The US-American or the European Way of Life: Extending Social Security to the Poor a Feasible Option for Emerging Economies!

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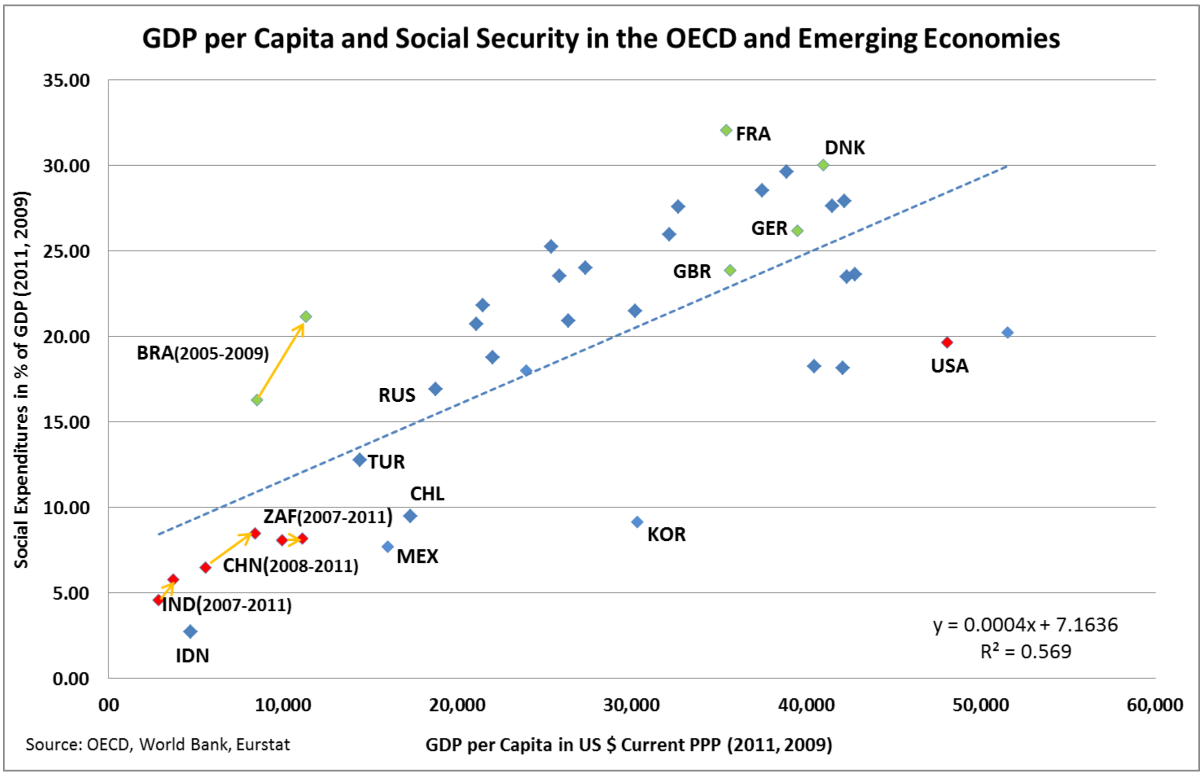
It is a real option, there is an urgent need for, and it would be within reach, at least economically: Extending social security to the poor in so called "*emerging economies*" (EE) like China, India, Brazil, South Africa, Russia, Mexico, Chile or Indonesia. As these countries climb up the ladder of economic wealth and prosperity, more and more groups of society rightly ask for their fair share of the growing cake. But market economies itself do not deliver fair solutions; on the contrary, they tend to increase the strengths of the already strong ones. Therefore, political economy considerations would suggest pro-poor policies and fighting inequalities. At least for reasons which should not be irrelevant for politicians in democratic countries, but in authoritarian as well: increasing the chances of being re-elected because of satisfying the needs of the majority of constituents and avoiding social unrests and upheavals.
As the picture below reveals, with the exception of Brazil and Russia, many emerging economies are lagging behind their economic potential. The dotted line gives an average correlation between economic wealth and the expenditures level for social security. China and India, for example: they became richer in the recent years but they improved their systems of social protection only marginally, i.e. coming closer to the line. South Africa is even moving in the wrong direction. Only Brazil decisively enhanced the coverage of social security programmes, running "*Bolsa Familia*" for example (see below).



