



Strengthening the social contract in Jordan: the role of universal social security

Stephen Kidd, Maria del Mar Logrono-Narbona and Diloa Athias

March 2022

DEVELOPMENT
PATHWAYS



النهضة العربية للديمقراطية والتنمية
Arab Renaissance for Democracy & Development

Introduction

A strong social contract is a precious resource for any country. At its heart, the social contract is an agreement between the residents of a country and its government: as indicated by Figure 1, residents agree to contribute to the state, especially through taxation, and, in return, the government provides good quality public services to everyone.

When the social contract functions well, societies are peaceful and cohesive, economies are strong, democracy can flourish, and the nation-state is robust. However, a strong social contract depends on the residents of a country being able to trust their government. Trust is built by governments using taxation to provide good quality public services to everyone, including social security.

If, by not providing the quality of services that residents expect, governments are perceived as not fulfilling their side of the bargain, trust is broken, and disillusionment can set in, threatening the social contract.

The risk of social unrest increases while people become less willing to pay taxes. Societies can become fractured, threatening the popularity of governments as well as democracy, while economic growth and prosperity can be undermined.

Across the Arab world, the social contract has been under threat for many years, with some states collapsing entirely, especially after their economies came under stress following the global recession of 2008/09.

While Jordan is still relatively stable, there are signs that the social contract is also under stress. Government revenues as a percentage of GDP have declined from 35.5 per cent in 2004 to 22.7 per cent in 2019: this can be compared with a norm of revenues of between 35 and 50 per cent of GDP in those high-income countries that have strong social contracts.

A poll in 2018 found that 72 per cent of Jordanians did not have confidence in their Parliament, which is unsurprising given that 58 per cent of those responding in the same poll reported that their incomes did not cover even regular household expenses.

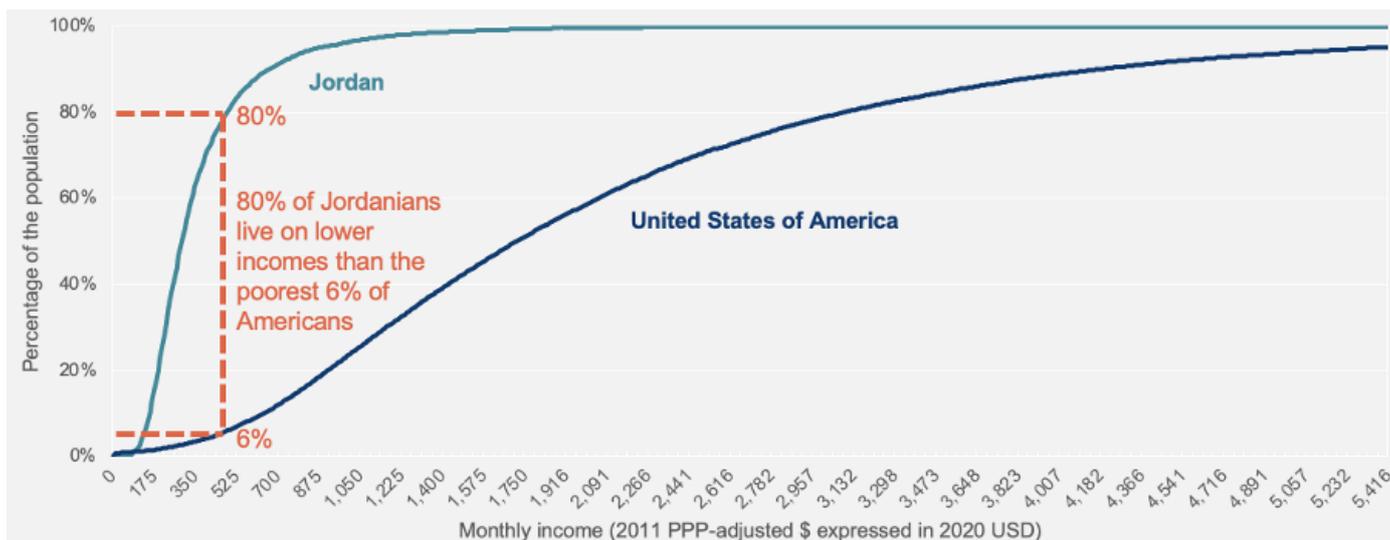
The risk of the social contract being undermined in Jordan is increased due to widespread low incomes. As Figure 2 shows, 80 per cent of Jordan's population has a standard of living below the poorest 6 per cent of the population in the USA and, therefore, would be considered as living in extreme poverty in the USA.

