

Universal Values: Universal Social Protection

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Social security – a universal right

- Universal Declaration of Human Rights:
 - Art 22: Everyone has a **right to social security**
 - Art 25: Everyone has the **right to a standard of living adequate for the health and well-being of himself and of his family**, including food, clothing, housing and medical care and necessary social services, and the **right to security** in the event of unemployment, sickness, disability, widowhood, old age, etc. Motherhood and childhood are entitled to special care and assistance.

Universalism and targeting: very different ideologies

- Up to 1970s, universal approach prevalent
 - Associated with social democracy
 - Aims of equity, social cohesion, nation-building, not explicitly poverty reduction
 - Progressive taxation
 - Significant progress in reducing poverty and inequality in developed countries (eg. model of Nordic countries)
- 1970s+: rise of Reagan/Thatcher consensus and dominance of neo-liberalism
 - Focus on economic growth, trickle-down and small state
 - Emphasis on poverty targeted “safety nets”
 - Poverty targeting is key component of Washington consensus; safety nets in WDR of 1990
 - Rise in inequality – UK has higher inequality now than under Thatcher

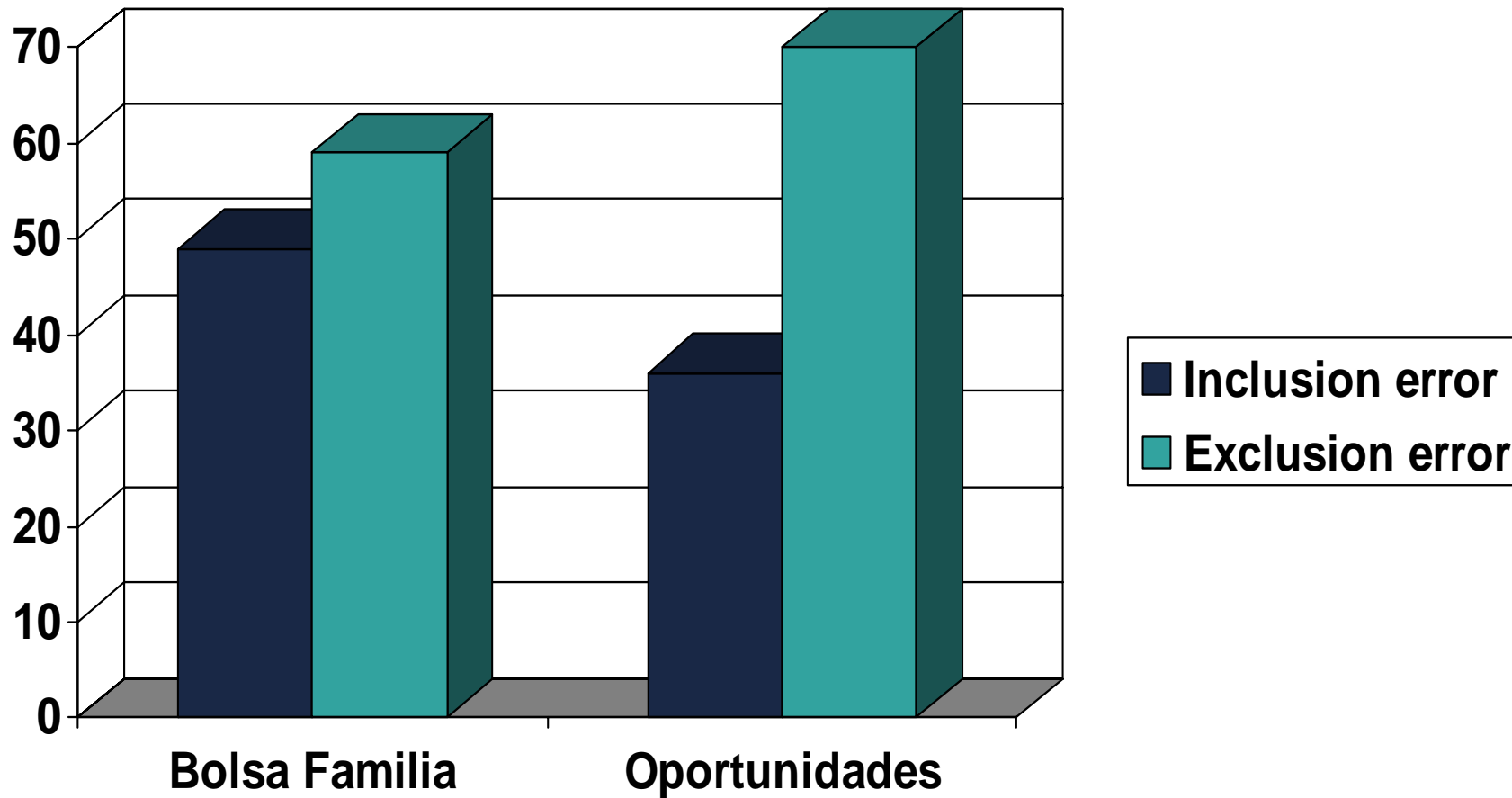
How can a universal approach be progressive?

