

# Economics of the Social Floor

**UNDP/IPC conference, Brasilia, 3 december  
2012**

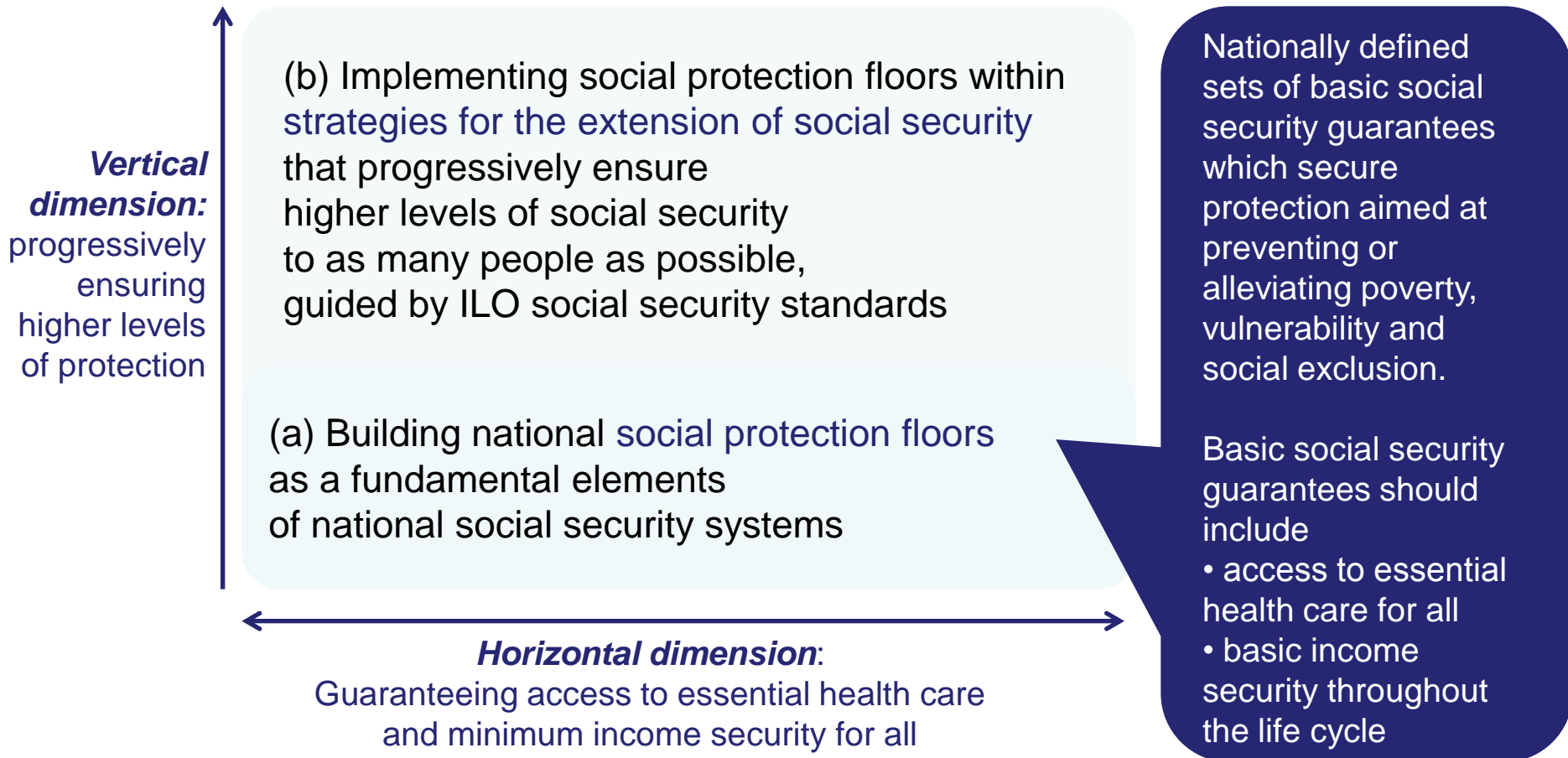
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# what's new from ILO point of view?

- **ILO Social Protection Floors Recommendation, 2012, No. 202:**
- “social security is an investment in people that empowers them to **adjust to changes** in the economy and in the labor market, and that social security systems act as automatic social and economic stabilizers, help **stimulate aggregate demand** in times of crisis and beyond, and help **support transition** to a more sustainable economy”

# SOCIAL SECURITY FOR ALL: Building national social protection floors and social security systems

The two-dimensional ILO social security strategy and the ILO Social Protection Floor Recommendation (2012) in a nutshell



principal economic benefits that  
an investment in social  
protection enable

# **The economics of income security, as summarized by my ILO colleague, Christina Behrendt, the short term first**

- serve as automatic stabilizers
- facilitate risk taking
- facilitate job search and job matching