Growth is not enough

What about the famous hypotheses of the so called "*trickle-down effects*" of GDP growth which basically states that in the end every group in society will benefit from more growth?

Looking at the economic development in emerging countries in the last two decades from the early 1990 to 2009/2010 (see table below), the answer is: not necessarily! In Turkey, it takes on average 8.4% of GDP per capita growth for decreasing the poverty rate by 1 percentage point; for India, 7.0%, for Chile 6.2%, but only 1.8% for Indonesia, 1.7% for Mexico, and 1.4% for Brazil. So, growth seems to be an important ingredient, but other factors, like social transfer programmes, seem to play an even more important role! As usual: Policies matter!

GDP per Cap Growth and Poverty Reduction

Change from 1990/1993 to 2009/2010	Change in GDP per capita in %	Change in Poverty 2 US $ in %points	Change in GDP per capita per %point decrease in poverty
Turkey	2.7	-0.3	8.4
India	5.7	-0.8	7.0
Chile	3.7	-0.6	6.2
Russia	2.4	-0.5	4.8
China	9.5	-3.0	3.1
South Afrika	1.5	-0.6	2.5
Vietnam	6.3	-2.8	2.2
Indonesia	3.4	-1.9	1.8
Mexico	1.0	-0.6	1.7
Brazil	1.4	-1.0	1.4
Source: World Bank			

Extend coverage and enforce implementation of very patchy social protection systems

With the exception of Brazil, Russia and Turkey, the expenditure levels in emerging countries are below 10% of GDP, in many OECD countries they range between 18% and 32%. Contributory social insurance programmes, mostly in the form of pension schemes, financed by workers and employers account for the bulk of public social expenditures, particularly in China, India and Indonesia. The share of workforce contributing to a pension or health insurance plan ranges from some 10% in India and Indonesia to 50%-60% in Brazil and South Africa (OECD 2011a). Low coverage reflects in many cases a high incidence of informality and self-employment. By contrast, in India about half of social programmes are financed out of general taxation (i.e. social assistance), in South Africa this is the case for almost all programmes. Social insurance is most comprehensive in Turkey, including health, old-age, unemployment, disability and others while it only covers unemployment in South Africa. In China and India, the insurance schemes are particularly fragmented insofar as regions, various labour market groups and authorities (county, municipality) are concerned; until recently, the schemes in China covered urban areas only.

Brazil, South Africa and Chile spend slightly less than the OECD average, i.e. some 9% of GDP, for health, halve of it financed privately; in India and China the expenditures sum up to some 4% in 2009 (OECD 2012). Severance payments represent the main form of unemployment compensation in emerging economies, this is particularly true for India, Indonesia and Mexi-

co, which almost completely lack an unemployment insurance system (OECD 2011b). In China and South Africa, some 10% of all unemployed receive benefits, in Turkey 13%, in Russia 23% and in Brazil 30%; the OECD average is slightly below 50%. Conditional or unconditional cash transfer programmes mainly aim at reducing poverty; the first category of schemes condition on actions of the beneficiaries in terms of investment in education, medical check-up for children and pregnant women, etc. These programmes are particularly popular in South Africa, Brazil, China and Mexico. Another anti-poverty measure are public works programmes. They are run on a large scale in India (NREGA) and South Africa (EPWP), where 10% and 3.4%, respectively, of the labour force are beneficiaries of these programmes. Expenditures sum up to some 0.5% of GDP. And finally a word on financing public social programmes: The tax/GDP ratio in Russia, Brazil and South Africa is around 30%, far less in China (22%) and India (17%, OECD 2011a). The OECD average is around 35% of GDP. In most countries, consumption taxes contribute more than 50% of overall revenues, with the exception of South Africa and Brazil, where income/corporate taxes and social security contributions, respectively, play a non-negligible role in financing public expenditures.
To sum up: the existing social protection schemes are very fragmented at the moment and are run on a level below economic potentials.

