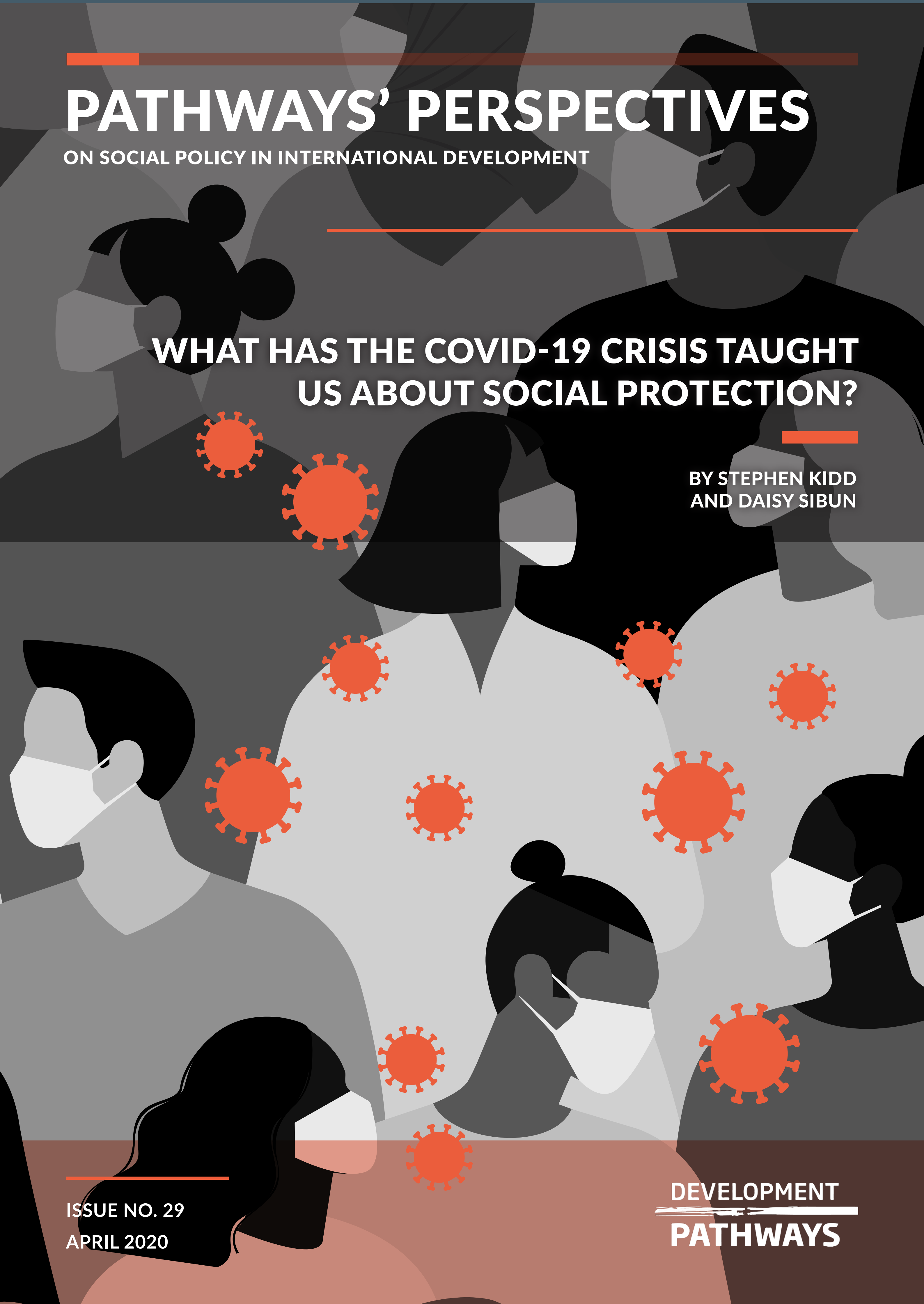
PATHWAYS' PERSPECTIVES
ON SOCIAL POLICY IN INTERNATIONAL DEVELOPMENT



WHAT HAS THE COVID-19 CRISIS TAUGHT US ABOUT SOCIAL PROTECTION?