# and in the longer term...

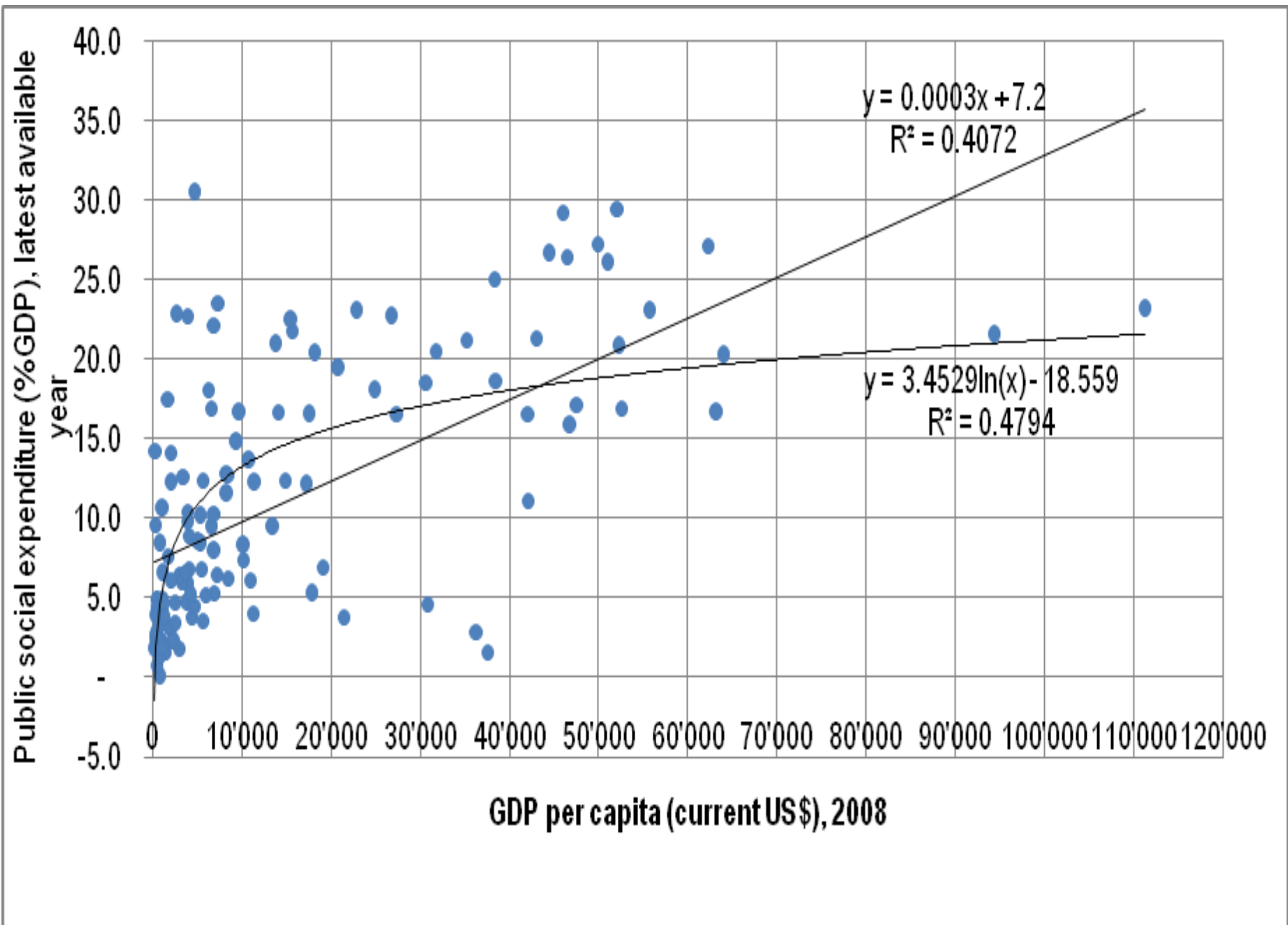
- Better nutritional status
- Higher school attendance
- Better health status

In the short- and long terms, such in investments show up as increases in productivity and reduce inequality

do we have evidence for these  
bold statements?

...later

first, can we afford all this?





<b>Impacts of selected cash transfer programs</b>				
<b>program</b>	<b>target</b>	<b>Impact on poverty</b>	<b>Impact on health and education</b>	<b>Cost as % GDP</b>
Nicaragua Red de Proteccion Social	Poor households with children	18% decline in poverty gap	13 % increase in enrolment ; 13% increase in health checks ; increased height	0.2%
Mexico Oportunidades	Poor rural households – 32% of bottom quintile	19% decline in poverty gap; 18% decline in Gini	Improved enrolment 0.7-1% per year	0.36%
Bolsa Familia in Brazil	Poor families with children and pregnant women	12% decline in poverty gap; contributed 1/3 to decline in Gini		0.35%
Argentina Plan Jefes y Jefas	Unemployed household heads with children	Decline in poverty from 80 to 72%; reduced drop in income	Reduced unemployment by 2.5%	0.82%

<b>Selected Social Protection Programs in Sub-Saharan Africa</b>			
<b>country</b>	<b>program</b>	<b>cost</b>	<b>impact</b>
Lesotho	Universal non-contributory old age pension	Less than 2 % of GDP	No evidence on poverty, but increased food and health security
Kenya	School Feeding	US\$ 5 million per annum	Positive impact on health, learning, attendance, and employment
Ethiopia	In cash and kind transfers for public works	8% paid by government, (1.2% of GDP) rest by donors	Improved food security, livestock holdings, and reduced risk
Ghana	Social insurance	75% funded from domestic taxes, 25% from private sector	Reduced expenditures for health, productivity improvements
Rwanda	Public works and cash transfers	50% of national budget for social protection	Improved basic consumption and savings. Extreme poor dropped from 40.6 to 9% of beneficiaries

