
- Deepens vertical benefits from social security, benefiting the most advantage
- In conflict with development principles to target the least advantaged

Flow Analysis of Poverty

$$\Delta S_t = I_t - O_t$$

- Dynamics of Poverty:

Vulnerability leading to Inflows, I_t .

Outflows of various durations O_t. Transitory (short spells) and structural poverty (long term spells),

Annual flows dictate the change in the level and composition of poverty ΔS_t.

- Preventing inflows, or inducing outflows of various duration, can target very different problems and groups of households.
- Issues of Social Security V Social Transfers
- Lack of Social Protection is not just an issue for the bottom billion but is a possible outcome for 5.1 billion.

Flow Analysis

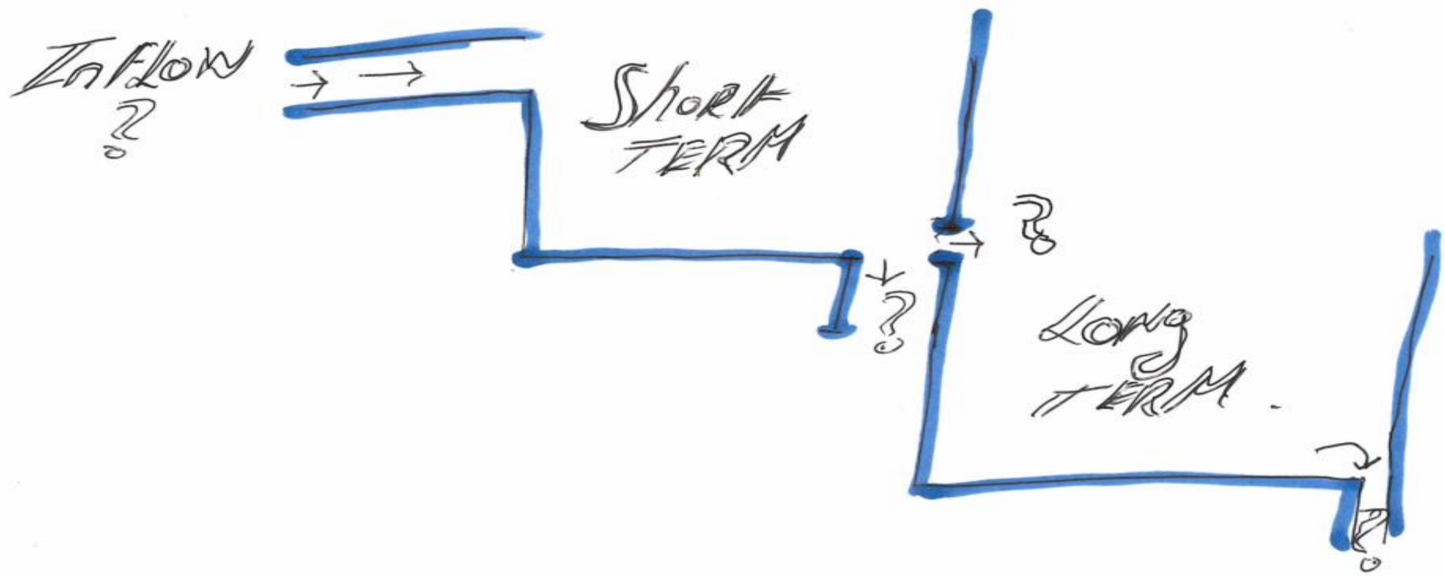
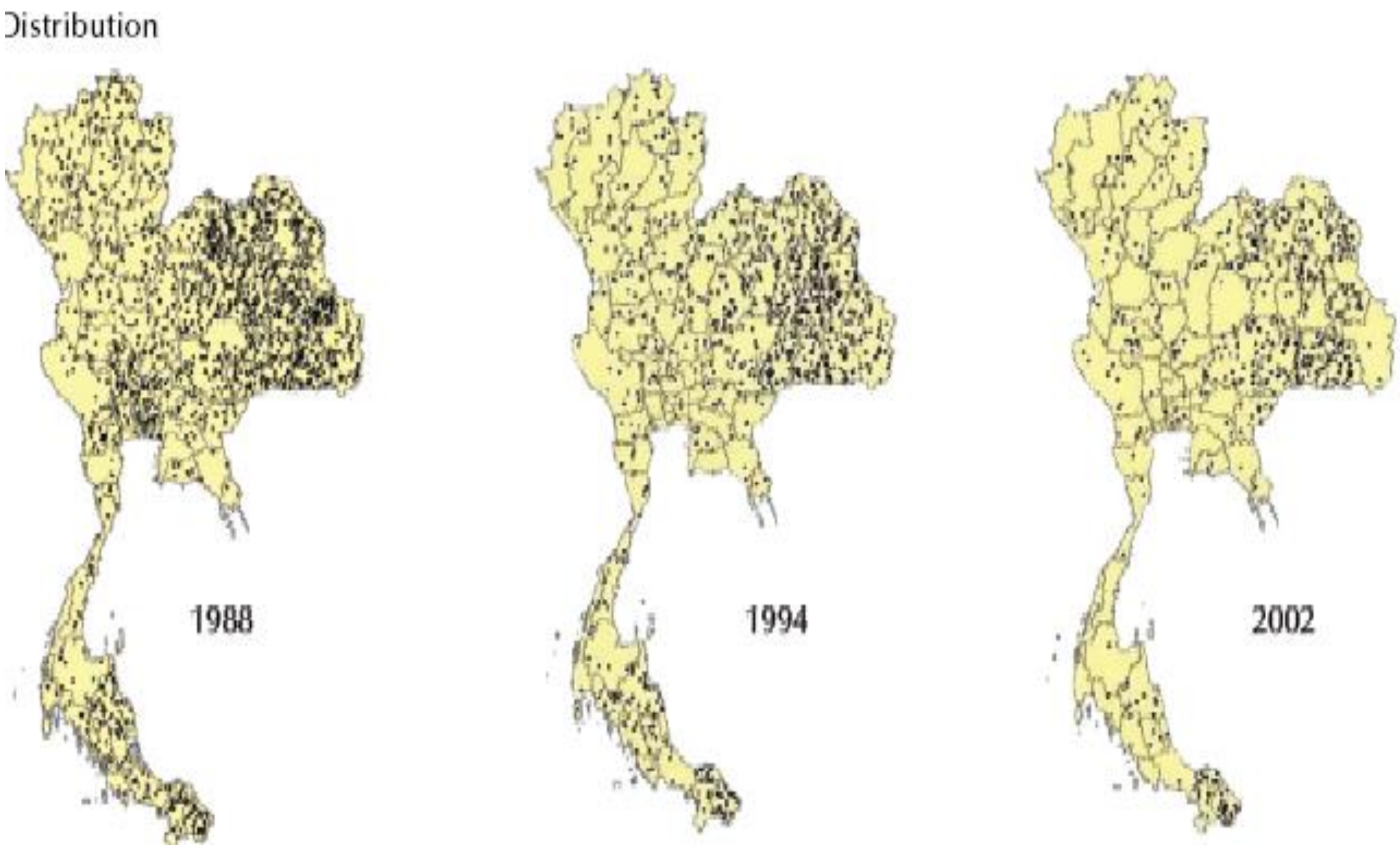