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DEVELOPMENT PATHWAYS

It is astonishing how rapidly the world is being transformed. Only two months ago, most of us were still going about our normal daily lives. Today, the world is facing a grave health and economic crisis and many of us are in lockdown, unable to socialise with friends and family. Jobs are being lost, salaries are being cut while the self-employed and informal economy workers are experiencing catastrophic losses in income. Those most at risk are older people and people with underlying health conditions, many of whom are disabled. The impacts are worldwide and are likely to increase in the coming months.

Yet, this is happening in a world where, in most low- and middle-income countries, social security systems are entirely inadequate even for normal times, with the vast majority of people – including older people, people with disabilities and children – unable to access any form of income support from the state. Further, in high-income countries, over the past decade some governments have taken advantage of the global economic crisis and used the excuse of 'austerity' to cut social security entitlements, in particular for those living in poverty, the unemployed, people with disabilities and the sick. At the same time, taxes have been reduced which have benefitted mainly the rich and generated much higher levels of inequality.

However, as a result of Covid-19, things have changed. Some countries are putting in place massive programmes of support for their citizens and residents. For example, in my own country, the UK, the government's approach to social security is being turned on its head, at least in the short term. Following a decade of cuts, among other measures the government is now guaranteeing to pay 80 per cent of the wages of employees who would otherwise face the sack, as long as they are retained; similarly, self-employed workers will receive 80 per cent of their income; statutory government-financed sick pay has been introduced for those experiencing Covid-19 (previously, it had to be paid by employers); while the government has offered to guarantee 80 per cent of loans taken by small and medium enterprises. None of us would have believed that our conservative government – which has historically demonised welfare – would now take this approach, which is very welcome (although there are still some people falling through the cracks).

So, as we look around the world, what have we learnt about social protection more broadly as a result of the Covid-19 crisis? My initial thoughts are set out below and, over the next few weeks, Development Pathways hopes to follow up in more detail on many of these aspects.

WE ARE ALL VULNERABLE

In development discourse, it is common to hear the term 'vulnerable groups' used, as if some people are vulnerable while others are not. And, it is often argued that the aim of social protection is to help the 'poor and vulnerable.' Witness the definition of social protection by Stephen Devereux and Rachel Sabates-Wheeler, which has influenced policy thinking in many low and middle-income countries:

"Social protection describes all public and private initiatives that provide income or consumption transfers to ***the poor****, protect* ***the vulnerable*** *against livelihood risks, and enhance the social status and rights of* ***the marginalised****; with the overall objective of reducing the economic and social vulnerability of* ***poor, vulnerable and marginalised*** *groups."*

The aim of 'helping the poor, and vulnerable and marginalised' has been used by advocates of poverty targeting to argue against universality in the design of social security schemes (despite the evidence of widespread failure of poverty targeting worldwide and the fact that the right to social security is a universal entitlement). Yet, Covid-19 has shown us that ***we are all vulnerable.*** Even if the majority of us do not experience the most severe Covid-19 symptoms, we are nonetheless affected economically, with many – perhaps the majority – experiencing significant falls in their standards of living.

We also need to bear in mind that, across low- and middle-income countries, most people were already living in poverty before the crisis, which makes them much less able to address the impact of Covid-19. Figure 1 shows how many people were living, pre-crisis, under different levels of per capita daily consumption across a selection of countries, and it is clear that the majority are living on less than US$10 PPP which, in nominal dollars (which are to the side of the figures), is often very little. Bear in mind that the poverty line in the USA is around US$20 per day, and this should give an idea of how low incomes are across developing countries.