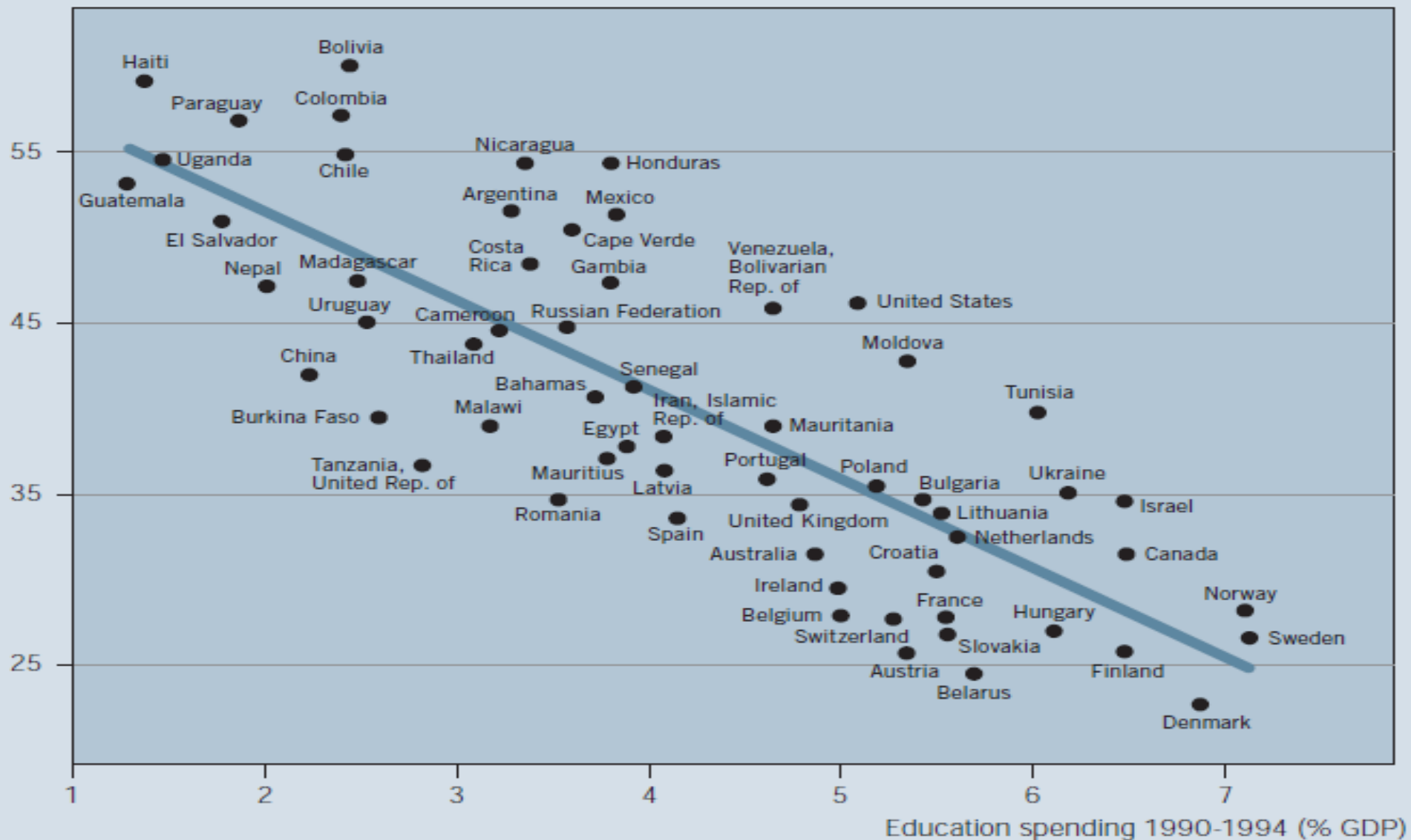
inequality

# economic costs of inequality

- Negative correlation between inequality and growth
- With inequality, higher growth rate needed to reduce poverty
- Negative effect of inequality on growth particularly high for poor countries
- Imperfect capital markets limit investments of the poor, decrease human capital and future employment opportunities
- Inequality decreases domestic markets, lowers aggregate demand as poor have higher elasticity of consumption