The COVID-19 crisis has further undermined incomes in Jordan, placing even greater stress on the resilience of the population, which demands a comprehensive response from the Government to address potentially growing dissatisfaction across the population.

Figure 1: The social contract as an agreement between the residents of a country and the government



Figure 2: Comparison of welfare distribution in Jordan and the United States



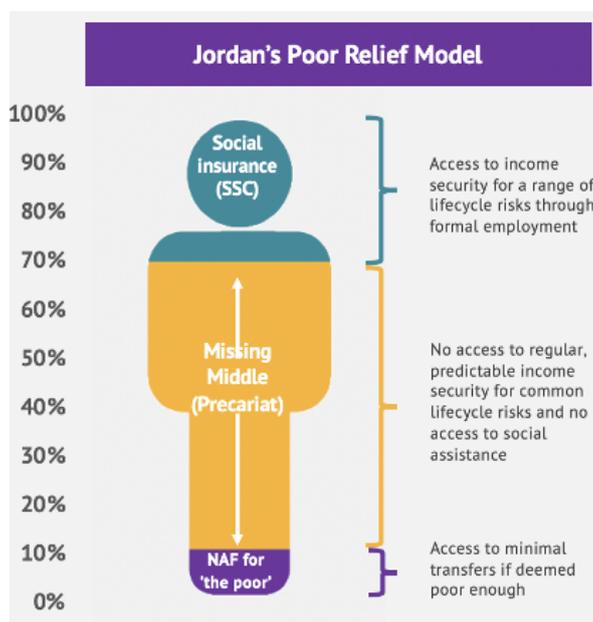
The role of social security in strengthening – or weakening – the social contract

Social security comprises the system of regular and predictable income transfers that the state provides to its residents. These transfers can be either contributory – such as from the Social Security Corporation – or financed from general government revenues, such as the National Aid Fund (NAF).

However, Jordan’s current social security system reaches only around half the workforce and, nationally, there are significant gaps in the coverage of children, persons with disabilities and older persons.

As indicated by Figure 3, by design the main recipients are formal economy employees and the poorest members of society. Those employed on middle – but still low – incomes in the informal economy are excluded from the system.

Figure 3: Depiction of Jordan’s social security system



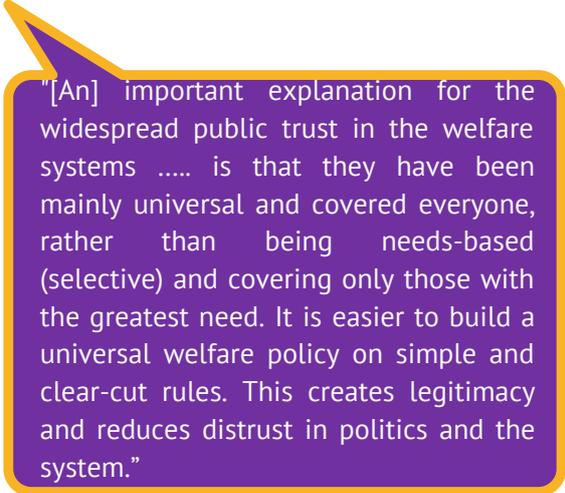
The current design of the NAF, which targets those living in extreme poverty, is reminiscent of the poor relief programmes of 19th and early 20th Century Europe.

These poor relief schemes, however, undermined trust in European governments, by stigmatising recipients and excluding most of the population, including the main taxpayers. This limited trust in government, and a weak social contract, contributed to low government revenues and poor-quality public services, which, in turn, facilitated the rise of social unrest, fascism, and two World Wars.

Recognising the damage done by poor relief, following the Second World War, Western Europe changed its social model and began to offer universal public services, including universal social security. The model was encapsulated within the Universal Declaration of Human Rights, which stipulated the right to social security for everyone.