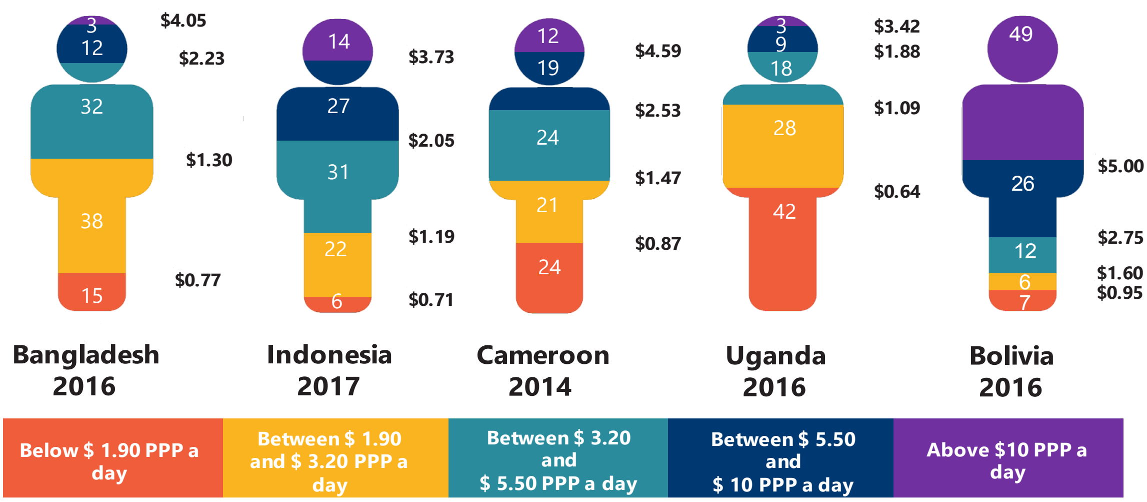
And, even in normal circumstances, incomes are highly variable (see Charles Knox-Vydmanov's blog on how 'the poor' don't exist).

In the context of Covid-19, the simplistic dichotomy of the 'poor and non-poor' – which has often driven social protection policy – makes even less sense than it did prior to the crisis. Today's apparently secure formal sector employee is tomorrow's 'poor person,' once s/he becomes ill or loses their job and income. So, we need to think differently both during and after the crisis.

A UNIVERSAL CRISIS REQUIRES A UNIVERSAL APPROACH TO SOCIAL SECURITY

In a context where we are all vulnerable, a universal crisis like Covid-19 requires a universal response. It makes little sense to use poverty targeting to determine who should receive support and who should not when we may all be affected by the crisis at any time and urgently need support.

FIGURE 1: LEVELS OF PER CAPITA DAILY CONSUMPTION, IN BOTH PURCHASING POWER PARITY (PPP) AND NOMINAL DOLLARS IN A SELECTION OF LOW- AND MIDDLE-INCOME COUNTRIES[1]



Source: PovcalNet.

[1] The colours show the purchasing power parity (PPP) values, while the black numbers to the right of the 'person' figures show nominal (or actual) dollars.

Indeed, we have to remember that, even in normal circumstances, poverty targeting in low- and middle-income countries does not work: as our publication Hit and Miss shows, most poverty-targeted schemes exclude more than half of their intended recipients (and some, more than 90 per cent). During the Covid-19 crisis, it is important to reach everyone while also ensuring that the poorest and most vulnerable members of society are adequately protected: the only way to do this is to adopt a universal approach.

