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## Social protection and growth: Research synthesis

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# Social protection and growth: Research synthesis

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## Key messages

- > Social protection is generally concerned with protecting the poor from risk and reducing poverty and vulnerability. **Evidence is overwhelming of the positive impacts of social protection on household productivity and labour market participation in developing countries.** Social protection includes productive programs and programs primarily protecting consumption. Both types promote investment in and diversification of livelihoods and employment. They also improve future prospects through investment in better nutrition and access to health care and education.
- > In the face of shocks, such as natural disasters, rising food and fuel prices, ill health or the loss of employment, **social protection plays an important role in limiting the need for negative coping strategies that can reduce growth**, such as selling productive assets and removing children from school.
- > **Social protection has positive impacts on growth at local level through the multiplier effects of increased local consumption and improved labour market outcomes.** The evidence is less clear on the local economic impact of assets created through public works programs.
- > **Social protection allows governments to more effectively bring about other economic reforms that have positive effects on economic growth**, such as reducing inefficient commodity subsidies.
- > **Substantial evidence shows that social protection in low-income countries (LICs) and middle-income countries (MICs) has no negative impacts on labour force participation or work effort and does not lead to dependency.**
- > **The growth impacts of social protection are especially important at household level because they promote more inclusive growth.** Aggregate growth impacts are also important, but decisions about social protection spending should primarily be made by assessing its impacts on poverty and vulnerability.
- > **To maximise growth-enhancing impacts of social protection programs it is crucial to get design and implementation right.** This means matching the right set of instruments and complementary investments (in the right sequence) to program objectives and identifying the most appropriate type, size and duration of transfers. It also means ensuring transfers are long term and predictable.
- > **Some limited evidence suggests that social protection has positive impacts on Gross Domestic Product (GDP), especially programs aiming to increase productivity and labour market outcomes.** However, these impacts are small and often insignificant in most LICs and many MICs and it is difficult to assess where they occur.

# 1. Introduction

Economic growth is central to development and largely accepted as essential—if not sufficient—to increase prosperity and reduce poverty. Indeed, most poverty reduction in China and India in the last 20 to 30 years was due to economic growth combined with active social policies. More recently, growth has been slowing in many larger MICs, and most LICs are still lagging. At the same time, social protection has become increasingly important in poverty reduction efforts in developing countries over the last decade. It is seeing increasing investment with many large-scale and expanding programs in MICs and LICs.

Poverty reduction remains central to the post-2015 Millennium Development Goal agenda with ‘getting-to-zero’ targets already being discussed for extreme poverty and a widespread commitment to the idea of ‘leaving no-one behind’. This is mirrored in the World Bank’s recent strategy, which focuses on eliminating extreme poverty by 2030 within the broad concept of shared and sustainable prosperity.<sup>1</sup> Furthermore, renewed emphasis on growth and jobs within the international development agenda now, more than ever, focuses on ‘inclusive’ growth that is sustainable and ensures the poor can participate in growth processes.

Social protection is one of many policy interventions that can contribute to poverty reduction goals. Evidence is growing of the positive impacts it can have on economic growth, especially in protecting and enhancing productivity and labour force participation among poor households. However, disentangling the effects of social protection on aggregate growth from the impacts of other economic and social policies is challenging. Policy debates about social protection—unlike other social sectors—still tend to be driven by assumptions and normative agendas, in part because of the fragmented and sometimes weak evidence base (Alderman & Yemtsov 2012). While social protection programs can be assessed for their impacts on growth, it is important to remember that the primary aim of social protection is to address poverty, vulnerability and inequality. This should not be subordinate to economic efficiency concerns.

It is therefore important to bring together knowledge of the effects of social protection on economic growth. It is also important to better understand through which channels these effects occur to maximise the positive and minimise the potential negative.

This review paper identifies the channels through which social protection policies and programs have impacts on growth and productivity and provides evidence of this from academic and evaluative literature.<sup>2</sup> Section 2 provides an overview of what growth is and what its determinants are. Section 3 outlines a framework for the links between social protection and economic growth at household, local and national levels. Sections 4 to 6 examine the impacts of social protection on growth through theoretical channels at household, local and national levels. Section 7 highlights gaps in the evidence and Section 8 concludes the review.

