

**Social Protection and Universality:
A Macro Perspective**
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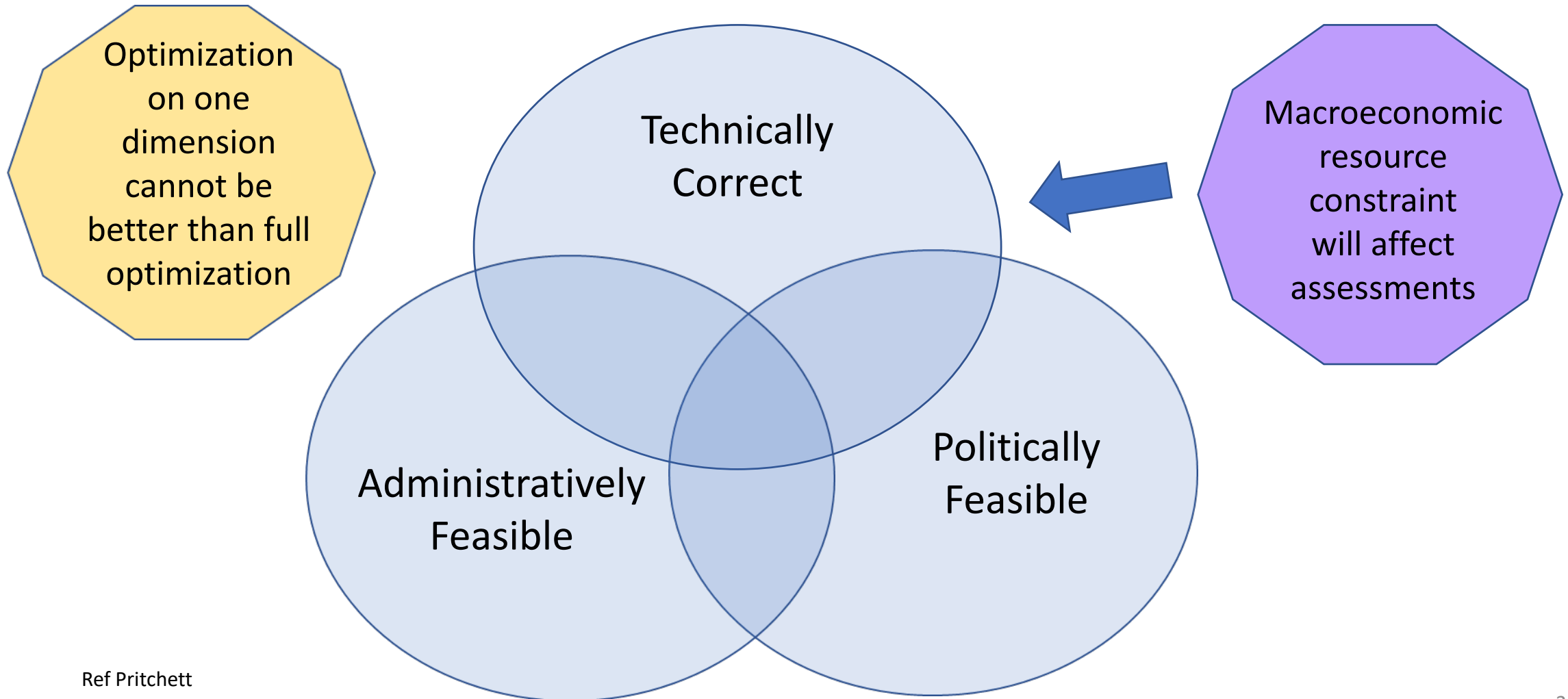


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Common Questions: Diverse Contexts

- Factors shaping architecture: technical, political, administrative
 - Limitations of a partial or micro approach
- Multiple Challenges
 - Fiscal – resources versus needs
 - Rights-based goals versus optimization with tradeoffs
 - Reconciling technology change with distributional goals
 - The multiple implications of digital advances: and are transfers the right solution?
- Universality
 - Where we are today
 - Transfers or guarantees?
 - One program or many?
 - Citizen Resource Dividends
- Conclusion: Important areas for research

Common Criteria Shaping the Architecture



Deeper Questions at Country Level

Technically Correct: Macro/Micro and Objectives?