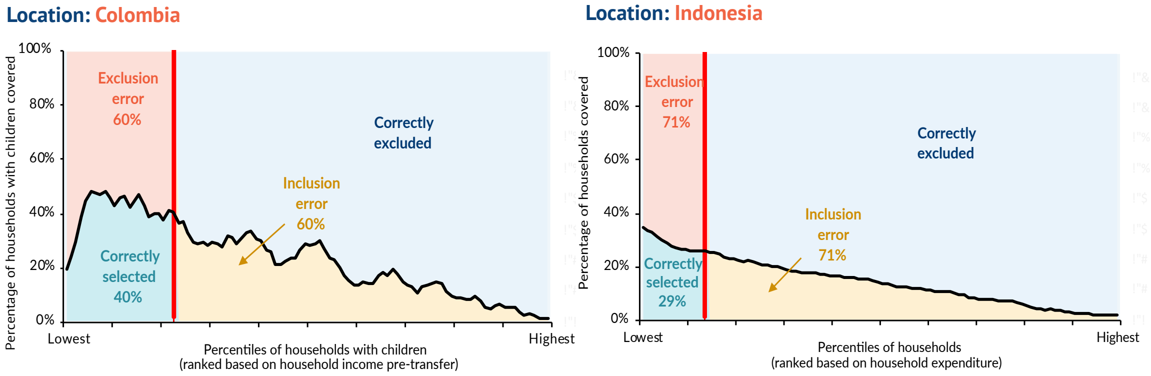
Indeed, during the Covid-19 crisis, poverty targeting tools such as [anti-]social registries that use proxy means tests are almost worse than useless in identifying who should receive support. Given that they use data on household assets that was collected many years ago, they cannot, by their very nature, tell us anything about family incomes during the crisis. So, they absolutely must not be used. But, pity the countries that were persuaded by donors to spend tens of millions of dollars in establishing these useless registries.

It is good, though, to see signs that the World Bank is changing its tune. A recent blog by one of its lead economists has argued that the poorest countries should put in place universal responses. However, he bizarrely still promotes the fallacy that countries where the percentage of 'poor and 'near poor' is less than 50 per cent should still use poverty-targeting. I guess he's referring to middle-income countries such as Colombia and Indonesia where, as Figure 2 shows, the targeting errors produced by their social registries are massive (60 per cent and 71 per cent respectively) and, as I've argued above, most people live on low incomes anyway and everyone is vulnerable to Covid-19.[2] I guess the advocates of poverty targeting find it hard to let go of their deeply ingrained beliefs!

THE ADVOCATES OF POVERTY TARGETING HAVE LEFT COUNTRIES UNABLE TO RESPOND EFFECTIVELY TO COVID-19

One unfortunate consequence of the obsession with poverty targeting is that it has undermined the capacity of low- and middle-income countries to put in place an effective universal response to Covid-19. While many of us have argued for years that countries should establish universal, lifecycle social security systems, it has been difficult to compete with the influence of the true-believers in poverty targeting, who have had the power and, more importantly, the money to persuade countries to introduce poor relief schemes such as conditional cash transfers and workfare. Alongside their high exclusion errors, these programmes have low coverage and exclude, by design, the majority of the

FIGURE 2: TARGETING EFFECTIVENESS IN COLOMBIA'S FAMILIAS EN ACCIÓN PROGRAMME AND INDONESIA'S SOCIAL PROTECTION CARD



Source: Kidd and Athias (2019)

[2] In 2018, 55 per cent of people were living on less than US$10 per day in Colombia and 85 per cent were living on less than US$10 per day in Indonesia. Source: PovCalNet.

population, in particular those on middle incomes (the so-called missing middle). These programmes are not at all appropriate as the basis for a response to a shock such as Covid-19. Indeed, as I've argued elsewhere, their design is based on the type of poor relief scheme that some high-income countries used in the 1700s and 1800s. Further, there is evidence that poverty-targeted CCTs and workfare can cause significant harm.

Most high-income countries have, of course, moved beyond poor relief to build modern, multi-tiered inclusive, lifecycle social security systems, offering, mainly, universal old age, disability, child and unemployment benefits, funded from both general taxation and social insurance. The Covid-19 crisis shows that low- and middle-income countries urgently need to follow the same example if they are to be ready for a similar crisis in the future. Yet, the World Bank and IMF have, in recent years, consistently criticised the universal schemes found in low- and middle-income countries (see here, here and here). Fortunately, most countries have been able to resist the pressure from the International Financial Institutions and can now use these schemes as part of their response, in particular to reach older people (since most universal schemes in low- and middle-income countries are old age pensions).

> "...there are growing calls for countries to introduce universal basic incomes (UBI) ..."

