Social Protection, Efficiency and Growth

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Purpose

• New impetus to make growth more inclusive via Social Protection
• Poverty and Equity arguments strong
• Revisit evidence for the *economic* arguments (market failures, efficiency, growth) for Social Protection?
• Can SP be designed to have larger growth and efficiency impacts?
Social Protection

• Public action – some role for state
• Transfers, in kind/cash, conditional/uncond.
• **Social Insurance**: contingent on some event/state, some contribution-based
  – health insurance, drought insurance, drought relief, unemployment benefit
• **Social Assistance**:
  – cash transfers, old age ‘social’ pension, food aid
Big impetus

• Progresa/Oportunidades - **Mexico**: CCT
• Bolsa Familia – **Brazil**: CCT
• NREGA – **India**: rural workfare
• RSBY – **India**: hospitalization insurance
• PSNP – **Ethiopia**: rural workfare/asset programme
• Social Grants – **South Africa**: esp. pensions
Overview

• Are they ‘costly’ or ‘value-for-money’?
• Do they overcome market failures? Efficiency gains?
• Do they contribute to growth?
• Any ideas for higher growth impacts?
Are they costly?

- The poverty gap (7.6%) = 190 billion US $ in 2005 PPP
- Aid in 2009 ≈ poverty gap!
- But as share of GDP, flagship programmes take large share of poverty gap, ...
- Issues of targeting, crowding out, thresholds/poverty traps, etc
- Leading to substantive but by no means ‘large’ poverty reduction
- Appeal to reducing ‘future’ poverty
  - intergenerational
  - graduation
‘Return’ to SP? Social transfers

• “Savings” of SP is not necessarily ‘good’ sign

• But it may overcome ‘credit’ constraint (unlocking potential)

• Evidence?
  – 12% of Progresa in ‘productive investments’
  – 1.3% ‘graduation’ in PSNP

• Social assistance for equity reasons...

• Surprise? No: microfinance evidence very similar!
Returns to SP: social transfers (2)

• Recent evaluations in India, Philippines, Sri Lanka, Ghana
  – Mostly zero average returns to microcredit to women!
  – At best heterogeneity: those already ‘big’ in business, investing more – possibly positive return
  – “microcredit is not for every household, or even most households, ..., and it does not lead to the miraculous social transformation some proponents have claimed...” (Banerjee et al. 2010)

• If this is when targeting potential entrepreneurs – what about just social transfers
  – Don’t expect that all the poor are an army of entrepreneurs waiting to be given the chance to become the new Mo Ibrahim or Ambani brothers – a few will be, but just handing out ‘random’ cash for that purpose is unlikely to be the way to go...
Returns to SP: social transfers (3)

• Non-monetary returns
  – spending on child health, reduction of child labour, female empowerment
    • E.g. Pensions in South Africa; cash in Progresa, bargaining power?
  – But very blunt!
    • even if getting children better nourished/healthy/educated is good for growth
  – Plus unexpected impacts possible
    • E.g. Workfare impacts on child labour

• Overall, a bit like microcredit...
Returns to SP? contingent transfers

• Permanent or persistent effects from temporary shocks/events
  – Income recovery slow (asset losses) – China, India, Kenya, Ethiopia
  – Human capital and health losses very large
    • Famine Victims (China, Ethiopia, Zimbabwe)
    • HIV-AIDS orphans (Tanzania)
      ➢ with persistent *income* losses especially for those very young
      ➢ In line with long-term impacts of early childhood deprivation and stunting (Currie, Carneiro)
      ➢ Growth effects highlighted even by Growth Commission
Returns to SP: contingent transfers (2)

• Some evidence of transfer programmes providing ‘contingent’ support
  – Progresa kept children in school despite income loss
• More appropriate: contingent transfers/social insurance mix (with or without contributions)
  – Workfare (NREGA, public works)
  – Health insurance (RSBY)
  – Unfortunately, evidence from Indian programmes not encouraging (too few days for NREGA, virtually no use of RSBY)
Returns to SP: contingent transfers (3)

• If market failure, so why not insurance?
  – Micro-insurance coverage limited
    • E.g. 2% in Africa, mainly South Africa
  – Could be very useful but
    • Hard concept for customers; requires trust
    • Private insurance for covariate shocks, catastrophic risks costly plus adverse selection avoidance means some of the poorest hard to reach
  – More appropriate: striving for mix
    non-contributions contingent transfers
    + contributions-based social insurance
    + insurance market development
Taking stock

• SP: Not going to be cheap, but worthwhile for equity reasons

• For efficiency?
  – Social transfers? UNLIKELY
  – Contingent transfers and social insurance: YES

• Conditions in CCT?
  – Could be chosen for high (social) externalities
    • Targeting key groups and key skills
More growth orientation in SP?

- Child-centred social protection, especially early childhood (preschool)
  - ‘just’ cash transfers too blunt – e.g. Young Lives/Jamaica/Columbia
  - Conditions can work but ‘smarter’ required

- Migration and cities
  - Migration central to economic transformation and inclusive growth
  - Urban workfare focused on urban assets (public sanitation, health and housing)
  - More growth oriented than rural workfare that aims to keep people in areas with little future

- Adolescents and young adults:
  - Labour market absorption key for labour-intensive inclusive growth
  - Poor quality education with promise of better life, difficult to absorb in labour markets with limited cognitive and even fewer other labour market relevant skills
  - E.g. Workfare with training to offset poor and often irrelevant education
Lessons and conclusions?

- Social protection primarily for equity and poverty
- Efficiency and growth?
  - Social transfers?
    - efficiency and growth returns likely to be limited
    - Potential for non-monetary benefits, but blunt instrument
  - Contingent transfers likely more beneficial?
    - Mix of non-contributions contingent transfers, traditional social insurance and market-based micro-insurance
  - Conditions that focus on (socially valuable) externalities

- SP for growth?
  - Childhood, esp. early childhood:
    - smart child centred interventions
  - Migration and Cities:
    - urban workfare for urban assets
  - Adolescents and Young Adults:
    - workfare with training to offset poor and often irrelevant education