- Macro/Micro?
 - Many experimental studies of cash transfers are limited in scope and financed by external grants. They do not incorporate economy-wide spending effects or the macroeconomic resource constraint from self-financing
 - They can be useful for comparing impact with other forms of social protection: impact and local multipliers Ref Egger et al Kenya
 - Impacts and multipliers can be different for large-scale transfer programs that require domestic funding rather than closure through external flows.
 - Macroeconomic closure is often neglected but is crucial.
- Correct for what objectives?
 - Shift resources from rich to poor? Assist particular groups (pensions)? Shift resources from good states to bad ones (insurance)? Provide particular needs (merit subsidies via vouchers or in-kind)?

Questions Continued

Political Feasibility: views on poverty -- and trust in state?

- What is understood by poverty? Income? Capabilities?
 - Causes? Lack of motivation? Lifestyle? => work based, conditional or in-kind support?
- Is there confidence, trust in government to solve the problem?
 - Research suggests confidence is an important filter for how people see programs Ref Stantchieva
 - Perhaps more confidence in alternatives: charities, religious foundations, families?
- Does assistance change motivation? Social or family incentives?

Administrative Feasibility

- Institutional capacity and motivation to deliver?
- Use of technology to extend “Policy Possibility Frontier”? Ref Citizens States
 - Efficiency, rationalization, but brings own risks
 - On the revenue side...formalization ...essential for progressive taxation

Often, we have limited empirical evidence on popular perceptions

- Sometimes empirical studies are surprising
 - Research on Tanzania and focus groups in Venezuela Refs Sandefur et al 2020, Rodriguez et al 2012

Continuing Fiscal Challenge

- Covid-19 pandemic, lockdown has seen enormous expansion of social protection: programs, levels of support, coverage.
 - Many countries have extended support to people who were not previously in their programs or in program registers
 - Including urban residents who lost livelihoods
 - Heavy use of digital technology to enroll, screen and pay
- High fiscal cost and deficits that will need to be scaled back
 - Global inflation: end of accommodating monetary policy?
- Competing calls for spending to
 - Strengthen health systems, including against future pandemics
 - Make up education losses, especially among poor
 - Mitigate climate change and support adaptation
- Implications of a less secure world?
- Social protection to post-Covid levels although pandemic is not over
 - With enhanced digital tools

Rights and Optimization in Development Thinking

- Transition from MDGs to SDGs shifts towards right-based approach Ref Dahan Gelb
 - Fewer, progress-based, MDG goals to multiple benchmark SDG goals – for all
 - Interpret as rights? Even if language not explicit, there is a fine line.
 - No stigma in claiming a universal right. Some programs are already constitutional rights
- But core of economics: tradeoffs and optimization subject to constraints
 - Even if no explicit objective function, usually implicit
- How approach rights in a tradeoffs-based analysis?
 - Implementation costs of reaching the Last Mile
 - Implementation that benefits many (including the budget) but may hurt a few?
 - Issue with (even well-done) digitization of social programs Ref SoA Reports

Technology

At least three implications for social protection

- Over long run TFP increases incomes and fiscal resources
 - Further fiscal gains from greater formalization, for example digital payments
 - Critical for widening scope of progressive taxation required to re-distribute income
- Labor-saving: not the end of work, but consistent downward wage pressure and probably upward push to inequality
 - Reconciliation with social views on equity?
 - Are transfers the best policy? Work-based remedies?
- Expanding the Policy Possibility Frontier: novel implementation
 - Including speed, adaptability
 - ID, mobiles, payments + interoperable data registers
 - Technology is not a solution though and carries its own risks