Quintile	Average Income	Tax (40%)	Transfers	Income after tax and transfers
5	1000	400	240	840
4	800	320	240	720
3	600	240	240	600
2	400	160	240	480
1	200	80	240	360
Ratio: Q5: Q1	5: 1	(= 1200)	(= 1200)	2.33: 1

Poverty targeting: sounds logical, doesn't it?

- A given budget will have five times more impact on poverty if it is disbursed to the poorest 20% than if it is thinly spread over an entire population
- But:
 - Does it really reach the poorest 20% if targeted at them?
 - Is there such a thing as a “given budget”?

Poverty targeting: an impossible endeavour



Pros and cons of different approaches

Poverty targeting

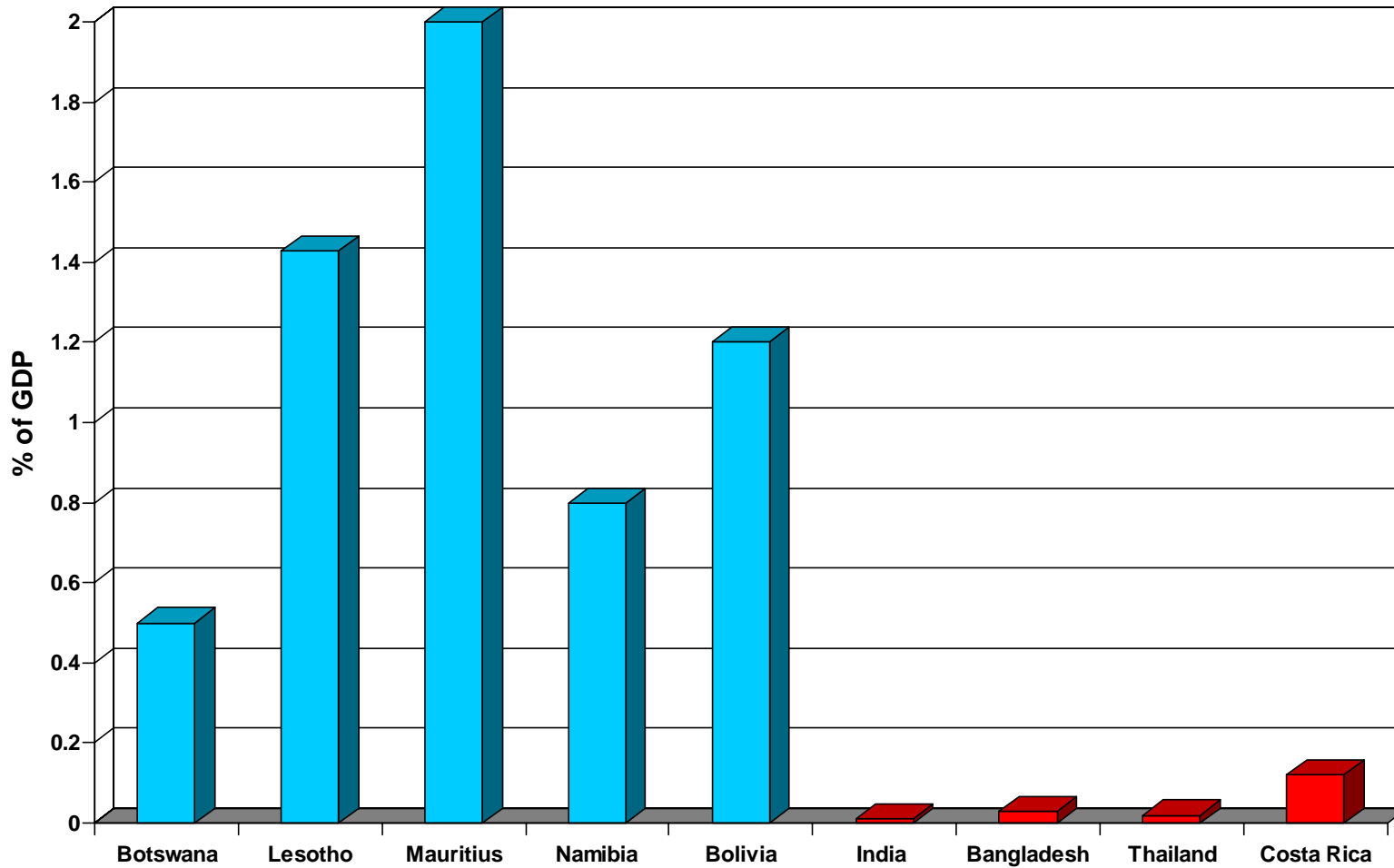
- Disincentive to work and creation of poverty traps
- Rewards dishonesty; penalises honesty
- Damages community cohesion
- Promote corruption and clientelism
- Stigmatization of beneficiaries
- Administratively expensive
- Not politically popular

