

Global Crisis and Fiscal Space For Social Protection

Armin Bauer

David E. Bloom

Jocelyn E. Finlay

JP Sevilla

Asian Development Bank

Harvard School of Public Health

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Key messages

1. The global crisis generates a renewed interest in Social Protection as an investment rather than public spending for “wasteful consumption. (Keynes: public spending for infrastructure AND programs for the poor)
2. There is indeed fiscal space for expanded SP in many countries.
3. SP is an element of many stimulus packages, but dollar allocations remain low
4. Globalization growth was high, but not inclusive; growth to come will be lower and by itself even more exclusive. External factors (climate change) further aggravate the situation.
5. Hence, this is the time to engage in fundamental reform and building up sustainable systems for the future, such as

Roles of SP

- Direct support for the vulnerable people in time of crisis and protect against risk
- Keynesian expenditure multiplier (the poor spend when they have money: CCTs and health insurance (PRC))
- Protect investments in human capital (long-term investment): vocational training, education
- Socio-political stability; caring government, addressing inequality → shelter and slum upgrading
- Rebalancing growth towards domestic demand

→ it is a necessary investment, not wasteful consumption

Ambiguity with respect to financing SP in Asia

- On the one hand:
 - It is often mentioned that SP is an important element of crisis response, and that there is increased fiscal space for SP
 - SP is a component of a majority of fiscal stimulus packages.
- On the other hand:
 - SP is small part of pre-crisis budgets ($\approx 5\%$)
 - SP is small percentage of stimulus packages (5-15%)

SP is affordable

Fiscal space is the ability to spend while still being prudent about the budget

Basic social protection is affordable

- BRA Bolza program costs 0.4% of GDP and covers 11 mio families
- INO: 2% of GDP (Asian Financial crisis)
- MEX Progresa costes 0.2% of GDP for 2 mio households
- Basic socialprotection: 4-6%

Estimated costs of basic SP is 4-6% of GDP (OECD = 30%)

Actual expenditures for SP is close

Table 3. Estimated cost of basic SP versus actual expenditures (as % of GDP)

Country	Cost of basic SP package	Actual expenditures in 2004
Bangladesh	6.1	6.3
India	3.9	4
Nepal	7	2.3
Pakistan	3.8	1.6
Vietnam	4.4	4.1

There is fiscal space for spending more on SP

Test 2:

Pre-crisis deficits under 3% of GDP

Pre-crisis tax burden under 20% of GDP

These criteria are satisfied by:

- Armenia, Azerbaijan, Kazakhstan, Kyrgyz Republic,
- PRC, HK China, Korea, Rep.,
- Nepal,
- Brunei, Cambodia, Indonesia, Lao, Philippines, Thailand,
- Marshall Islands

Challenges of tomorrow for social protection

- Growth will be lower in the future:
 - Growth forecasts are slightly revised upwards (2009 = 3.9%), 2010 + 6.4%
 - But way behind the rates of the average mid 2000s (8%)
 - And very much depended on a few countries: PRC, IND -><- LLDCs
- And inequalities (geographical and income groups) are further rising
 - dualistic labor markets are broadening
 - Offer little social protection for the poor
- Family systems make not any more take care
- New challenges
 - Environment- and poverty-induced migration and urbanization,
 - an older Asia,
 - Rising health and education costs (insurance + scholarships)

How to convince the decision makers?

- Consider
 - Time factor is critical in the crisis: quick, focused, showing quick result, multiplier effect, (growth/investment oriented)
 - but those promoting social protection are often slow and not prepared
 - Social justification is not enough; economic reasoning
 - build for the future (not a quick fix for current problems only)
- Increased priority on SP must involve not just commitment to higher expenditures but to fundamental structural reform.
- Social Protection Audit (don't spend on things that are "en vogue"; check first what the society (poor) need; and where you can have biggest effect for poverty reduction; then invest

Fear of fiscal imprudence – implications for SP systems of tomorrow

You can spend your way out of the recession

- Fiscal stimulus packages (% of GDP)
- large: SIN (15%), PRC (10%), KOR
- Medium (3-5% of GDP): PHI, INO, IND
- Low (1%): VIE, THA, MAL

But not for long (ADB's Asian Development Outlook Update)

- Less future growth means less fiscal space for revenues;
- rescue package debts need to be repaid
- Declining ODA (LLDCs)
- Rising prices (spending on drugs, 1998)

Hence the need to move away from short term crisis management:

- Those who rationalize (save) expenditure and can show better outcomes for future problems can convince Minister of Finance best
- But such reforms are more challenging than asking for more money: vote catching programs

Do we spend wisely?

Countries spend on SP

What they spend (3-4% of GDP) could be much more (OECD = 36%), but yet it is close to basic social protection package costs (4-6%)

Calling for system reforms rather than more spending. Current SP systems are

- often not effective (for poverty reduction)
- not broad based to include the vulnerable poor
- May be wasteful (food subsidies)
- Wrongly targeted (CCTs)
- Spending not sustainable (unconditional CTs)

Social protection spending needs to reach out to social spending

- Linkages between health and SP (CCTs), and
- education and SP (scholarships)

Where are the new priorities ?

- Social health, old age, and risk (climate change) insurance
 - Employment (guarantees) for the rural poor that build infrastructure
 - Shelter and low cost housing for the urban poor
 - Higher education and TVET for the unemployed urban youth
- Be careful with transfers
- Before asking for additional funding, try to first finance through cutting subsidies proclaimed to be for the poor and other rationalization of social expenditures,
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- Development banks have the potential to help expanding SP because SP needs money (investment) and not only knowledge and capacities
 - but reforms must start from within before it can go outward.