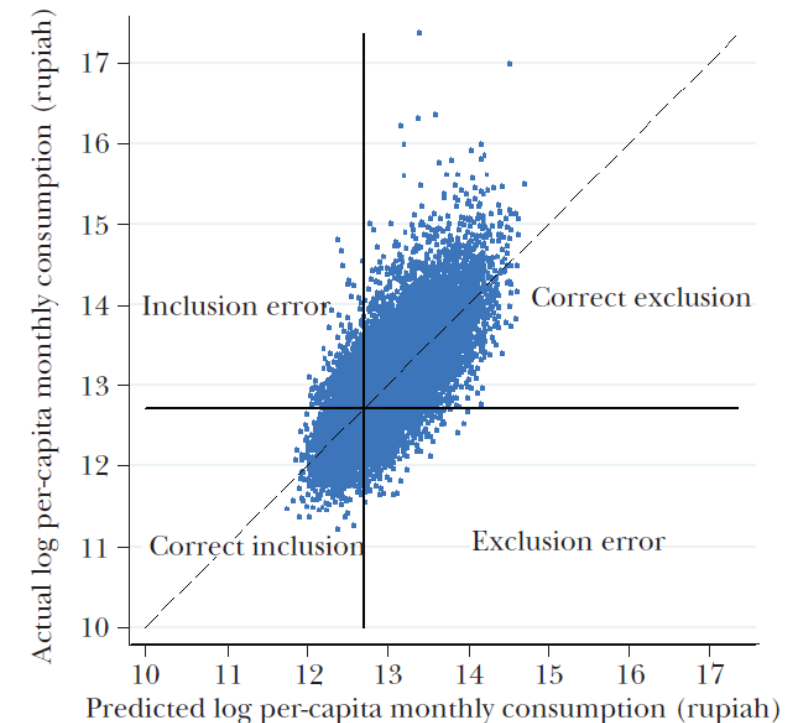
Universality: A More Prominent Objective

- Current systems are shaped by a wide range of country-specific factors with a wide mix of programs of different types
 - World Bank found typical country had some 21 major programs
 - Some have hundreds, administered at different levels of government
- Include categorical, means-tested, conditional, voucher, in-kind, commodity price subsidies...
 - Subsidies not always included as social transfers or in the budget, for example cheap fuels in resource-rich countries
 - Spending and coverage levels vary:
 - Maybe 3-4% GDP for MICs, quite high coverage of poor
 - Maybe 1% of GDP for LICs, low coverage by design, not targeting error
 - These have little fiscal space for universal programs in any sense that substantially reduces or eliminates poverty.

Transfer or Guarantee?

- Replacing a poverty-target transfer by a uniform one will reduce the per-head impact on poverty
 - If a program delivers 40% of benefits to the lowest quintile a uniform transfer with the same impact will have to be about twice as large
 - However, transfers are often not progressively targeted....
- Optimization with typical social welfare functions will favor poverty-targeted programs Ref Hanna-Olken
 - Even with high percentages of inclusion and exclusion errors
 - Provided that most of these errors affect people near to the cutoff line
 - Other errors that exclude the very poor – more serious

Indonesia



Transfer or Guarantee contd.

- However, can raise concerns over reasons for exclusion and horizontal equity
 - Especially when using complex algorithms and AI: cannot explain...
 - Less transparency can result in fewer claimed benefits
 - How to avoid erosion of trust in government?
- World Bank estimates: cost of universal transfer able to eliminate or materially reduce poverty
 - To transfer average poverty gap LICs 7-22% GDP MICs up to 8% GDP
 - To transfer value of poverty line LICs 36-48% MICs 8-22% GDP
 - Even if higher willingness to pay taxes, challenging unless cut existing programs
- Claims advanced for programs must be assessed with the macro funding side in mind
 - Macroeconomic closure key, as noted
 - Work dis-incentives: flat transfer better but requires more progressive taxes....
 - Universal transfer not require much data for targeting but data will be needed for the progressive taxation required to fund the program
 - Cannot take state presence out of strongly redistributive programs