Universal approach

- No disincentive to work; support production
- Much more difficult to cheat the system
- Very popular with communities
- Very difficult to manipulate by local elites
- Entitlement; no stigma attached
- Easy to administer
- Very popular politically

Universal: more popular, higher budget

Costs of universal versus means-tested pensions



Need to look beyond direct poverty reduction

- Focus should not just be on direct poverty reduction but also on broader policy goals eg.
 - Tackling inequality
 - Building social cohesion and the social contract
 - Nation-building
 - Economic growth
- Significant economic stimulus – important in time of recession
- Broader policy objectives are all more likely to be addressed by universal programmes
- Poverty impact likely to be greater if broader goals addressed

Is it really a problem if the non-poor benefit?

- Builds political support for programme
 - A larger overall budget results in a larger cash transfer for poor people
- More likely to build support for more progressive taxation
- Many richer people do not access the benefit anyway
- Can claw back from the rich through taxation (eg. New Zealand universal pension taxes back 0.8% of GDP)
- Universal pension should be regarded as a “contributory pension” and everyone has contributed
- But, most importantly, reduces the exclusion of poor people from the programme

So, what is the real rationale for poverty targeting?

- Poverty targeting saves costs to the state
- If minimizing government expenditure is the priority, then poverty targeting should be prioritised
- If other policy objectives are the priority – including poverty reduction – then a universal approach should be preferred
- The only disadvantage of a universal approach is the cost