# Figure 5.3. Education spending and inequality

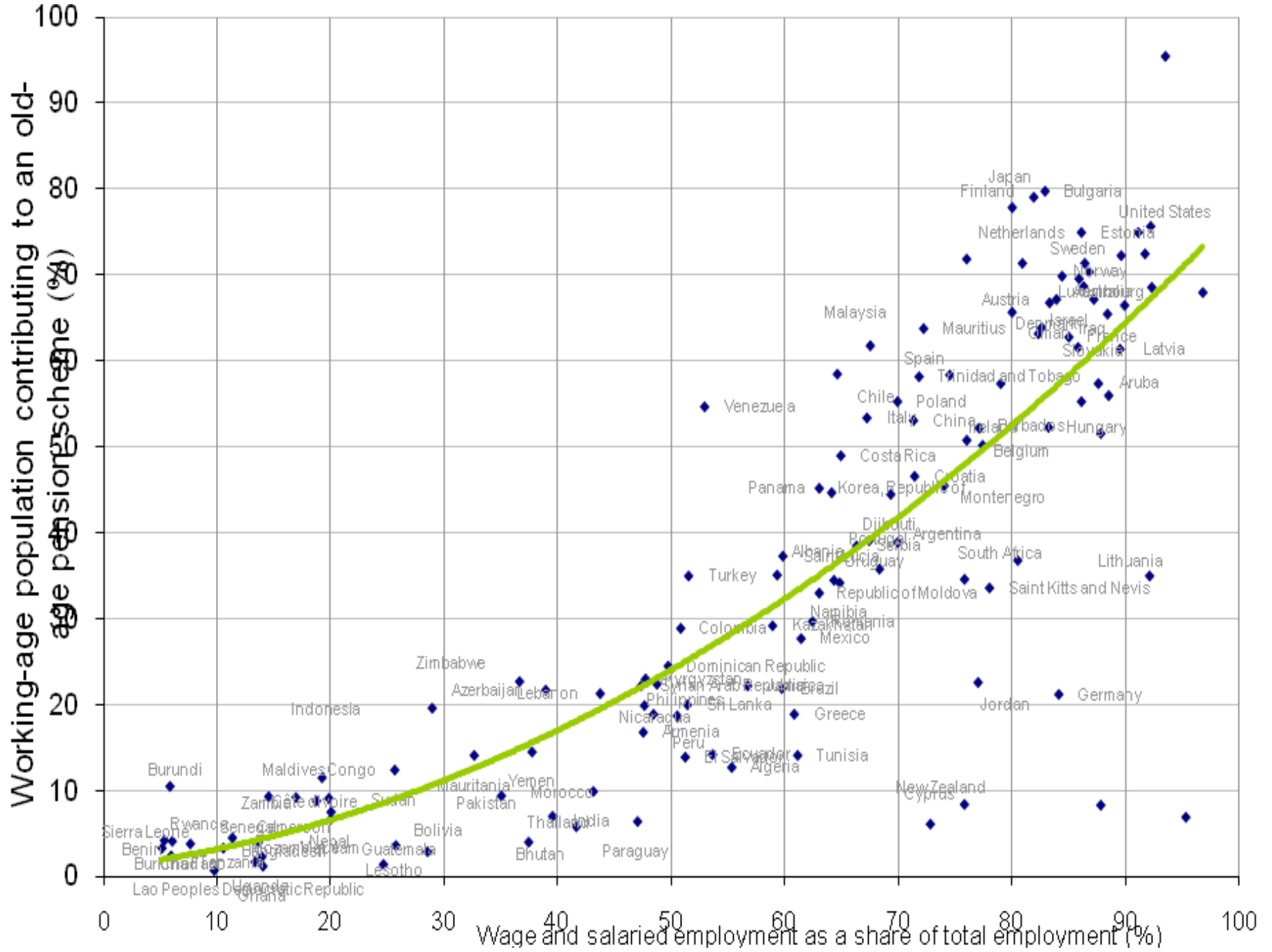
Gini (%) 2000-2004



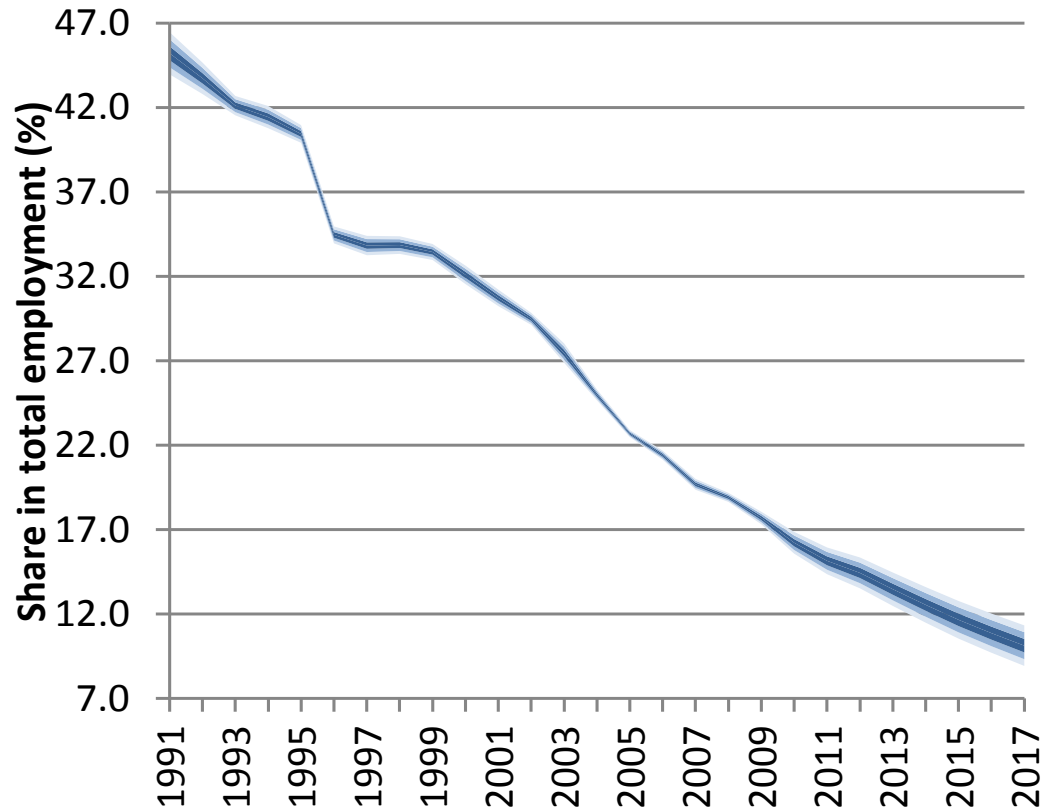
Source: ILS estimates; education spending from World Bank 2008