Table 1.1 Percentage of households who are: always poor, sometimes poor, never poor

Countries	Years	Always poor	Sometimes poor	Never poor
China	1985–90	6.2	47.8	46.0
Côte d'Ivoire	1987–88	25.0	22.0	53.0
Ethiopia	1994–97	24.8	30.1	45.1
India	1975/76–1983/84	21.9	65.9	12.4
Indonesia	1997–98	8.6	19.8	71.6
Pakistan	1986–91	3.0	55.3	41.7
Russian Federation	1992–93	12.6	30.2	57.2
South Africa	1993–98	22.7	31.5	45.8
Viet Nam	1992/93–1997/98	28.7	32.1	39.2
Zimbabwe	1992/93–1995/96	10.6	59.6	29.8

Source: Cited by Subbarao, 2002. While the data for this study was collected some time ago, the essential point that this table conveys is unchanged – that a large proportion of people fall in and out of poverty.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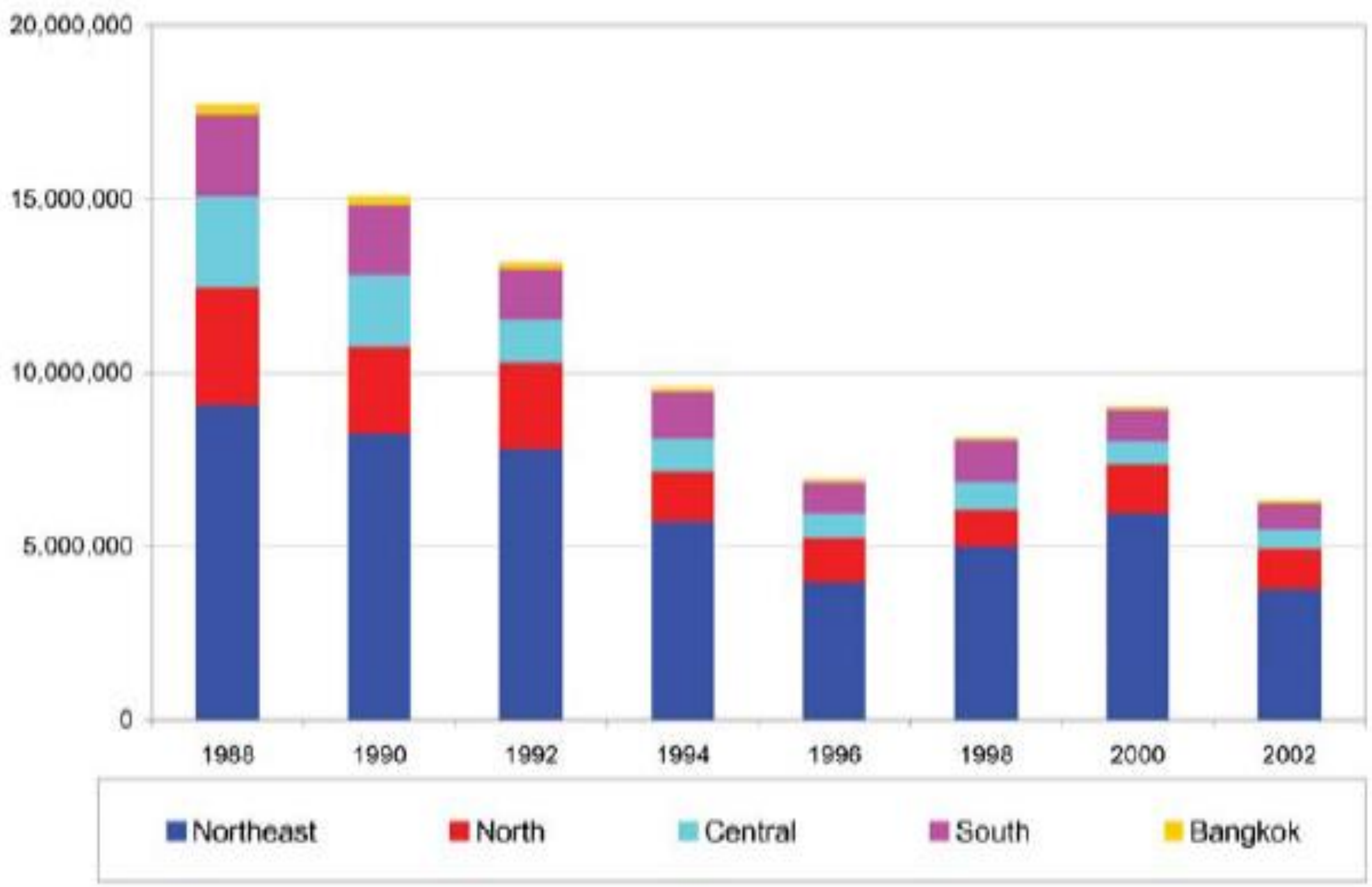
1988
1994
2002

Figure 2: Number of Poor, 1988 to 2002



Theory

- Theoretical issues around efficiency and equity.
- First and Second Welfare Theorem.
- Exploiting existing inequalities in the distribution of assets and unequal risk exposures to run an insurance market that mitigates asset loss with Pareto efficient outcomes - Creates asset security.
- Social transfers and public goods can also changes in inequality that are also Pareto efficient.
- Yet protecting assets/incomes with insurance creates a tax base, and Social Security Fund, that can finance social transfers and the roll out of public goods.
- The latter suggests building the system from the top and the bottom of stairs simultaneously.