Consolidation as a Basis for Universality

- Some countries operate programs that, in total, approach or exceed the resources needed for a poverty-relevant universal transfer
 - US – AEI: eliminate deductions and programs => budget neutral universal transfer
 - Impact negative for poorest and richest, positive for middle class
 - Poorest receive twice as much from programs as universal transfer....richest have large deductions
 - India – Reserve Bank 2017 estimates budget-neutral program at 4.9% of GDP.
 - Existing programs and schemes not always poverty targeted
- Consolidation - technically correct?
 - Benefit and administrative savings from redundant programs...
 - But many tailored to merit goods, particular needs, shocks, that general program cannot replicate?
- Politically feasible?
 - Interest groups – beneficiaries and administrators, advocacy for specific causes
 - Research : motivation for voters: stories, perceptions versus realities
 - Low trust in government => more specific accountability criteria => narrower programs

Universality and Resource Dividends

- Benefit or Curse? Long debate on impact of natural resources on development. Some research points to a benchmark theory:
 - Natural capital helpful if country also has physical and institutional capital to balance
 - But excessive natural capital is more likely to be harmful Ref Gylfason 2011
- There are at least three major problems:
 - Stochastic cyclical volatility of commodity markets
 - These are very difficult to buffer although there are approaches
 - Rents accruing to government undermine accountability, reduce the quality of spending and investment
 - And lacking incentive to collect other taxes, government has less interest in growing the non-resource economy
 - Rents passed on to citizens through commodity subsidies (fuels) are regressive and heavily distorting
 - Also conflict with emissions goals
 - Relevance to MENA: Devarajan ERF 2018 <https://erf.org.eg/publications/how-to-use-oil-revenues-efficiently/>

“Citizen Dividends” to Reform Price Subsidies and Boost Accountability

- Of the 21 country cases considered in the World Bank’s treatise on UBI, only four are universal. Each of the four involves resource rents
 - Most others are small and do not account for macro effects
 - Only one of the four has been a stable program over time (Alaska)
 - Although the dividends are not stable

What are the obstacles to a dividend program?

- Administration? No. Technology has cleared the way; identify and pay.
- Technical? Volatility. One would not want large sudden swings in substantial payments to poor beneficiaries
 - Approaches? Saving (permanent income), futures. Both have limitations
 - Structure as stacked annuities? Will at least slow fluctuations
 - There is probably no perfect solution to the volatility problem that is at the same time politically viable, except perhaps under unusual conditions
 - But this problem exists whether or not there is a dividend policy

“Dividends” continued

- Politics? A) Agency: which interest groups will advocate? How to defend?
 - Cases give us insights, but it is a complex problem
 - Citizens may not have informed views on the use of oil rents
 - B) Trust. Fixed-price subsidies have a particular advantage: more difficult to reduce than most other benefits
 - They cannot be eroded by inflation – unlike cash transfers
 - The price sends a clear signal across all groups of consumers
 - Encourages collective action if price is changed
 - Trust in government is in general a factor in how constituents view social programs – here it is a critical one.
- How to proceed? Part of a large agenda around
 - Understanding how people view economic policies
 - Increasing access to knowledge (for example, subsidy salience, distortions and inefficiencies)
 - An example, Iran’s measures to gain support for lifting price controls and gain credibility

Conclusion

- Only a short overview of some of the factors shaping debate on the architecture of social protection from a macroeconomic perspective
 - Micro impact studies are helpful, but resource side requires macro perspective
 - Technology is shifting out the administrative frontier although it brings its own risks
 - Opens up new possibilities, including resource dividends, although may not ease the political hurdle
 - Need more research, including on how people understand and interpret economic policies and choices, and the role and competence of the government.