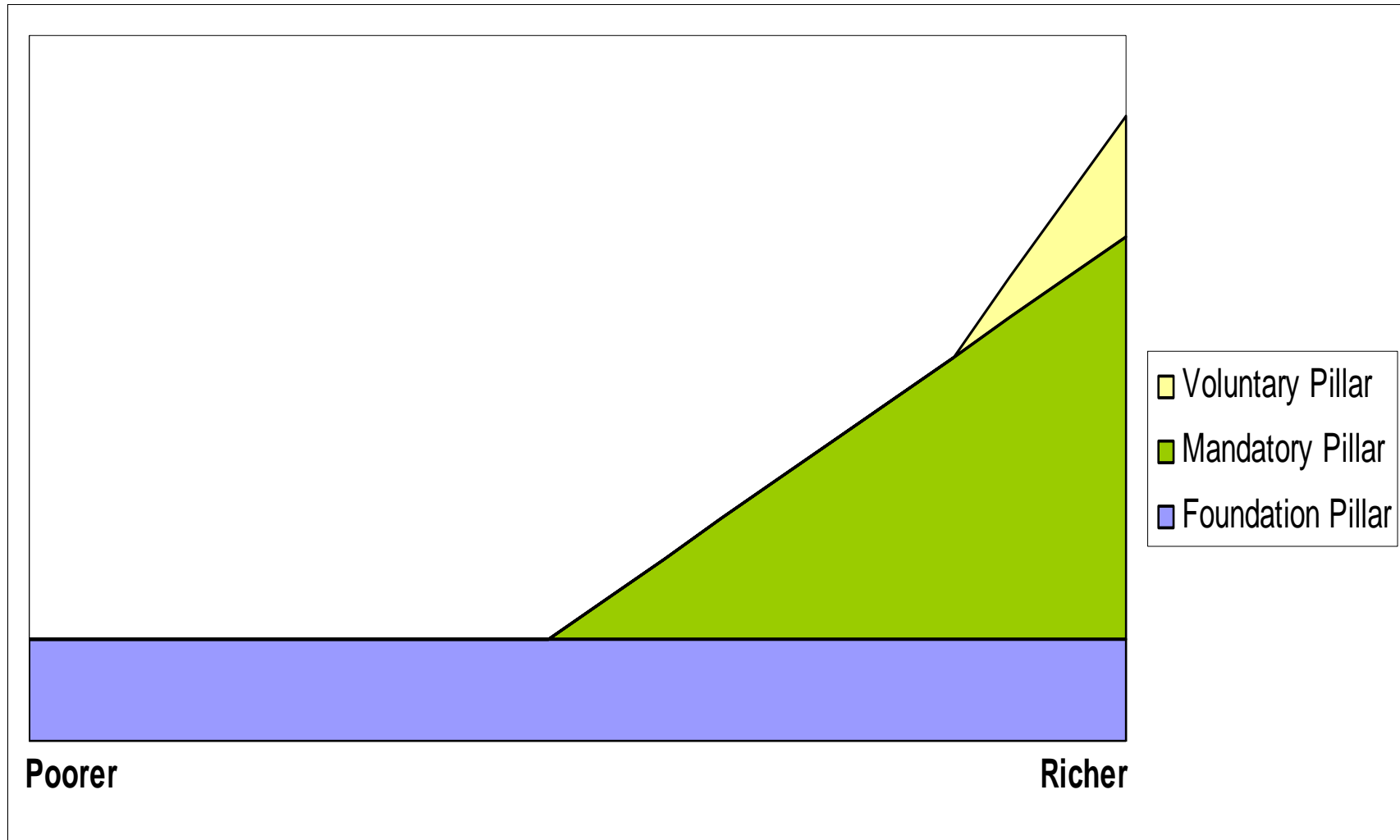
Building a social security floor

- Campaign for social security floor led by ILO
- Comprises
 - Universal pension
 - Universal child grant
 - Disability benefit
 - Unemployment benefit
- Needs to be progressively realised
 - Begin small and build over time (eg. child grant could start at under 5s)
 - Can grow as political support builds