Effects of social protection policies on poverty and inequality in emerging economies

On average, taxes and transfer systems in OECD countries reduce inequalities by some 25%: In 2008, Gini coefficients of market incomes stood at 0.41 but were reduced to 0.30 through state interventions. In countries like Finland, Austria and Belgium, these figures even climb up to about 37%. Public net transfers reduce poverty rates in Europe by some 66% but only to 40% in South Africa and 28% in Brazil (OECD 2011c).
In what follows, some particular country examples are described:

1) Brazil

Looking at poverty rates and inequality levels, since the beginning of the 1990 the development in Brazil has been outstanding: Poverty could be decreased to 1/3 the level 20 years ago (see below). The gaps between low and high incomes decreased even in times of rising inequalities, admittedly from very high levels. GDP growth contributed only to a minor degree to this remarkable development. What role played social security programmes? Brazil has a comprehensive social insurance scheme financed by social contributions which covers old-age pensions, maternity, disability, and work-accident benefits for all private sector employees and self-employed, and their dependents. In many respects (e.g. unemployment and health insurance), Brazil is close to the OECD average in terms of social protection. Regarding increased consumption, reduced poverty and raised children attendance at school, *Bolsa familia* seems to be a particular effective anti-poverty programme: Some 12 million households received the conditional transfer (20% of total households), the expenditures for this programme amounted to 0.4% of GDP (OECD 2011b).

2) China

China is remarkable because of its outstanding growth rates. However, compared for example with Viet Nam, a country which in terms of poverty reduction has performed similar to

