

The views in this presentation are the views of the author and do not necessarily reflect the views or policies of the Asian Development Bank (ADB), or its Board of Governors, or the government they represent. ADB does not guarantee the accuracy of the data included in this presentation and accepts no responsibility for any consequence of their use. Terminology used may not necessarily be consistent with ADB official terms.

ADB Annual Meetings, Tashkent, 4 May 2010

Panel: How does social protection support inclusive growth?

Social protection and inclusive growth: the critical links between protection and production.

Sarah Cook

It is commendable that the ADB has placed Social Protection and Inclusive Growth prominently on its agenda, and in doing so has given serious consideration to the relationship between economic growth and social policies - making an effort towards their integration rather than continuing to view social impacts as the residual outcome of necessary economic policies, requiring merely compensatory measures. This separation of the economic and social has been the hallmark of policies since the 1980s: first get markets right and the economy growing, and the social dimensions will follow. Many countries and people – in Asia and elsewhere - learnt painfully that this doesn't work.

(Note: evidence is drawn largely from Social Protection in Asia research and networking programme: on-going research which aims to move beyond an analysis of who is vulnerable to consider how to overcome barriers to social protection, and to extend social protection to those who remain excluded. www.socialprotectionasia.org: evidence is drawn particularly from south, south east and east Asia – which excludes of course a large sub-region where we now are.)

The main argument in this short presentation is that social protection can be designed to achieve 'developmental' outcomes – that is, not only to protect in the event of shocks, but to provide a trajectory out of poverty and promote more equitable growth. This key question is how – which in particular requires attention to the critical linkages between protection and production (or investment or accumulation).

What have we learnt from a decade of research and experience?

In this respect I'd first like to highlight three key messages arising from the Asian experience over the past decade before going into further detail depending on the time available.

First: Strong social policies are a necessary component of inclusive growth: this has been demonstrated by the response to the financial crisis in many developed economies, but was clearly seen in several countries in Asia during the 1998 crisis, where social policies were an integral part of the response, enabling countries to shift to more sustainable and inclusive paths of economic growth. The important issue is that social policies or protection was not merely a residual and compensatory response to assist those in greatest need, directly affected by crisis. Rather it encompassed broad based sets of policies of social insurance and assistance that aimed to expand coverage in more universal directions in order a) to assist those directly affected, b) to smooth transition to a new growth path, and c) to build social and political support for policies. Even in the best case growth scenario of employment intensive growth, large numbers are still unable to work or excluded from

formal and protected employment – so social protection needs to be more than a short term response to shocks, but part of a longer term development strategy.

Second: The nature of the policies matters: narrowly targeted, compensatory mechanisms are unlikely to have the ‘developmental’ linkages that support growth. They may assist the poor in smoothing consumption but have limited capacity to a) move them out of poverty on to a more sustainable and secure livelihood trajectory, or b) contribute to local economy or wider growth processes. Similarly interventions designed to address specific risks or shocks neglect many aspects of the underlying nature of vulnerability that make some people particularly exposed to the effects of a shock.

Third, and related: the critical link between social protection and inclusive growth lies in the extent to which *social protection policies can go beyond ‘protection’ and address interconnected issues of production, distribution and reproduction*. Families need to balance consumption, income generation, care of children or the elderly: these are not separate spheres of activities (as they are often treated in the policy domain). Much conventional discussion tends to emphasise social protection for a) formal sector workers on the one hand, and on the other b) in terms of shocks (safety nets). There is a case for social policies outside these domains, and for more integrated, comprehensive approaches that move towards a rights-based or universal approach.

Let me elaborate on the above points. Shortly before the current crisis devastated economies and people’s livelihoods across the globe, in the introduction to a co-edited volume on social protection in Asia, we noted:

Economic recovery across Asia has given rise to renewed optimism about the future, but also to the danger that the lessons of the crisis may fade from memory. This is particularly serious in view of the fact that, alongside growth, we are witnessing a rapid rise in inequality in most countries. While growth is contributing to significant reductions in poverty, behind the rise in inequality lie deeply entrenched forms of chronic poverty and social exclusion, as well as new forms of vulnerability thrown up by the liberalisation of markets and growing exposure to the global economy.