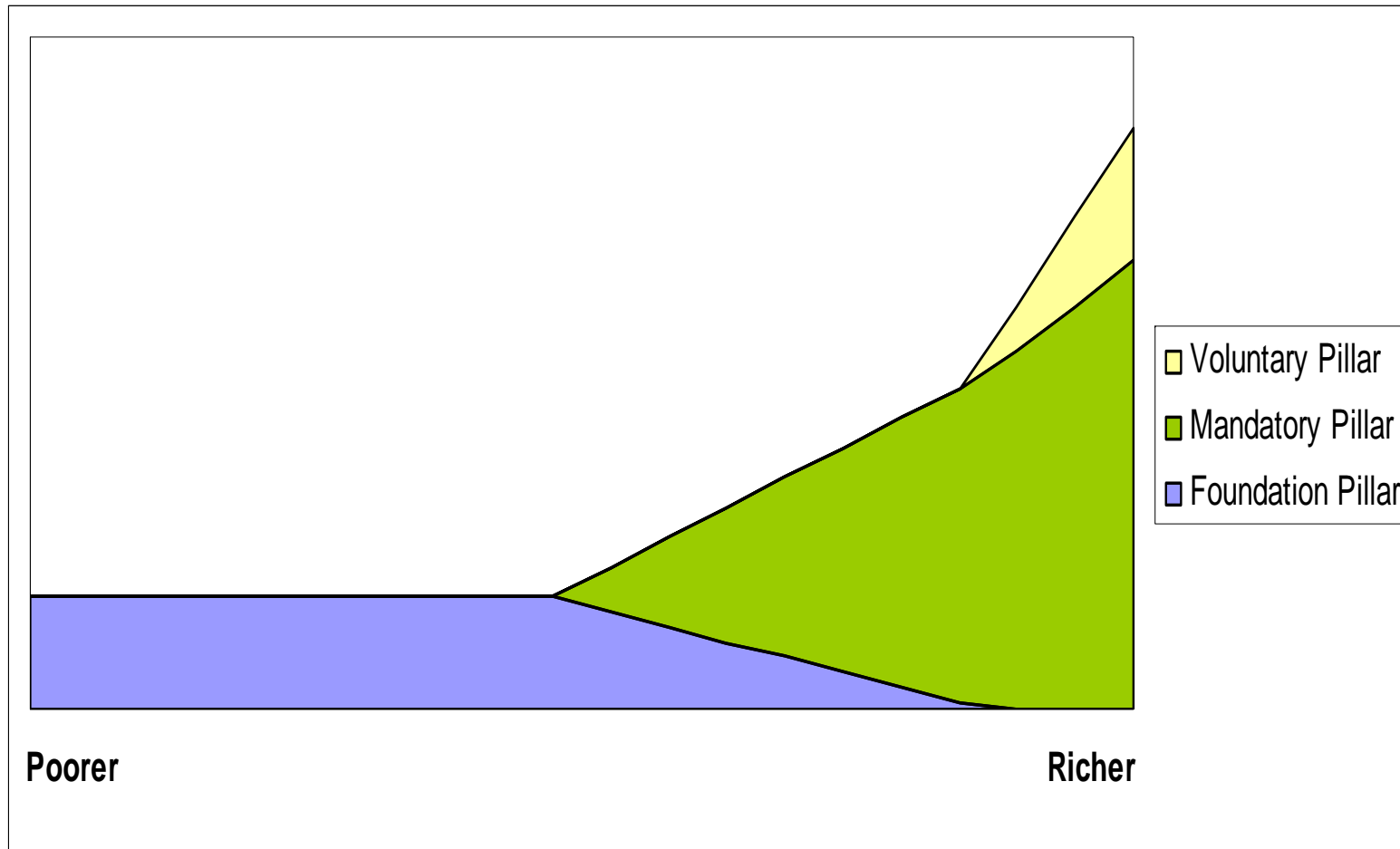
A universal pension – for children and older people

- Parents have an existential dilemma:
 - Should they prepare for old age or invest in caring for children
- Without a guaranteed pension, people invest in more children
 - In China, because of one parent family, families invest in savings and reduce care of children
- Guaranteed pension enables families to focus on children and, ultimately, reduces fertility
 - 60% of decrease in fertility in North America and Europe is result of state pension
- A universal guaranteed pension can bring about significant behavioural change