## 2. What is growth and what are its determinants?

Economic growth is the main driver of prosperity in poor and rich countries. There is little question that growth is essential—if not sufficient—for poverty reduction. However, the nature of growth—the extent to which the poor benefit from and participate in growth processes—is critically important (Wiggins & Higgins 2008; Bergh & Melamed 2012).

### 2.1 What is growth and how is it measured?

Most simply, economic growth is the increase in the value of goods and services in an economy over time. The most common measure is the rate of change in GDP, which represents the market value of all expenditure within a national economy over 12 months.<sup>3</sup> GDP is often expressed on a per capita basis to better indicate a country's economic standing relative to others. Expressed in constant United States dollars and adjusted for purchasing power parity (PPP), which allows for differences in the cost of a basket of similar goods between countries, there remains significant variation between countries. For example, the Democratic Republic of Congo, with the world's lowest GDP per capita in 2012 (PPP\$422), contrasts greatly with Luxemburg with the highest GDP per capita in the same year (PPP\$91,387) (World Bank 2013).<sup>4</sup>

GDP faces criticisms when taken as a single measure of a country's development, including because it does not account for unpaid contributions made to society, such as domestic work and volunteerism, or for many external costs of production, such as effects on the environment. Importantly for poverty reduction, GDP ignores the distribution of income among the population.<sup>5</sup> If reducing poverty is important, then the distribution of economic growth among households of different income groups is also important. Alternative measures have been developed to consider the pro-poor nature of economic growth.<sup>6</sup> Measures of average growth may better indicate the poverty reducing effects of growth, especially in highly unequal societies (Piachaud 2013). Other measures indicate changes in the extent, depth and severity of poverty, relative to a pre-defined poverty line (Ravallion 2004).

More recently, interest in pro-poor growth has shifted towards the idea of inclusive growth, which is concerned with the final distribution of income between groups and the extent to which the poor can participate in growth processes through more and better employment. Globally, interest is increasing in the role economic growth should play in achieving the post-Millennium Development Goals, especially in relation to jobs (Bergh & Melamed 2012).

Therefore, alongside concerns with increasing aggregate growth, the nature of that growth (the extent to which it is sustainable and includes the poor) is important because it can lead to long-term movement out of poverty for poor households. With poverty reduction and promotion of inclusive growth, therefore, it is useful to consider growth at these levels:

- > individual or household level changes in productivity and availability of (and access to) employment opportunities
- > localised or community-level growth occurring in certain geographic locations of an economy
- > national level or aggregate economic growth.

## 2.2 How does growth happen and what are the determinants of growth?

No single unifying theory of the underlying determinants of economic growth exists (Petraikos et al. 2007). However, most well-known models<sup>7</sup> point to three essential elements, changes in which affect productivity and economic growth levels:

1. physical capital—greater investment increases the level of capital per worker
2. labour or human capital—better educated people increase efficiency in using physical capital (but growth in the working age population may reduce per capita gains in economic growth)
3. innovation and technology—development and adoption of new technologies leads to more efficient use of physical capital and labour.

The nature of a country's economic policies and the legal and regulatory environment in which production takes place influence the nature and level of investments. Indeed, the importance of institutions—the formal and informal rules of the game—is increasingly recognised as shaping economic performance, especially property rights, economic regulation, macroeconomic stabilisation, social insurance and conflict management institutions (Petraikos et al. 2007). Macro-economic stability is often an essential pre-condition for economic growth, especially given the impacts of interest rates, inflation, fiscal policy and government debt.

Demographic trends, such as population growth and density, migration and age distribution, are also linked to economic growth. For example, a high dependency ratio in a population (larger numbers of young and elderly compared to the working age population) is generally viewed as an impediment to growth. Other non-economic factors thought to affect economic growth include political stability and levels of social cohesion, including the extent and depth of poverty and inequality in a country. Low levels of social cohesion may lead to social unrest, thus increasing uncertainty and deterring investment.

Social protection may itself be a determinant of growth and has been well studied for its effects on growth at household, community and aggregate levels, as will be described in the following sections. Closely related—and of critical importance for inclusive growth—is the redistributive role social protection plays in addressing inequality. Inequality has been identified as key determinant of growth, and one for which there is an expanding theoretical and empirical base (Barro 2008; Arjona et al. 2002; Grosh et al. 2008).