At the risk of over-generalisation, given the huge diversity across what is a vast region, conditions since the early 90s have been of:

- Rapid but highly volatile growth in many countries, accompanied by worsening income distribution
- Rising or high inequalities across different dimensions: non-inclusive or exclusionary growth
- Increased exposure to risk, insecurity, uncertainty particularly through processes of transition and global integration
- Persistent chronic poverty and exclusion, in some countries or ‘lagging regions’

Within this heterogeneous context, any interventions obviously need to respond to the complex and varied nature of ‘vulnerability’ and need.

Social protection as a response to vulnerability

Social protection interventions are put in place principally to deal with vulnerability and protection against contingencies. This contrasts with:

- Poverty interventions targeted to the (income, consumption) poor (in theory more easily measurable)
- Approaches to risk – through market insurance to address specific (identifiable) contingencies. This underpins the social risk management framework which also aims to reduce or mitigate risk, and recognises market failures where social insurance is needed,

Vulnerability however involves uncertainty and insecurity: it is generally a feature of being poor. There are harder problems of definition, measurement and identification.

Asian experience has contributed to the significant evolution in approaches towards social protection and addressing vulnerability: the minimal, residual safety net programmes of the 1990s proved entirely inadequate in the event of crisis. The World Bank's 'social risk management' framework then came to dominate the policy debate: while this is more comprehensive than the safety net agenda, a number of criticisms have been levelled at it, which highlight problematic thinking about the nature of vulnerability:

- Not all forms of vulnerability can be reduced to episodic shocks or assessed in terms of fluctuations in income or consumption flows. Relationship and processual dimensions of vulnerability are not captured in language of shocks or risks.
- **Social relationships** can give rise to forms of inequality in which some groups are positioned as subordinate to others through processes of economic exploitation, social exclusion and political marginalisation. (gender, caste, ethnicity, etc.)
- The lives, livelihoods and life chances of these subordinate groups are characterised by **pervasive uncertainty** along with greater exposure to particular categories of shocks. Often the only option in such contexts is to bind themselves into patron-client relationships with those more powerful than them and to offer their labour and loyalty in return for some level of security.
- **Structural and institutional reasons** relating to social, political and economic structures and relationships, and processes of exclusion or adverse incorporation, prevent many poor people from benefiting from market opportunities and policies.
- The focus on risk may lead to exclusion from appropriate interventions of those who are locked into **chronic forms of poverty**. We need to understand the significance of risk and vulnerability in locking people in to chronic and intergenerational poverty.

Operationalising interventions that address the complexity of 'vulnerability' needs to incorporate the varying dimensions of vulnerability including

- Material deficits in basic needs
- exclusions
- uncertainty and insecurity, and
- the kind of 'traps' that arise where these all intersect.

Heterogeneity in the nature and sources of **vulnerability** across the region, and the diversity in institutional and political arrangements, however, cautions against a 'one size fits all' approach to social protection.

In the light of this complexity, and particularly the structural and relational underpinnings of vulnerability, there is a need for

- a) 'developmental' measures that provide an economic base for greater security and that contribute to wider economic development goals, and
- b) 'transformative' measures which aim to address underlying power imbalances which create and sustain longer term vulnerabilities – for example, anti-discrimination legislation, secure rights / entitlements, and strengthening the ability of citizens to claim rights.

Productivity enhancing social protection - critical linkages and examples

What do we know about the linkages between social protection, production, investment and growth?

- Social investments, human capital and productivity (health and education)

The most prominent arguments are of the positive impact of *investments in health and education* on human capital formation and thus labour productivity. Social transfers or assistance programmes help poor people access or pay for services.