A UNIVERSAL BASIC INCOME IS ALL OF A SUDDEN BEGINNING TO MAKE MORE SENSE

In fact, there are growing calls for countries to introduce universal basic incomes (UBI) as an emergency response to the crisis, thereby offering every member of society a regular and predictable transfer to maintain their wellbeing and act as an economic stimulus. UBIs need to be considered as a serious policy proposal although it is important to remember that they would never be sufficient, whether as an emergency response or as a core component of a national social security system. For example, many people with disabilities would continue to require a higher level of financial assistance to cover the additional costs they experience as the result of their disability (see here). And, care needs to be taken that UBIs are not introduced as a means of reducing current social security entitlements.

THERE REALLY IS NO SUCH THING AS A 'FIXED BUDGET' OR 'LIMITED FISCAL SPACE'

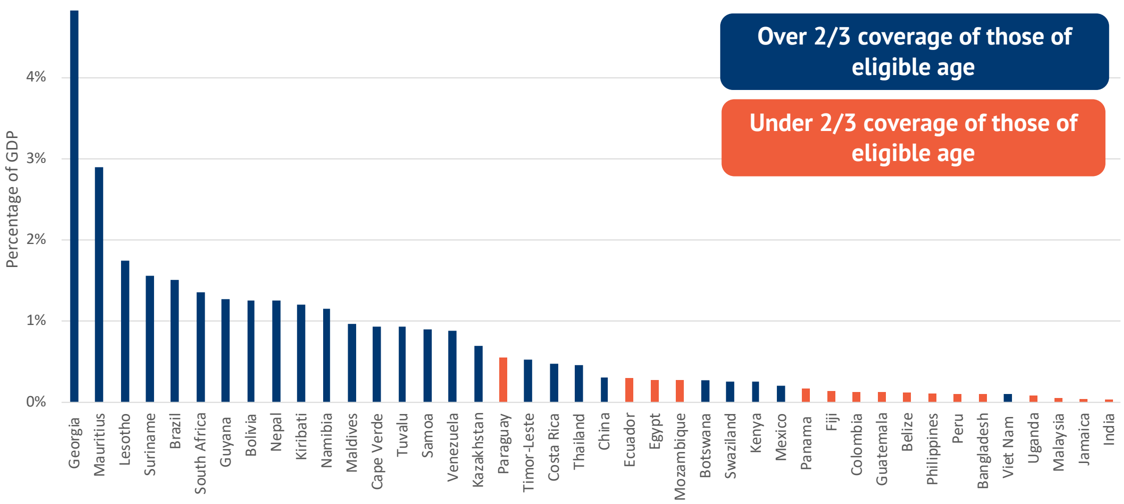
A common argument used by the advocates of poverty targeting is that countries have fixed or limited budgets and they have consistently used this argument to oppose the introduction of universal schemes. Yet, the Covid-19 response shows that this is not the case. In the face of economic collapse, many governments across the world have significantly increased their spending as a means of protecting businesses, families and their economies. For example, the USA has announced a stimulus package equivalent to 10 per cent of GDP, in the UK it will be 18.9 per cent of GDP, in Germany 20 per cent of GDP, in New Zealand 6 per cent of GDP and 15 per cent of GDP in Malaysia.[3] Overall, since the crisis started, the G20 group of countries have announced stimulus packages worth over US$5 trillion.[4]

[3] Sources: US spending from IMF (2020); UK spending from Te Velde (2020); Germany spending from Reuters (2020); New Zealand spending from KPMG (2020); Malaysia spending from NY Times (2020).
[4] Elliott (2020)

The reason for this massive response has been, as discussed above, the universal nature of the impact of Covid-19. We are all at risk of experiencing dramatic falls in our income, including those who, normally, would be considered income secure due to having jobs in the formal economy. Therefore, there is a widespread demand from across electorates for financial support. If democratically elected governments do not give support across the population, they are likely to be removed from power very quickly. Or they risk large-scale social unrest. Therefore, governments have responded and, of course, will gain the political rewards from doing so.