just a brief aside ... status in  
employment matters in this  
discussion

will come back to this in another  
brief aside

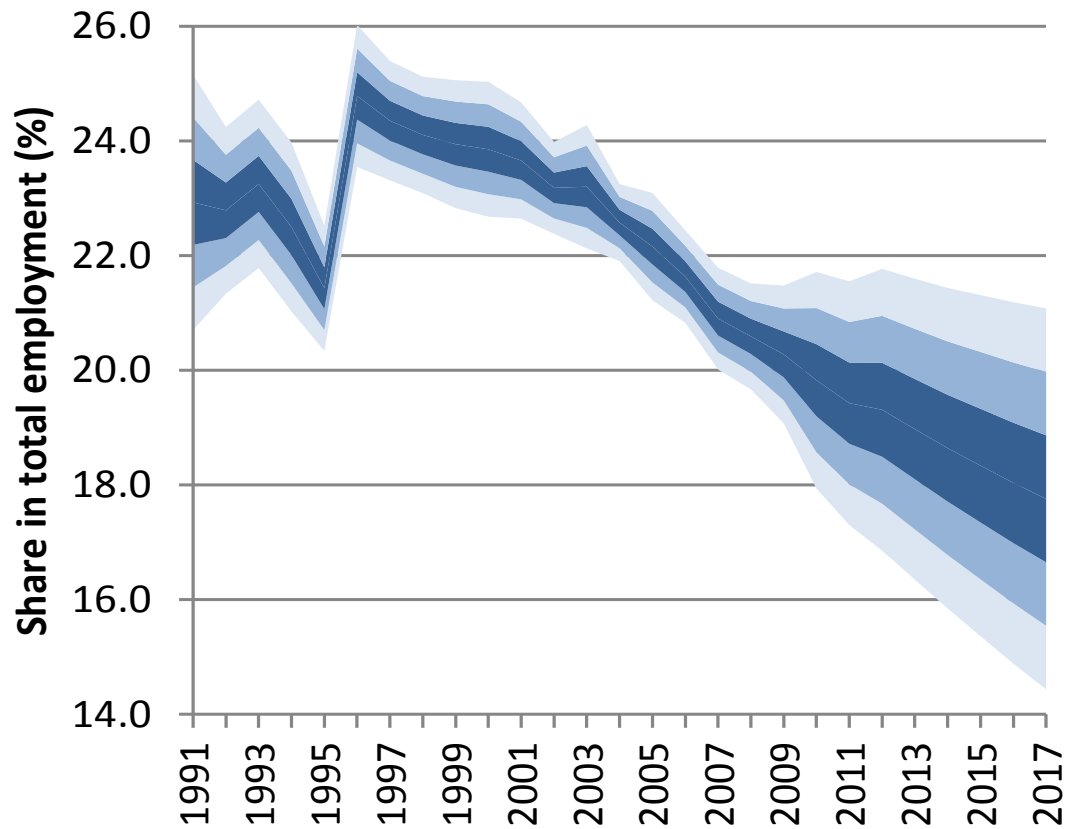


# Extreme poor in developing world

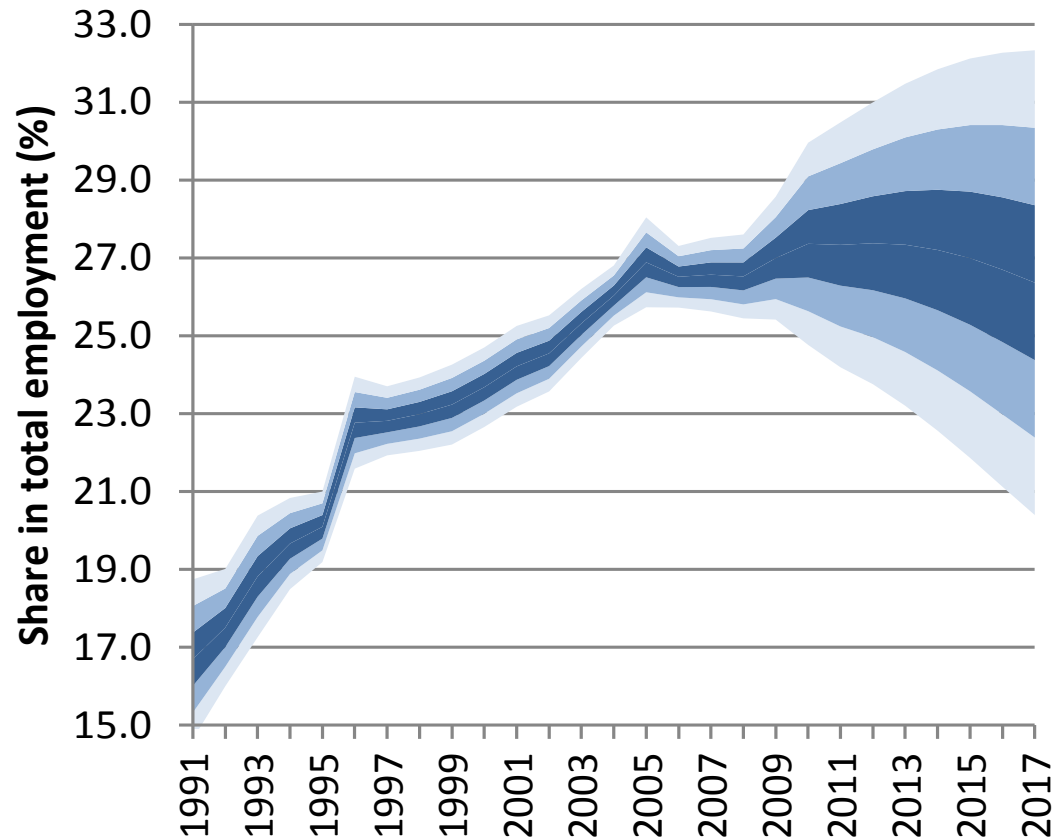




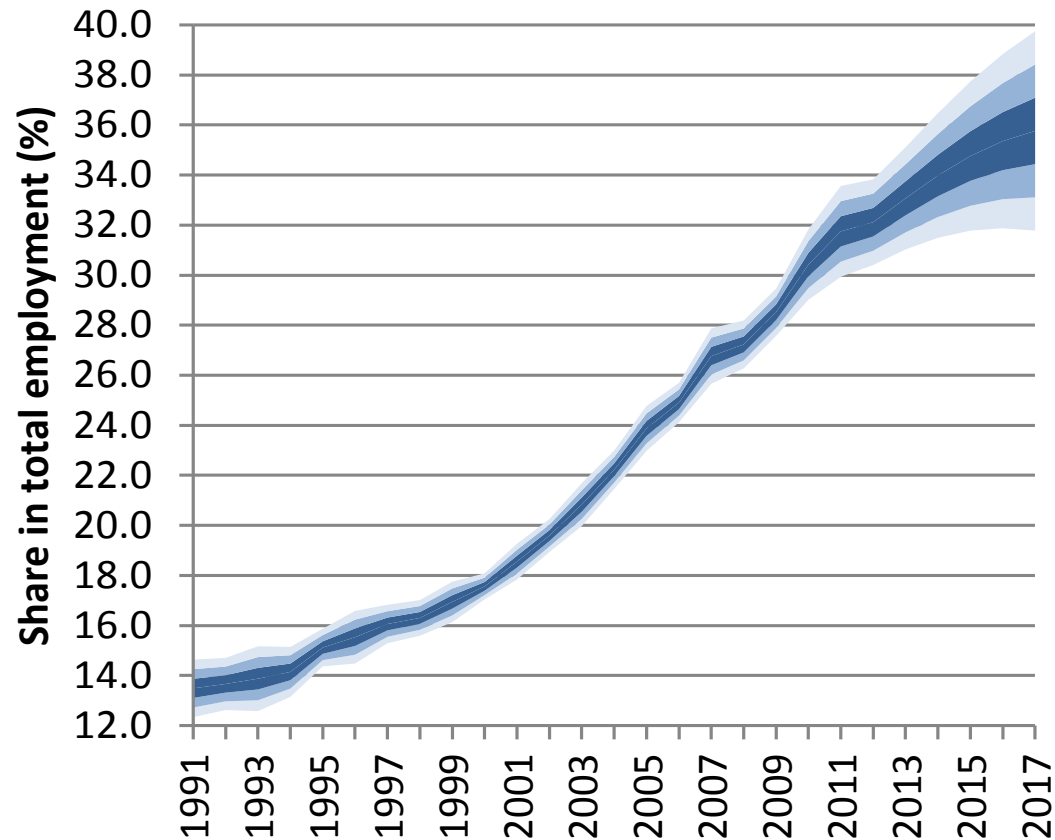
# Moderately poor in developing world



# Near poor (2-4 US dollars ppp)



# Developing country middle class (4-13 US dollars)



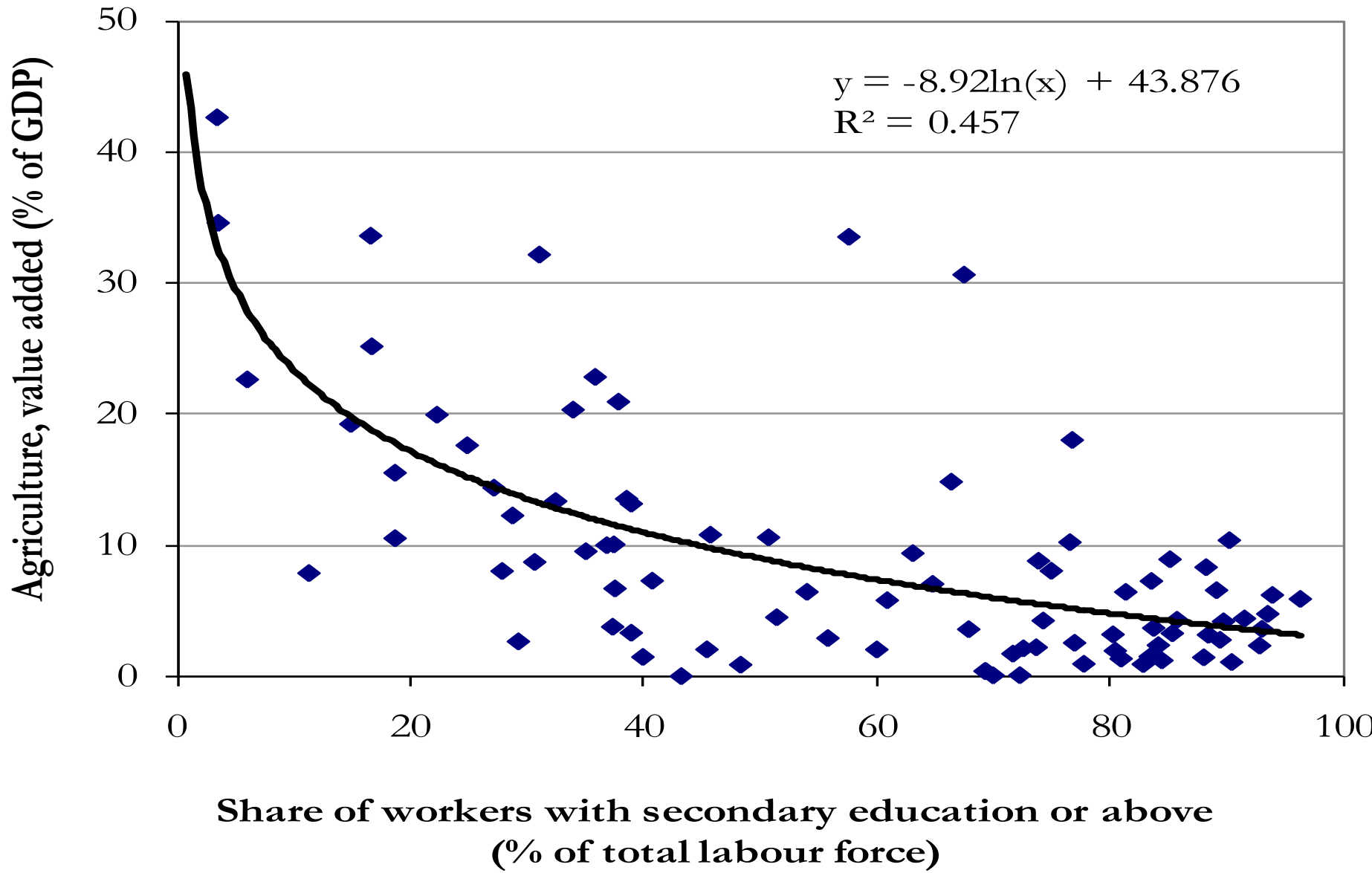
**stabilization**

# some estimates for the United States

- it is estimated that each US\$ 1 spent on social protection increases consumption (and thus aggregate demand) by US\$ 2.10. The provision of social protection thus disproportionately improves the real disposable income of the poorest.
- a 10 percentage point increase in the UI replacement rate leads to a consumption fall upon unemployment which is 2.7% smaller. Over this period, the average fall in consumption for the unemployed was 7%; my results imply that, in the absence of unemployment insurance, this fall would have been over three times as large.

India was estimated to have spent 5% of GDP in fiscal stimulus during the Great Recession, of which 1% was the already committed (but new-found role) of MGNREGA