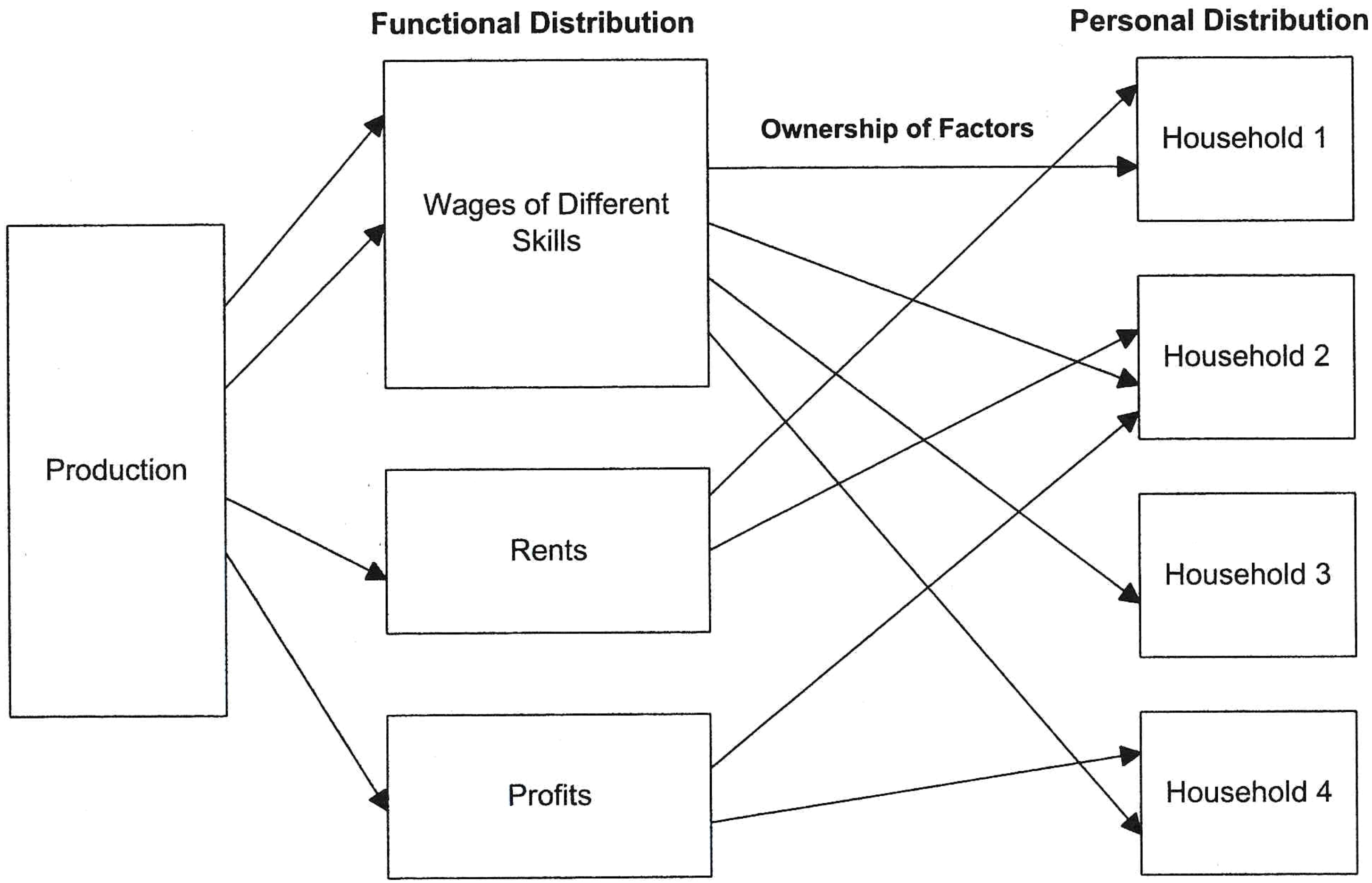
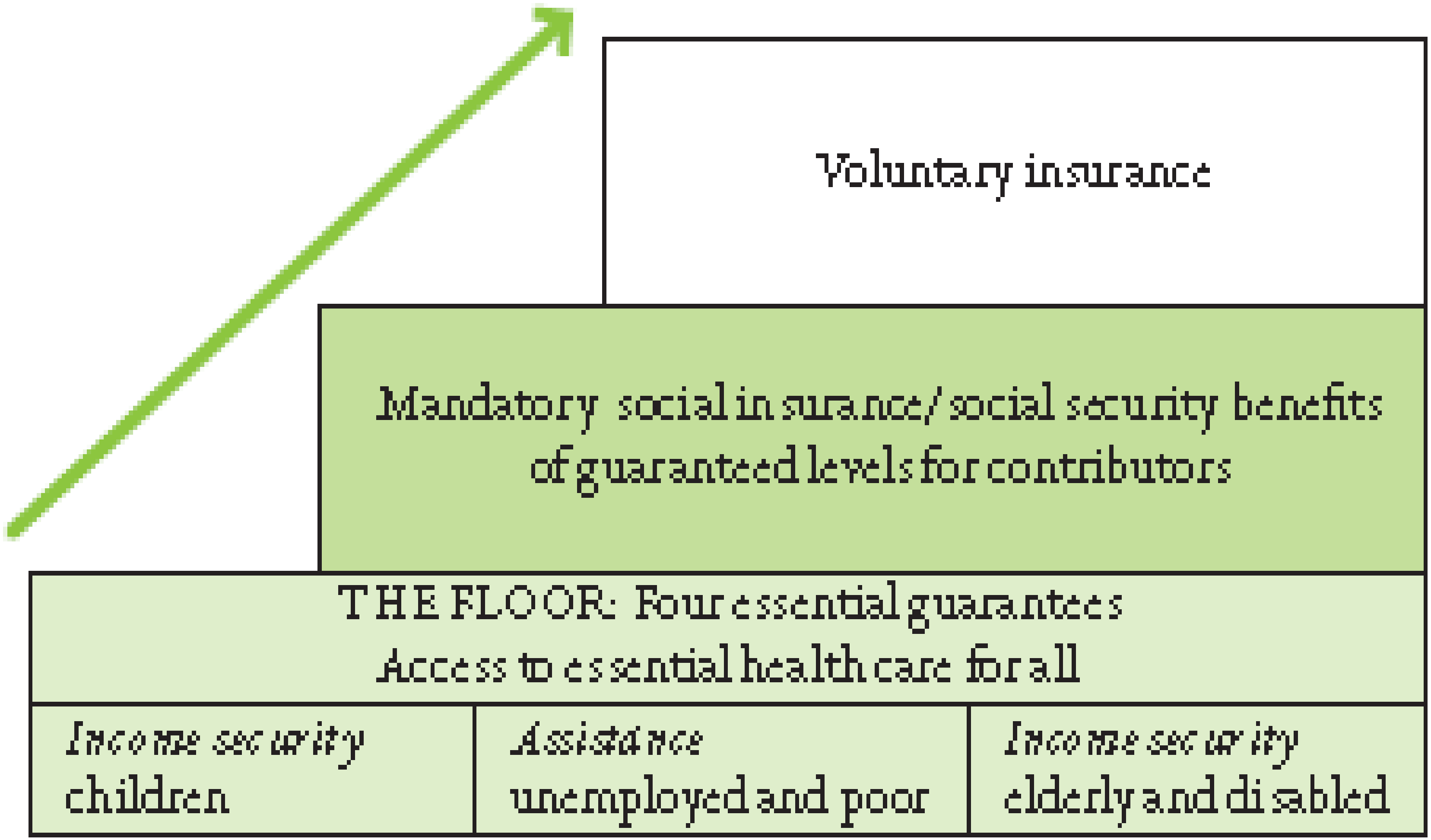


Figure 6.1. Functional and personal distribution of income.

Figure 2.2 The social security staircase



Towards a Global Social Security and Protection .

- Global Social **Insurance** (private contributions) that exploits differences in demographic structures and incomes and their different exposures to common risks.

- 10 per cent of Global GDP in PPP constant prices to fund full suite of social **protection** mechanisms

We propose harnessing natural inequalities (in age, capacities, ability to contribute, and preference for insurance) to reduce social inequalities (gender, resources, and opportunities) thereby prioritising the protection of the most vulnerable and ensuring that no one is left behind.