In reality, the claim that governments have fixed or limited budgets has never been true. Analysis based on the political economy of targeting has demonstrated that, because universal schemes are popular across all economic classes, when policymakers realise the social, economic and political advantages of introducing them, they easily find the fiscal resources required. For example, the most recent country to introduce a universal pension in Africa – Kenya – was able to quickly find the additional funding necessary, significantly expanding its overall level of investment in social protection; and, Nepal, in 2018, was able, overnight, to reduce the age of eligibility of its universal pension from 70 years to 65 and, in addition, double the value of the transfer, a very significant increase in investment. As Figure 3 demonstrates, across low and middle-income countries, the level of investment in universal – or high coverage – pensions is significantly higher than the level of investment in targeted programmes.

FIGURE 3: THE LEVEL OF INVESTMENT IN OLD AGE SOCIAL PENSIONS ACROSS LOW- AND MIDDLE-INCOME COUNTRIES



Source: Government of Kenya (2019); HelpAge International (2015); Kidd et al (2018); Wapling and Schjoedt (Forthcoming); Wapling et al (Forthcoming); Kidd (2014); Kidd and Khondker (2013); Kidd and Huda (2013); Kidd et al (2016); Government of the Kingdom of Lesotho (2015); CEPAL (No date).

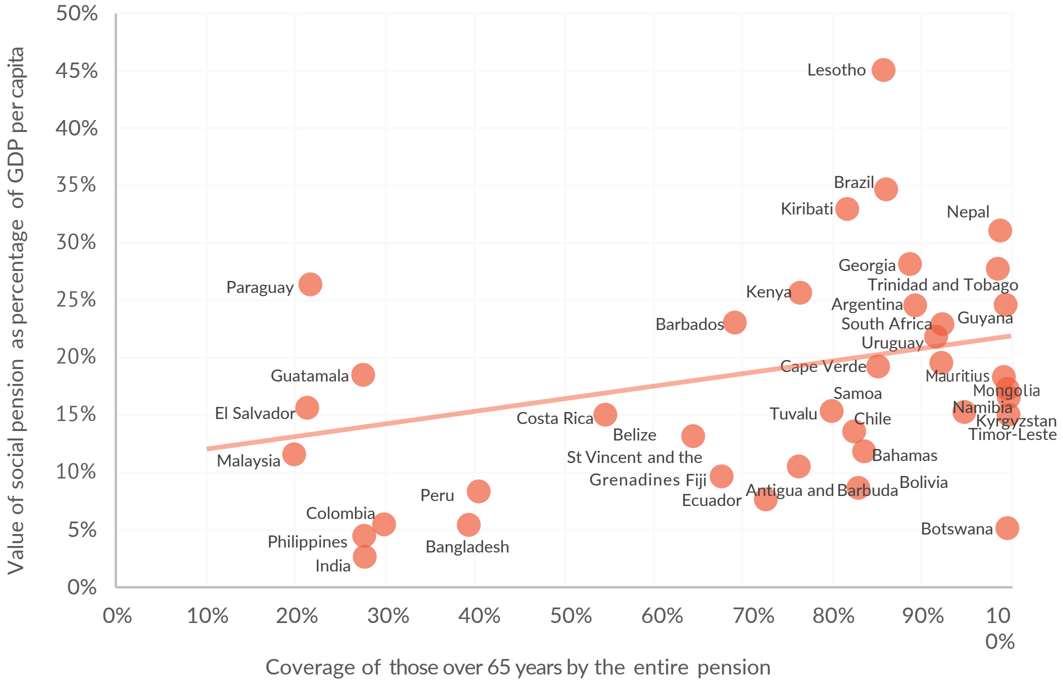
Further, universal schemes tend to have higher transfer values than those that are poverty-targeted. Figure 4 shows the relationship between old age pension coverage and the value of the social pension across low- and middle-income countries that have scored above 5 on the Economist's democracy index. There is a clear trend for countries with higher coverage to provide higher value transfers. In fact, among the 13 countries with transfer values above 20 per cent of GDP per capita, only one (Paraguay) has low pension coverage. Further, across all countries with social pensions – including high-income countries – that have a score above 5 on the Democracy Index, the average transfer value among those with coverage above 70 per cent is 17.6 per cent of GDP per capita and only 11.4 per cent of GDP per capita among those with coverage below 40 per cent.