But the evidence from Asia (particularly for health) is clear: equity requires that access is free at point of use, with the most equitable systems being those financed through general taxation or other public funding mechanisms. Asia has some good examples of such systems, but it also has examples of the highest rates of out of pocket catastrophic health spending, with obvious implications for health, productivity and family well-being.

Social insurance policies such as pensions allow employees and employers to undertake long term investment in skills.

- Gender, family and labour force participation: the role of social services

Social protection programmes assist social reproduction in households, and may be designed to help break the intergenerational transmission of poverty: they may also potentially foster local economic development through increased income security and diversification of assets and livelihoods. However, we know relatively little about the local economy effects of such programmes.

But interventions cannot only focus on the demand side (transfers) - the supply side is critical and a major constraint in many Asian economies: the provision of basic services (water, sanitation, health, education, transport) underpin household reproduction with particular implications for women, their time burden, the ability to care for household members and participate in the labour market. We see in times of crisis the additional time burden on women (and children) at the household level.

- Unconventional sources of security: housing

I'd also like to emphasise here important forms of protection that are often not emphasised within social protection policies but emerge from research: in particular, housing is a critical source of protection with multiple roles: as shelter, as a site of production (particularly for women), and as safety (again especially for women, children). Secure tenure provides security and access to other entitlements, benefits and to jobs (often not accessible without an address). It needs to be considered a fundamental element of any comprehensive social protection system in a highly urbanised environment.

- Contribution to macro economic stability

At a macro level, as is now again being recognised, social protection or income replacement programmes can operate as a macro-economic 'stabiliser' if supported by progressive funding mechanisms – helping to smooth economic pressures and avoid deflationary cycles by stabilising domestic demand. They can also be an instrument to manage economic transformations and transitions, as seen in Asia following the 1998 crisis (eg Korea). They are also a mechanism to build social solidarity and maintain social and political stability (through a social contract, redistributive mechanisms) needed for sustained growth and thus have a beneficial effect on social cohesion, equity and political legitimacy – key ingredients for an investor friendly environment.

Here a key point to emphasise however is that narrowly targeted interventions are unlikely to reap these wider benefits: for social protection programmes to underpin a process of inclusive growth requires interventions that aim progressively towards universalism: that is comprehensive systems which cover all people when they need support. Narrowly targeted programmes, or those that focus

on the needs of specific targeted groups, tend to lead to fragmented and thus unequal systems which in the longer term may lack the political support required for sustainability. We need to view this process not as putting in place temporary mechanisms but as investing in long term welfare systems.

Promotional mechanisms that improve real incomes and capabilities of the poor, in ways that are politically and financially sustainable, will involve a longer term perspective that aims to integrate social protection concerns into the mainstream development agenda – not as residual to economic policies.

One challenge now (in the light of the focus on rebalancing economic growth) is to consider how macro economic policies might have to adjust to place social equity and human well-being, as well as environmental sustainability, at the centre of economic policy objectives.

Summary: Some key lessons from Asian research:

- There is a need to recognize the limits to approaches to social protection that focus principally on specific shocks but leave in tact the multiple and long term forms of disadvantage that make people vulnerable.
- Programmes designed to maintain and strengthen the productive assets of households, together with social provision of basic public goods and services, better protect households from falling into the safety net and requiring social assistance
- There is a strong case for an expanded role for the state in reducing, mitigating and responding to risk although this may sometimes take the form of macro or sectoral policy interventions and sometimes the financing or delivery of micro level interventions.
- There is a need to stretch the boundaries of social protection beyond conventional programs to emphasise multiple sources of vulnerability (for example insecure shelter and domestic violence) which have been largely ignored
- Interventions must to respond to real needs in design and delivery – requires mechanisms for mobilising and making claims
- A challenge is to move beyond fragmented programmes: towards comprehensive systems of social protection, based in principles of universal coverage and access