In practice, the theoretical determinants of growth are often contradictory (Petraikos et al. 2007). Countries have followed different paths towards economic development and prosperity. The next section of this review paper explores the potential links between social protection and economic growth, identifying the channels through which the costs and benefits of social protection may impact on growth and productivity.



# 3. The potential links between social protection and economic growth

## 3.1 Defining social protection

Social protection means different things to different people but is generally concerned with consumption smoothing, protection from risk and reducing poverty and vulnerability. The Department of Foreign Affairs and Trade's social protection framework states that:

... social protection helps protect the poor from hunger and destitution, decreases malnutrition, contributes to human development and long-term economic growth, reduces inequality and improves gender equality. It is also an effective crisis response mechanism. (AusAID 2012)

Within this broad definition there are three common classifications of social protection instruments:

1. **social assistance**, typically cash or in-kind social transfers, subsidies or fee waivers targeted at low-income or vulnerable groups and funded out of general taxation or other (non-contributory) sources
2. **social insurance**, typically contributory or subsidised insurance (sometimes statutory) providing for certain life contingencies, including old age and loss of employment, and funded by employer or employee contributions
3. **labour market programs**, typically including financial support, services and legislation concerned with improving employment opportunities and working standards.

The design of social protection instruments varies depending on the policy or program objectives. Usually, these variations include:

- > objectives to support consumption, enhance production, support human capital formation or a combination
- > types, including cash or in-kind benefits, training and services (varying by size, frequency and duration of the transfer or support), which sometimes have conditions such as a work component or school attendance
- > benefits, which can be poverty targeted (based on an income level) or universally provided to particular social groups (such as the very young, elderly or unemployed)
- > finance arrangements, including contributory, subsidised, non-contributory (tax-funded) or a combination.

In most LICs and many MICs social security (mainly contributory social insurance) is limited to government and formal private sector employees. It excludes the large swathes of the population working in informal labour markets. Social assistance (non-contributory transfers and other support) aiming to smooth consumption and/or promote productivity among poor and vulnerable households is therefore important. In examining the links between social protection and growth in LICs and MICs this review focuses on social assistance. It also draws on the literature on labour market programs where available and on social insurance literature from high-income countries (HICs).

## 3.2 Potential links between social protection and growth

Two sets of questions help define the determinants of growth most relevant to social protection.

First, at micro (individual or household) and meso (community or local regional) levels how, and in what circumstances, can social protection affect the impact of economic growth on particular groups or regions? What evidence exists for the positive and negative impacts of social protection on household productivity and growth at community level? What approaches

and design features of social protection programs can better support poor and vulnerable households to participate in growth processes?

Second, at macro (national) level, how, and in which contexts, does social protection affect aggregate economic growth? What evidence is there of the positive and negative impacts of social protection through these channels?

The growth and social protection literature reviewed here identifies channels through which social protection may affect economic growth (Table 1).

**Table 1: Social protection and economic growth framework**

	<b>Direct impacts on growth</b>	<b>Indirect impacts on growth</b>
<b>Micro (individual or household) level</b>	<ul style="list-style-type: none"> <li>&gt; prevent loss of productive capital (+)</li> <li>&gt; accumulate productive assets (+)</li> <li>&gt; increase innovation and risk taking in livelihoods of poor households (+)</li> <li>&gt; impacts on labour force participation (+/-)</li> </ul>	<ul style="list-style-type: none"> <li>&gt; increase investment in human capital (+)</li> </ul>
<b>Meso (community or local regional) level</b>	<ul style="list-style-type: none"> <li>&gt; multiplier effects from increased local consumption and production (+)</li> <li>&gt; accumulation of productive community assets (+)</li> <li>&gt; labour market impacts including inflation effects on local wages (+/-)</li> </ul>	n/a
<b>Macro (national) level</b>	<ul style="list-style-type: none"> <li>&gt; cumulative increases in household productivity (+)</li> <li>&gt; stimulate aggregate demand (+)</li> <li>&gt; changes in aggregate labour force participation (+/-)</li> <li>&gt; increase capital markets through pension funds (+)</li> <li>&gt; effects of taxation on savings/investment (-)</li> <li>&gt; effects of government borrowing and inflation (-)</li> </ul>	<ul style="list-style-type: none"> <li>&gt; facilitate economic reforms (+)</li> <li>&gt; enhance social cohesion and reduce inequality (+)</li> <li>&gt; enhance human capital (+)</li> <li>&gt; impacts on fertility rates (+/-)</li> </ul>

Source: Author, drawing on Arjona et al. (2002); Grosh et al. (2008), Piachaud (2008); Alderman & Yemtsov (2012); Barrientos (2012).