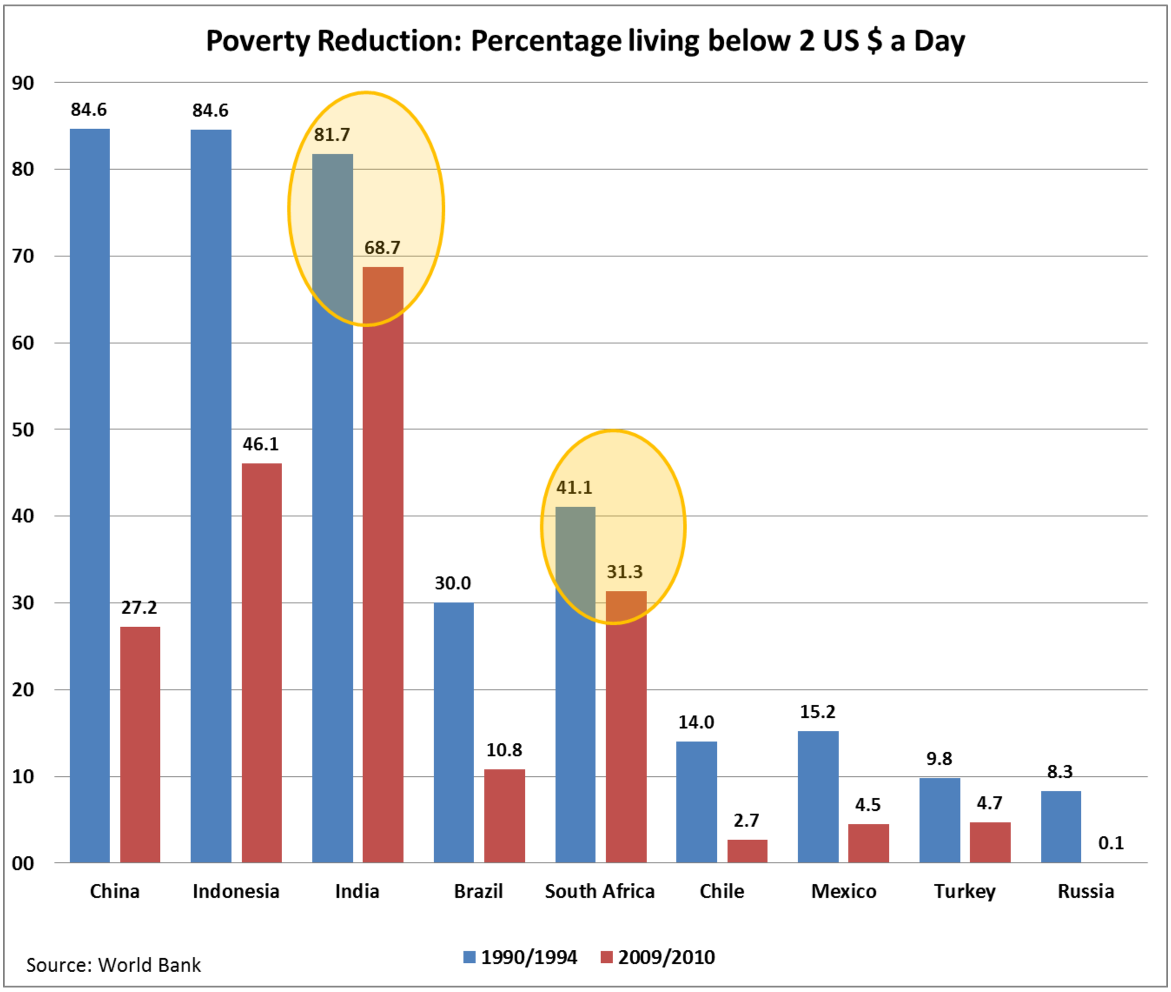
China, wealth is "*trickling down*" at an unsatisfactory pace. Social spending has been increased form 6% of GDP (2007) to 8.5% (2011) but programmes are still very fragmented, not at least due to the urban registration system (hukou). This adversely affects rural migrants, i. e. some 150 million person, one of the most vulnerable groups in China. To give an example, namely unemployment insurance: In 2008, 124 million persons were insured (of this, some 15 million rural migrants). This is a coverage rate of 45% of all workers. But only 2.6 million persons (2.8% of total) received unemployment benefits (Zhu 2009). It is obvious that this patchy system fails to have a strong effect on poverty and inequality.
But the next two countries perform even worse, clearly below their economic possibilities.

