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Fiscal Space for Social Protection: Social compacts for sustainable financing of social protection systems

organized by the UNDP’s International Policy Centre for Inclusive Growth (the IPC-IG) and the HelpAge International

Speaker: Armando Barrientos (Professor in Poverty and Social Justice, University of Manchester)
Speaker: Michael Herrmann (Senior Adviser on Population and Economics, United Nations Population Fund, UNFPA)
Moderator: Daniel Horn (Economic Advisor on Social Protection, HelpAge International)
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**Fiscal space for social protection: knowledge sharing initiative**
Fiscal Space for Social Protection: Social compacts for sustainable financing of social protection systems

Moderator

Daniel Horn (Economics Advisor), HelpAge International

Dr. Daniel Horn is currently Economics Advisor for HelpAge International’s Social Protection Team based in London, UK. Daniel’s work examines the linkages between demographic ageing and wider micro, meso, and macro-economic issues related to the changing contours of societies, notably in developing states. This work includes a forthcoming publication on the need for a shift in narrative in how governments perceive of demographic ageing, as well as field work which investigates the economic multiplier effects of interventions directed at older persons. The evolving work of HelpAge International builds on its more than 30 years of expertise in defending the rights of older persons, reflecting the emerging focus of the benefits of adaptive government above reactive resolutions. Daniel comes to HelpAge International with a PhD in Political Science focused on welfare states and inequality (Bremen International Graduate School of Social Science), and an MSc in Public Policy and Human Development with a focus on Social Protection Financing (UNU-Merit Maastricht Graduate School of Social Science)
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Speaker:
Michael Herrmann (Senior Adviser on Population and Economics, United Nations Population Fund, UNFPA)

Senior Adviser on Economics, and Manager of the Innovation Fund, United Nations Population Fund (UNFPA); and member of the Lead Economist Network of the UN. Responsible for managing research and analysis, and shaping policy dialogues on the world's most pressing development challenges, including the linkages between demographic change -- population growth, population aging, urbanization and migration -- and social, economic and environmental developments. He has worked extensively on employment, poverty, income distribution and social protection; economic development, sovereign debt, development financing and macroeconomic policies; trade, commodity markets, investment and structural change; as well as the green economy, sustainable development, and climate change. Before assuming his current functions, he worked for over ten years with the United Nations Conference on Trade and Development (UNCTAD), where he co-authored flagship reports on the world economy and the world's least developed countries. He has published on a range of issues, including the implications of demographic change for development; sustainable development; and food security.
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Speaker:
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Armando Barrientos [BA PhD, Kent] is Professor of Poverty and Social Justice at the Global Development Institute. He is also co-Director of the International Research Initiative on Brazil and Africa. Before joining BWPI in 2007, he was Research Fellow at the Institute of Development Studies at the University of Sussex and Senior Lecturer in Public Economics and Development at the Institute of Development Policy and Management at Manchester. His work has been published widely, including articles in World Development, Applied Economics, The Manchester School and Journal of Development Studies. His most recent books are ‘Social Protection for the Poor and Poorest’ (2008, edited with D. Hulme, Palgrave); ‘Just Give Money to the Poor’ (2010, with J. Hanlon and D. Hulme, Kumarian Press); ‘Demographics, Employment and Old Age Security: Emerging Trends and Challenges in South Asia’ (2010, edited with Moneer Alam, MacMillan), and ‘Social Assistance in Developing Countries’ (2013, Cambridge University Press). He has acted as an adviser to the ILO, the World Bank, DFID, UNRISD, IADB, WIEGO, UN-DESA, UNICEF, and the Caribbean Development Bank.
Social compacts for sustainable financing of social protection: Economic concerns and social challenges

Michael Herrmann
Senior Adviser on Economics and Demography
Manager of the Innovation Fund
UNFPA -- United Nations Population Fund
New York, NY, USA
Email: herrmann@unfpa.org
This presentation

• Social protection of whom and by whom?
  • The essence of NTAs
  • The meaning of the LCD

• Limits of social protection?
  • Meaning of LDC from an individual perspective
  • Meaning of LCD from a macro perspective

• Implications for sustainable financing?
  • Implications for policy
  • Implications for system design
• Social protection of whom and by whom?
  • The essence of NTAs
  • The meaning of the LCD
The Essence of NTA: Lifecycle Deficit
• Limits of social protection?
  • Meaning of LDC from an individual perspective
  • Meaning of LCD from a macro perspective
Meaning of LCD: Individual Perspective

• Should children earn an income rather than consume?
  • No. No fan of child labor.

• Should older people earn an income rather than consume?
  • Cannot be expected.

• Do people need to have a labor income to consume?
  • No.

• So, if there is nothing we can, or want to change, at the level of individuals, what about the level of the economy?
  • Let’s see.
Meaning of LCD: Macro Perspective

• Are there any countries where labor income exceeds consumption?
  • I do not know of any.

• Is it sustainable that consumption is financed from other sources than labor income?
  • It has been, and it can be.

• So, why are we concerned about the relative changes between consumption and labor income?
  • Good question. Different schools of thought offer different answers.
Meaning of LCD: Macro Perspective

$$S = I$$

• Causal relationship or accounting identify?
  • The latter.

• If so, why do we need saving for investment?
  • We don’t.