Universal pension: the foundation tier of pension system



Alternative: pensions-testing with tapering



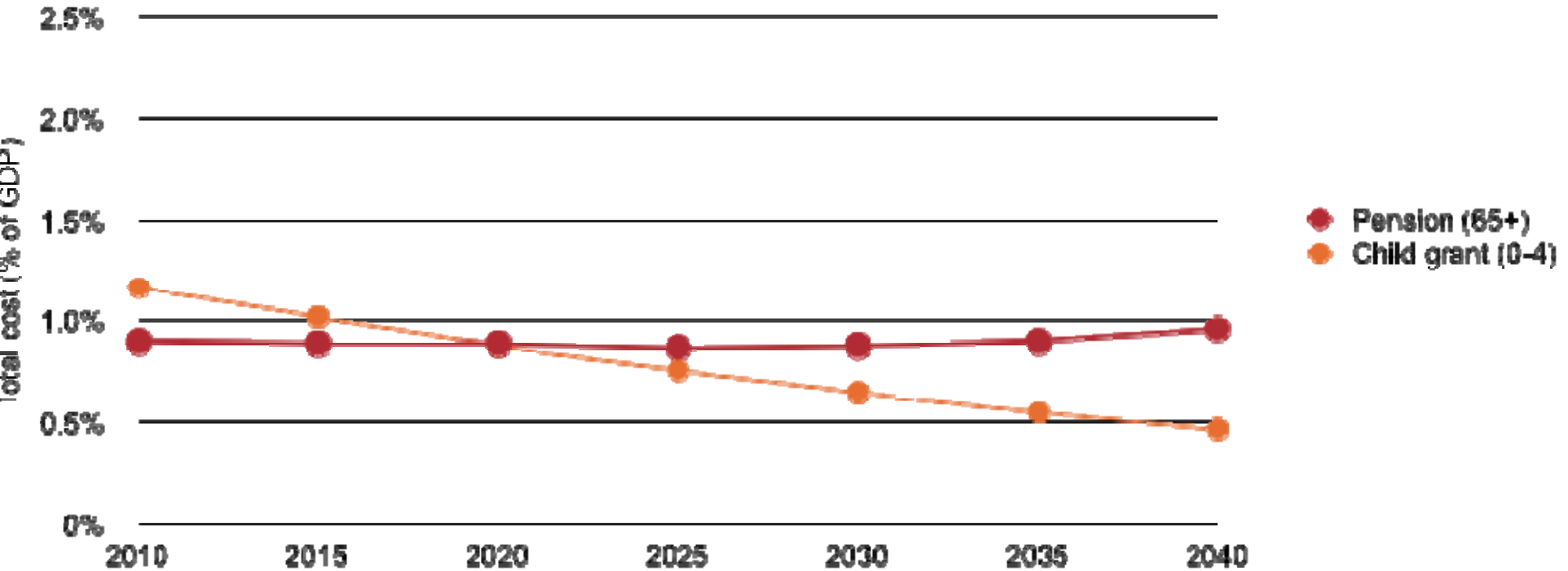
World Bank appears to agree.....

- In classic 1994 publication on pensions, World Bank praised universal non-contributory pensions:
 - “Administratively, [a universal pension] is the simplest structure, with the lowest transaction costs, for the public pillar — an important advantage in developing countries with limited institutional capacities and incomplete record-keeping systems. It avoids the disincentive to work and save inherent in means-tested plans. Its universal coverage helps ensure that the poverty reduction objectives are met, [and] provides a basic income for all old people.”
- Did not support universal pensions because of cost; means-tested pensions are much cheaper for the state

Costs of universal pension and child grant in Guatemala

Pension = 20% of GDP per capita (c. US\$46.5 per month)