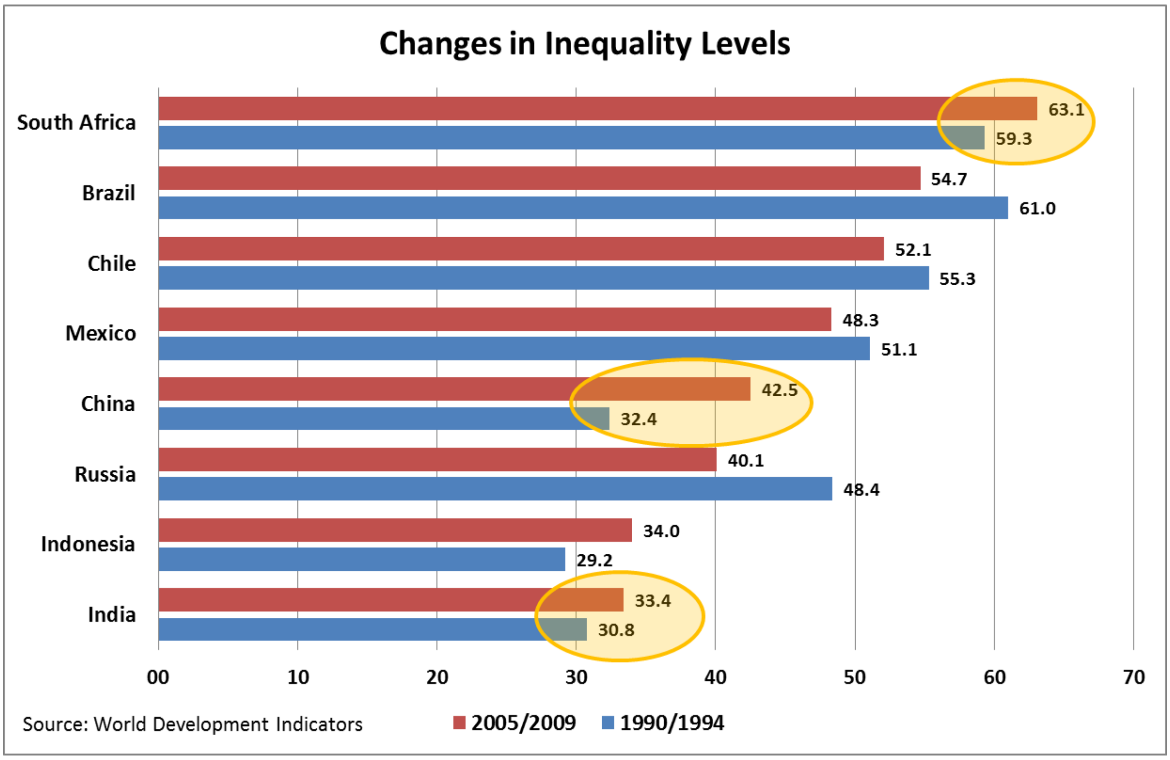
3) South Africa

Under the ruling ANC, the country has reduced poverty only marginally and the very high inequalities increased from already high levels to even higher ones. The legacy of the Apartheid system is still strong: The per capita incomes of Africans stood at 10.9% of the White population in 1993, but increased only marginally to 13.0% in 2008. Half of the social protection expenditures go to social grants, child support and old age pensions in particular. South Africa runs a large "*Expanded Public Works Programme*" including some 3.5% of the labour force at cost of approximately 0.5% of GDP. What about the redistribution effects of the tax and transfer system in South Africa? According to Leibbrandt et. al. (2010), the income components for the lower deciles in the distribution come more and more from the government, comparing 1993 with 2008. However Gini coefficients come down from 0.69 for market incomes to 0.47 only. So, more could be done.

4) India

The development in India is particularly disappointing. Since 1994, the growth rate of GDP per capita was at 5.7% per year, but poverty was reduced on a marginal scale of 0.8 percentage points per year. The Indian social protection system is still extremely fragmented. A number of social insurance schemes exist, all of very limited coverage. Health insurance and maternity benefits are provided to highly-skilled employees in large and medium-sized businesses. The most important non-contributory safety nets for the poor households are the national rural public employment programmes (NREGA) and the product subsidies on rice and fuel. But as this guarantee for up to 100 days of unskilled manual wage employment is implemented at a local level, corruption seems to hinder an effective delivery system, reaching all poor most in need. But the most severe problem in India is the very large share of workers in the informal sector of up to 90% of all workers (see below).


Poverty Reduction: Percentage living below 2 US $ a Day
90
80
70
60
50
40
30
20
10
00
84.6
27.2
84.6
46.1
81.7
68.7
30.0
10.8
41.1
31.3
14.0
2.7
15.2
4.5
9.8
4.7
8.3
0.1
China
Indonesia
India
Brazil
South Africa
Chile
Mexico
Turkey
Russia
Source: World Bank
1990/1994
2009/2010


Changes in Inequality Levels
South Africa
Brazil
Chile
Mexico
China
Russia
Indonesia
India
63.1
59.3
54.7
61.0
52.1
55.3
48.3
51.1
42.5
32.4
40.1
48.4
34.0
29.2
33.4
30.8
00
10
20
30
40
50
60
70
Source: World Development Indicators
2005/2009
1990/1994

Informal employment – the case of India

The extension of social protection to larger segments of societies crucially depends on the ability to transform informal workers (i. e. workers in the informal sector and informal workers in the formal sector not paying taxes, not being registered for social security or complying with labour legislation) to formal ones. Depending on the exact definition, in India between 55%-85% of total employment work in informal employment, in Brazil between 35%-50%, in South Africa around 30%, and in China about 20%-30% (OECD 2011a).