In reality, universal schemes benefit the poorest members of society much more than poverty targeted programmes – due to higher transfers and greater inclusion – and this rings even truer during the present Covid-19 crisis. Hopefully, once the crisis is over, the advocates of poverty-targeting will see sense and realise that it is now time to build modern, inclusive social security systems based on universal schemes, and to move away from their obsession with poor relief. If so, when the next crisis hits – and it will – countries will be better prepared.

WE ARE ALL KEYNESIANS NOW

In recent decades, many countries have suffered from the imposition of neoliberal policies that have sought to cut taxes and shrink the size of the state, limiting or reducing access to social protection and other public services. Since the global financial

FIGURE 4: RELATIONSHIP BETWEEN THE VALUE OF SOCIAL PENSION AND COVERAGE OF OLDER PEOPLE ACROSS LOW- AND MIDDLE-INCOME COUNTRIES THAT SCORE 5+ ON DEMOCRACY INDEX



Source: HelpAge International (2015), Wapling et al (2020); Kidd and Damerau (2016). Democracy Index figures are retrieved from The Economist Intelligence Unit.

crisis, right-wing policymakers have taken advantage of the moment to impose austerity and further cut public spending, reducing the coverage and value of social protection benefits. The main beneficiaries have been the rich, who have seen their taxes slashed while poverty and inequality have increased.

Yet, as the Covid-19 crisis has hit the economies of countries across the world, many right-wing politicians have abandoned their neoliberal principles and have backed massive stimulus packages as a means of keeping their economies afloat. It is a rapid conversion to Keynesianism. There has been a clear realisation that, as people lose their jobs and spending power falls, the state needs to step in to keep demand and consumption up. If not, businesses will collapse and political support will drain away. Indeed, it is clear now that Keynesian economics is probably the only true 'common sense' economics, despite the fact that it is often no longer taught to budding economists at many of those universities in thrall to neoliberal economics.

The question is, though, why have they rejected Keynesianism during normal times? In recent years, most low- and middle-income countries would have benefited from significant increases in cash in their economies, through the introduction of large-scale social security schemes. This would not only have enhanced wellbeing across the population but would have helped drive economic growth and expand opportunities for entrepreneurs.

So, once the Covid-19 crisis is over, let us hope that the conversion of neoliberals to Keynesianism remains and countries realise that they have to continue to use the redistribution of wealth from the rich to the majority of the population to drive growth and keep their economies strong. It is no coincidence that the world's most successful economies inject, on average, 12 per cent of GDP into their economies each year through social security. Imagine what would happen to their economies if this cash were withdrawn.

CONCLUSION

As a result of Covid-19, the world of social protection has changed, hopefully for good. Covid-19 has demonstrated clearly that we are all vulnerable. This should not be news to us: we have all always been at risk of illness, disability and unemployment and we will all, hopefully, reach old age with the inevitable consequence that our capacity to earn will gradually reduce. Our shared vulnerability as members of the human race was the reason why the Universal Declaration of Human Rights declared that we all have the right to access social security. If countries had fulfilled on this commitment, they would be in a much better position now to respond to the Covid-19 crisis.

Moving forward, the lessons learned from Covid-19 must be remembered. It is essential that the foolishness of targeting social protection at the poorest members of society ceases. Low- and middle-income countries must move from their 18th and 19th Century poor relief models based on CCTs and workfare – which only really benefit the rich through lower taxes – to build inclusive, lifecycle social security systems. This will require significant redistribution from the rich to the majority of the population and will require the rich to pay their fair share of tax rather than moving their wealth overseas. Social security systems that benefit everyone can be built in almost all countries, if there is a newfound political will. Hopefully, this universal crisis has made us realise that we need to strengthen our sense of social solidarity to create more equal societies and invest not only in a few but in the many. Let us hope that the true believers in poverty targeting listen and learn.

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