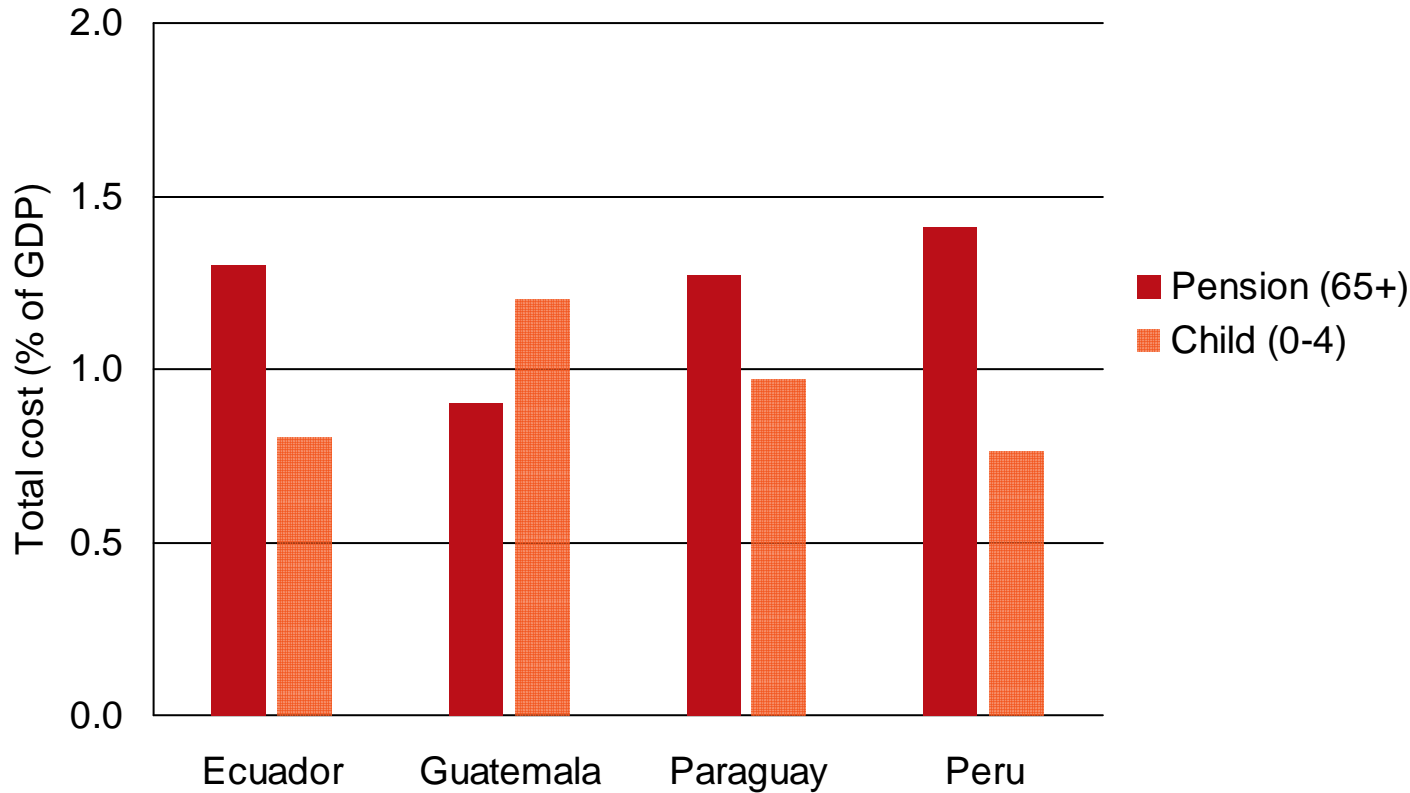
Child grant = 7.5% of GDP per capita (US\$17.5 per month)



Pensions and child grants in Latin America

Pension of 20% of GDP per capita

Child grant of 7.5% of GDP per capita



	Size of monthly pension (\$US)
Ecuador	59.80
Guatemala	46.50
Paraguay	38.70
Peru	78.05

Latin America: a good basis

- Many programmes – eg. CCTs and non-contributory pensions – could move towards a universal approach
- Could be linked to moves to more progressive taxation
- Look at model of South Africa: its comprehensive means-tested benefits are becoming increasingly universal
- Many poor countries have universal programmes already
 - Over ten developing countries with universal pensions
 - Mongolia has a universal child benefit
- Amartya Sen:
 - “Benefits meant exclusively for the poor often end up being poor benefits”