• If so, why do we seek to increase saving, is consumption bad?
  • Depends who you ask, and where you consume.

• If so, why do we seek to limit consumption?
  • Three possible reasons: individual preference, economic capacity, distributive conflicts.
• Implications for sustainable financing?
  • Implications for policy
  • Implications for system design
Implications for Policy

• General principle
  • Don’t jump to conclusion
  • More dependents/ more consumption might be sustainable
  • Does not necessarily need axing of pension, health care, etc.
  • Financing depends on economic capacity and social consensus

• Economic capacity
  • GDP growth > growth in dependents, capacity is there
  • GDP growth < growth in dependents, belt tightening

• Social consensus
  • Depends on political culture, no one size fits all
  • Economy might grow, but worker’s income does not
  • Taking it from workers rather than rich might cause protests
  • Taking it from rich rather than workers might cause capital flight

• Social dialogue
  • What do we want to do for the young and old?
  • In what society do we want to live?...
Implications for System Design

• General principle
  • Don’t optimize for bottom line – it’s not a business venture.
  • Optimize for purpose – seek efficient and effective solution
  • Don’t lose the “social” in social protection
  • Design system for clear purpose

• Distribution of income
  • How is income distributed, what are the trends?
  • Who has the income, who bears the burdens of taxes, contributions

• Types of transfers
  • Cash transfers or in-kind transfers
  • Provision of public goods and services
  • Public investment

• Shift in paradigm
  • From passive protection to active empowerment
  • From inactive recipient, to active contribution
  • Beyond transfers: Public works, institutions, orphans, disabled, education, health, etc.
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Financing social assistance: tax and social contracts

Armando Barrientos, Global Development Institute, The University of Manchester, UK
a.barrientos@manchester.ac.uk

Social assistance expenditure as % of GDP c. 2010
What does this tell us?

- Wide range across countries: from a fraction of 1% of GDP to just below 7%
- Three-quarters of countries spend between 1% and 2% on social assistance
- There is no reliable correlation between the level of social assistance expenditure and the level of economic development
- There is a stronger correlation between the type of welfare institutions and the level of social assistance expenditure, e.g. Australia (social assistance dominates) and Uruguay (social insurance dominates)
- There is an upward trend in social assistance expenditure for some countries, but we lack data to confirm the presence of a global trend
Financing social assistance

Need to pay attention to three dimensions:

**Resource mobilisation** - enhancing fiscal space and expenditure switching
  Fiscal space: governments’ capacity to allocate resources to activities or programmes without reducing financial support for existing activities or programmes

**Legitimacy** - the financing of social assistance influences support for antipoverty programmes and institutions

**Effectiveness** - financing modalities influence resource allocation and accountability

International assistance has a limited role in financing antipoverty transfers, but can be effective in reducing high set up costs

Low- and middle-income countries need to pay attention to taxation
There is no one-to-one relationship between the size of government and the level of economic development.

Politics and institutions matter.

Path dependence is important.

Panel B: Composition of Total Government Revenues as a Share of GDP

from Lustig, N. [2015] Inequality and fiscal redistribution in middle income countries: Brazil, Chile, Colombia, Indonesia, Mexico, Peru and South Africa, WP31, Commitment to Equity, Tulane University

Taxes and the legitimacy of antipoverty transfers - 'financial narratives'

• Chile’s return to democracy after seventeen years of dictatorship in 1990 was led by a centre-left coalition of parties. The coalition was committed to expanding social expenditure, especially poverty reduction. This was financed by a rise of two percent in the tax burden, distributed across rises in corporate taxes, personal income taxation, and VAT.

• In 1994, Bolivia was poised to privatise state-owned enterprises, especially in the energy sector. To facilitate public consent, the government proposed to maintain one-half of the shares in the privatised enterprises in a Special Fund. The returns from this Fund were to be used to finance a regular transfer to the adult cohort (aged twenty-one or over in 1995). After further debate, the transfer became a non-contributory pension, the Bono de Solidaridad, payable from the age of sixty-five. The government of Evo Morales extended entitlement to the transfer to all Bolivians on reaching sixty years of age.

• Non-contributory pension programmes introduced in Lesotho (2004) and Swaziland (2006) are linked to revenues from the Southern African Customs Union (SACU).

• Antipoverty transfer programmes in Zambia, Uganda and Ethiopia are financed by bilateral aid, through a Memorandum of Understanding between donors and the government. In Ghana, the initial financing of the LEAP (Livelihood Empowerment Against Poverty) Programme was linked to HIPC debt cancellation, but bilateral donors also contributed.
Antipoverty transfers and social/fiscal contracts

At a macro level, the expansion of antipoverty transfer programmes is often 'nested' within a social contract acknowledging citizens' rights and government's responsibilities for the realisation of these rights.

Social contracts are supported by fiscal contracts specifying taxation and priorities in expenditure.
Conclusions

Most countries spend between 1% and 2% of GDP on social assistance, depending on their type of welfare institutions.

How social assistance is financed is important because it has implications for its scope, legitimacy, and effectiveness.

For most low- and middle-countries, tax revenues are the main source of financing for antipoverty transfers.

Social and fiscal contracts, and financial narratives, lend support and legitimacy to antipoverty transfers.
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Questions and Answers

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Michael Herrmann
UNFPA

Armando Barriontos
University of Manchester

Daniel Horn
HelpAge International

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