People working in the underground economy have to face several difficulties: There is a wage penalty, there are unstable jobs, and workers are not part of any human capital formation at all. In India, for example, 4/5 of all poor and vulnerable worker are to be found in the "*unorganised sector*" (informal sector, NCEUS 2007). According to Naik (2009), out of 457 million workers in 2004-2005, 395 million (86%) worked in the informal sector. In agriculture and retail, 97% of all workers are doing this informally. In the state of Bihar, 94% are undeclared workers, in Kerala only 63%. But even in the formal sector, about half work informal. *„A similar pattern of increasing informality and deteriorating working conditions for some groups of the population has been observed in India during the 2000s, as most of the net increase in employment observed in recent years has occurred mainly in the least productive, unorganised and informal sector of the economy due to the decline of employment in both the public sector and the private organised sector, and the progressive increase in the proportion of self-employment and casual workers"* (OECD 2010a).

An IMF Working Paper which analyses the situation in 100 countries, including advanced countries, emerging markets, and development countries, concludes on the determining factors of the underground economy: "*We find that when businesses are faced with onerous regulation, inconsistent enforcement and corruption, they have an incentive to hide their activities in the underground economy. Empirical analysis suggests that institutions* (e. g. political stability, government effectiveness, regulatory quality, the rule of law) *are a more important determinant of the underground economy than tax rates"* (Singh et. al. 2012). Development countries have on average lower tax rates but higher shares of informal employment – this would be a further rather crude argument against an outstanding role of taxes.

One of the key factors helping the poor und vulnerable out of informal employment is to raise their productivity. This can be seen by the productivity levels (2005 US $ per year) in the primary sector for 2010: $ 1154 in India, $ 1649 in China, $ 5048 in Brazil, and $ 10725 in South Africa.

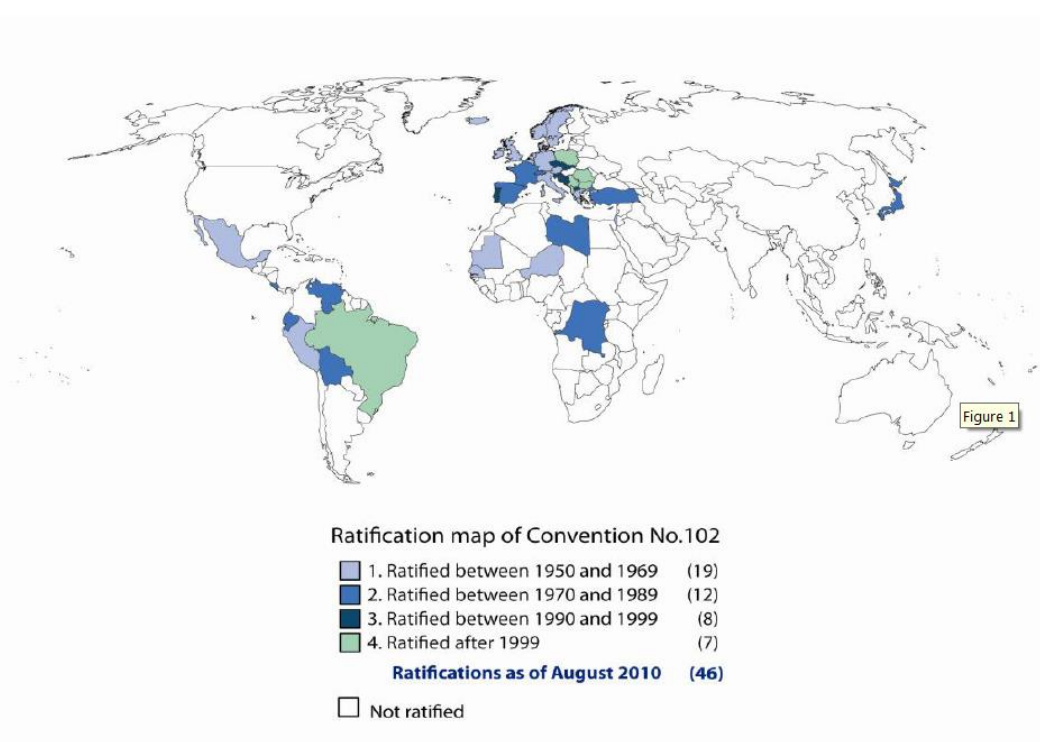
In India, the government tried with"*The unorganised worker´s social security Act*" (2008) to extend some elements of social security to the unorganised workers. However, up to now, this exercise was a complete failure (Remesh 2010, Gosh 2009, Dhas/Helen 2008).