**helps structural transformation**



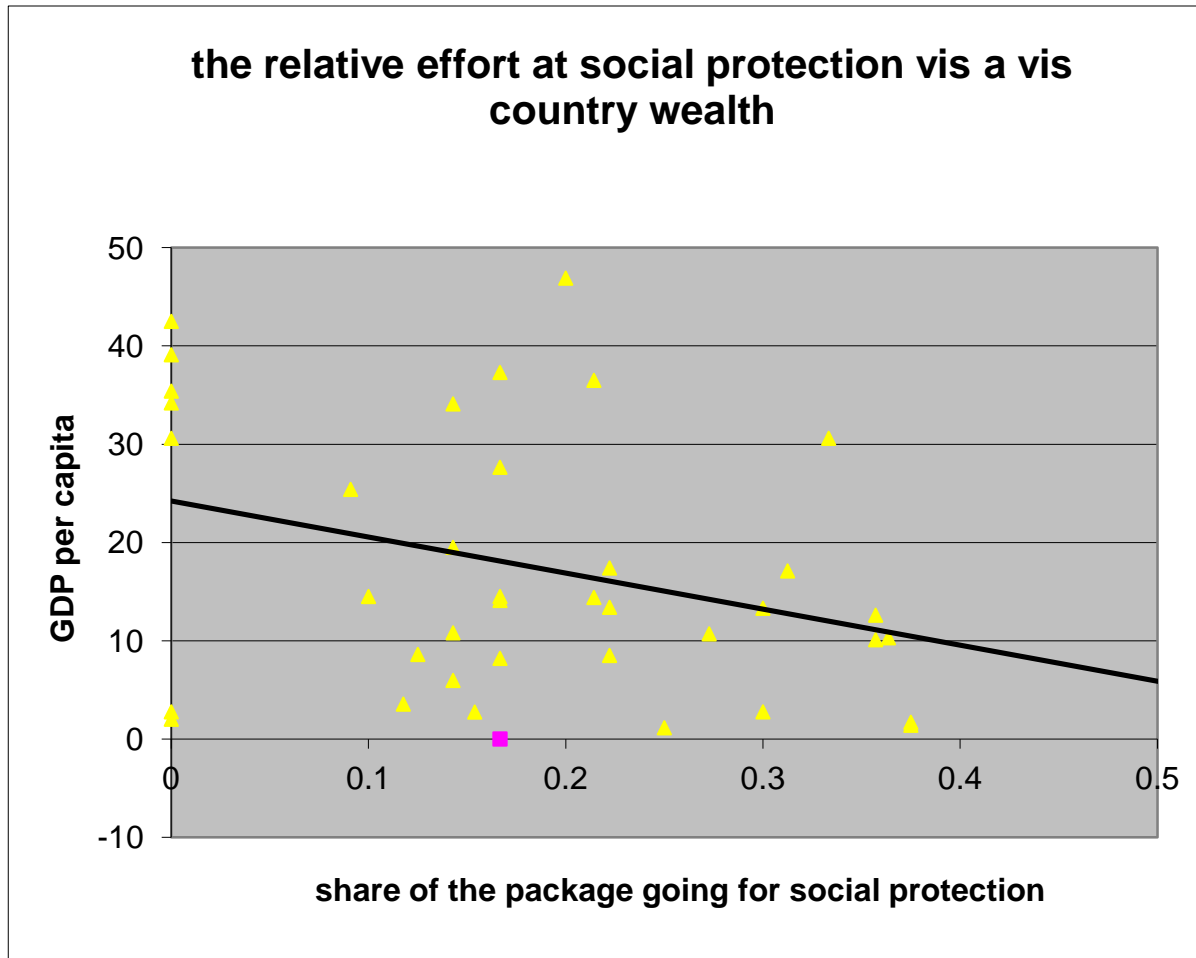


## Relation between change in shares of agriculture in employment and vulnerability, 1998-2009



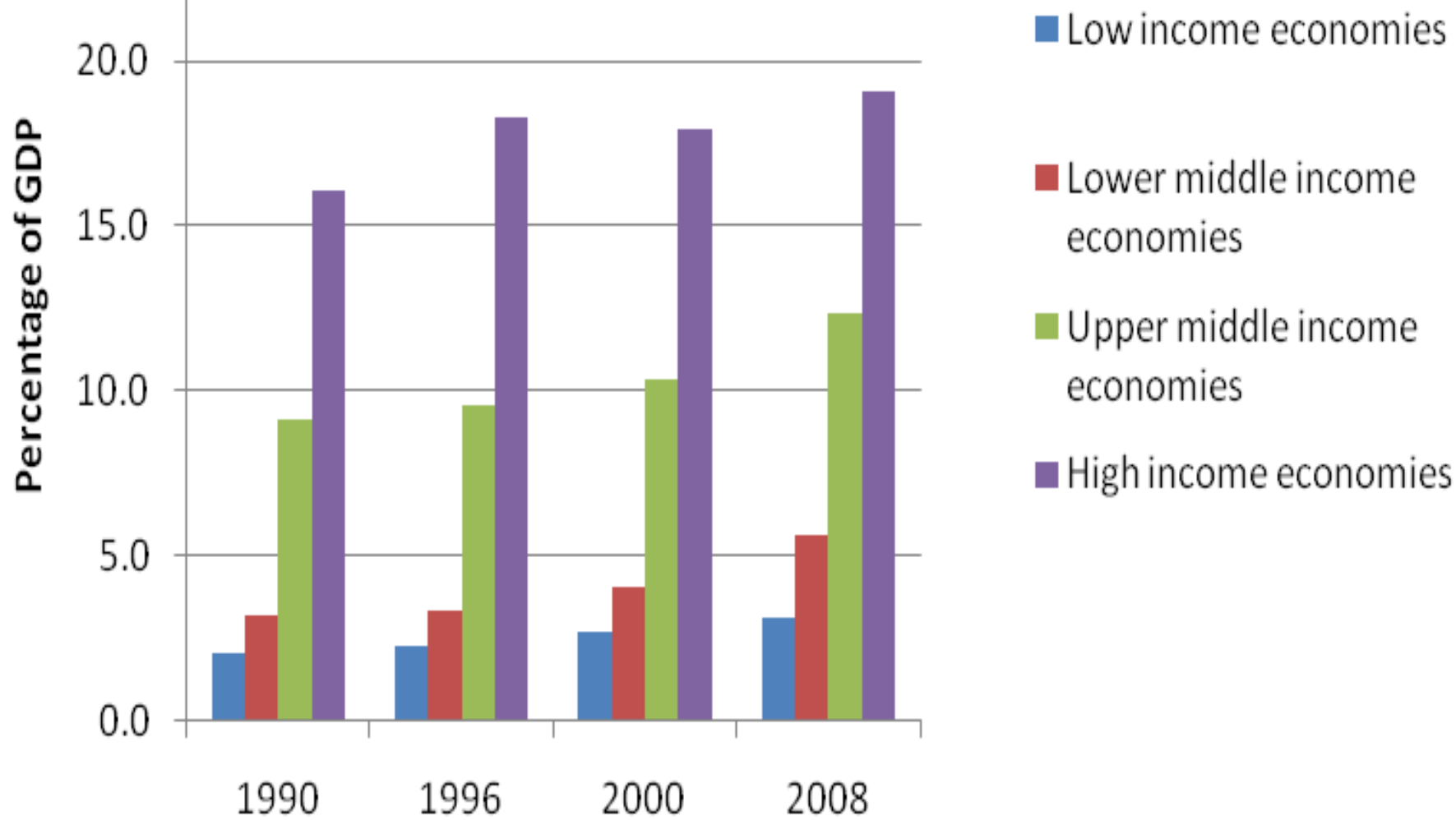
social protection deemed a  
useful investment in the crisis  
the poorer the country

# Crisis as an opportunity to expand social protection



# Public social security expenditure as a percentage of GDP

(weighted by GDP)



my bottom line:

the equalizing effect of social protection on opportunity is its most profound economic effect

thanks