The move to universal public services – with old age pensions, child benefits and disability benefits playing a major role – contributed to the building of an effective social contract, the strengthening of democracy and prosperity.

As the Finance Ministry of Sweden argues when explaining the trust of its population in the government:



"[An] important explanation for the widespread public trust in the welfare systems is that they have been mainly universal and covered everyone, rather than being needs-based (selective) and covering only those with the greatest need. It is easier to build a universal welfare policy on simple and clear-cut rules. This creates legitimacy and reduces distrust in politics and the system."

It is likely that Jordan's social security system contributes to undermining trust in the Government. On the one hand, by excluding a high proportion of the population, many of whom are struggling, the system creates a perception that the Government does not care.

On the other hand, the current humanitarian architecture through the Jordan Compact, which has been chronically underfunded over the past years, is ill-equipped to fulfil the needs of both refugee and host communities.

This is exacerbated by the poor quality of the schemes delivered by NAF which only reach a third of those living in extreme poverty and is beset by inaccurate and arbitrary targeting. It gives the impression of a state that is unwilling to provide high quality services to its people.

The solution: universal social security

In such a context, there is the pressing need for a vision that better protects individuals and strengthens the capacities and capabilities of institutions to better address gaps in social protection and move from relief to development.

Shifting the current social protection paradigm of poverty alleviation to an inclusive social protection system that includes Jordan nationals and refugees alike and that it is fiscally sustainable is such a vision.

The basis of the system could be universal benefits for children, older people and persons with disabilities, progressively built over the next 10 to 20 years. This system would reach the vast majority of households.

The cash received each month would be visible proof that the Government cares for all. Indeed, the provision of universal social security transfers would, over time, likely encourage people to accept higher levels of taxation.

As indicated by Figure 4, a universal social security system would create a virtuous circle in which trust is built in government which feeds through into a stronger social contract, higher government revenues and further investment in universal social security, as well as health, education, social services, and infrastructure.

At the same time, it is imperative that refugees are included in the social contract.

As the Jordan Response Plan for the Syrian crisis remains chronically underfunded, competition for resources endangers possibilities for social cohesion in Jordan. In 2021, the funding received amounted to a meagre 30.6 per cent of the plan's requirements.

It is still fiscally feasible for Jordan to build a universal social security system. One option – initially using relatively low transfer values which could subsequently be increased – could employ the following parameters:

Figure 4: The virtuous circle that can be created by universal social security transfers.



- **A universal child benefit** would be a tangible investment in Jordan's future generations, helping to ensure that all children can access the nutrition and services they need to thrive. The benefit could start at JOD 12 per month for all children aged 0–2 years in the first year. After that, the age of eligibility could gradually expand by one year each year until all children are covered.
- **A universal disability benefit for all children and working age adults with disabilities**, starting at JOD 40 per month, would enable people with disabilities to live in dignity and reach their full potential.
- **A guaranteed old age pension** for all those who are not receiving a pension from the contributory system would ensure that everyone in Jordan has income security in their final years, after a lifetime of contributions to the economy and society. Initially, a pension of JOD 40 per month could be provided to those aged 70 and above. By 2027, the age of eligibility could be gradually reduced to age 65.

The overall cost of introducing this system would be only 0.83 per cent of GDP in 2022, rising to only 2 per cent of GDP in 2035. This is less than Nepal, a much poorer country, spends at present on similar schemes and is much lower than the 3.4 per cent spent by South Africa, which has a similar GDP per capita to Jordan. The new schemes could be managed by the Social Security Corporation and delivered alongside its contributory programmes.

If this universal system were introduced, it would be very popular and the Government would gain significant political credit. It would be recognised as fair and equal and, over time, would strengthen the social contract and build the virtuous circle that Jordan requires. Importantly, it would offer income support to the many people in real need following COVID-19 and, by generating greater demand across the economy, would strengthen economic recovery. It is an investment that Jordan urgently needs to make.

It needs to be borne in mind that the USA has recently introduced a child benefit for 95 per cent of its children. If families across the USA require support from social security, surely the children of Jordan, as well as other vulnerable members of the population, require similar support given that almost all would be regarded as living in extreme poverty in the USA.