The ILO Social Protection Floor

All over the world, some 75%-80% of world population (i.e. 5.1 billion people) are without any access to essential social security. Therefore, the ILO adopted the "*Social Protection Floor Recommendation*", No 202, in 2012. It should comprise at least four nationally-defined guarantees in the following areas: (1) Access to a set of goods and services constituting es-

sential health care. Including maternity care; (2) basic income security for children; (3) basic income security for persons in active age who are unable to earn sufficient income (in case of sickness, unemployment, disability, etc.); (4) basic income security for older. Gradually, all countries should move up the "*social security staircase*" by providing social protection to more and more groups in society at an ever increasing level. In a study covering 12 low-income countries, the ILO (2008) estimated that the immediate costs of a set of basic social protection benefits (pensions, health care, child benefits, social assistance/employment benefits, administrative costs) would amount to 3.8% of GDP for Pakistan, 3.9% for India, 4.4% for Viet Nam and Guinea, 6.0% for Cameroon, 6.1% for Bangladesh, 6.6% for Senegal, 7.0% for Nepal, 7.9% for Tanzania, 8.2% for Kenya, 8.8% for Ethiopia, and 10.6% for Burkina Faso. So, this move would be affordable.
But up to now, the ILO was not particularly successful in extending social security. After more than 60 years, the central Social Security (Minimum Standards) Convention No. 102 (1952) was ratified by only 48 member states (out of 185); most recently by Brazil, Bulgaria, Romania and Uruguay (see below). Other social security conventions have received even fewer ratifications: Convention No 121 (Employment Injury) was ratified by 24 member states; No 128 (Invalidity, Old-Age, Survivors) by 16 member states; No. 130 (Medical Care and Sickness) by 15, No 183 (Maternity Protection) by 13 and No 168 (Employment Promotion and Protection) by 7 member states. Out of this 8 social security conventions, China and South Africa have so far ratified none of them, India only Convention No 118 (in 1964), and Brazil 3.

. **Ratifications of the Social Security (Minimum Standards) Convention, 1952 (No. 102)**



Source: ILO ILOLEX, November 2010.

Conclusions

Historically, in Europe (Germany) the first elements of social security were established around 1880. With this move, Bismarck tried to pacify the upcoming working class. Given, for example, the still very relevant caste system in India, it is very unlikely that the poor´s demand for higher social protection levels will come onto the surface in due course. But times, they are a changing: In South Africa, sooner or later, Nelson Mandela, the symbol for the anti-apartheid struggle, will die. And then, new political groups will fight for their rights and against prevalent corruption. Or in China: the increasing middle class will, sooner or later, demand more political rights. And Brazil: The “generation Lula” is currently entering the streets in Sao Paulo to ask for lower ticket prizes – but for more political representation in general.

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