Note: (+) potential positive impact; (-) potential negative impact; (+/-) possible positive or negative impact.

At micro level, social protection can affect growth through four main channels:

1. preventing the loss of productive capital
2. accumulating productive assets and increasing access to labour markets
3. increasing innovation and risk taking
4. increasing investment in human capital.

At meso level, social protection can affect growth through multiplier effects on the local economy, investment in public productive assets and infrastructure, and alterations to the functioning of local labour markets.

At macro level, social protection can impact on growth directly by increasing household productivity and employment, increasing aggregate demand, deepening capital markets,

and through taxation and borrowing. It can do so indirectly by facilitating economic reforms, building human capital, contributing to social cohesion and influencing demographics.

The literature on the impacts of welfare states that economic growth in HICs is well-established (example: Atkinson 1999; Arjona et al. 2002; Barro 2008). The growing body of evidence on the links between social protection and growth in LICs and MICs is mostly based on the impact evaluations of specific programs (Alderman & Yemtsov 2012, 2013; Barrientos 2013). For this reason, most evidence focuses on the impacts of productivity on micro level, and to some extent meso level. Only a handful of evaluations (mostly simulations) explore aggregate growth effects.

The following sections present and analyse the channels through which social protection may affect growth. They outline the underlying theory for each growth channel and present evidence of the positive, negative or neutral impacts of social protection on productivity and growth.

## 4. Impacts at micro level

The effects of social protection programs on productivity and growth at micro level are important for two reasons.

First, social protection could contribute to overall economic growth. While the size of aggregate effects may be relatively small in LICs and MICs, productivity enhancing social protection can:

- > further limit the risks of dependency and informalisation
- > potentially lead to long-term poverty reduction
- > increase the fiscal sustainability of programs.

Second, social protection plays a role in contributing to inclusive growth, which is important if development objectives are to reduce (not just alleviate) poverty and ensure a more sustainable growth path.

Substantial evidence points to the impacts of social protection on individual and household productivity. As described in Table 1, this may occur in five main ways (direct and indirect):

- > preventing the loss of productive capital
- > accumulating productive assets
- > increasing innovation and risk taking in the livelihoods of poor households
- > increasing investment in human capital
- > influencing labour force participation.

### 4.1 Preventing the loss of productive capital

Social protection helps prevent the loss of productive capital, which generally includes productive assets and human capital, following shocks. This ex-post insurance function can work for sudden and slow onset shocks and stresses, as well as in transient or seasonal poverty. In the face of these shocks and stresses, poor households—often the most exposed and most vulnerable—may have their livelihoods disrupted, face increasing consumption costs and health care needs, and need to resort to negative coping strategies which impact on their long-term ability to accumulate assets and increase productivity. In addition, women and men experience shocks differently depending on their social and economic roles and responsibilities. The long-term effects of repeated shocks can be significant. Droughts in Ethiopia, for example, have been shown to significantly reduce household earning power up to 15 years later (Dercon 2005, 2006 cited in Samson 2009).

Social protection instruments help protect against shocks and stresses by increasing or supplementing the ability of affected households to cope or mitigate risk. They do so in two main ways.

First, social protection instruments can reduce or prevent the need for distress selling of productive assets such as livestock. The most effective instruments include targeted cash and asset transfers and public works programs. An evaluation of Ethiopia's Productive Safety Net Programme (PSNP) showed that 60 per cent of beneficiaries avoided having to sell productive assets to buy food and achieved a larger increase of assets over time (Devereux et al. 2005; Berhane et al. 2011).

Second, social protection instruments can help prevent the need for other negative and harmful coping strategies such as withdrawing children from school or reducing food intake, which may deteriorate human capital. Typical instruments in these circumstances may include food aid, emergency nutrition programs and fee waivers for public services. Children of families enrolled in Mexico's *Progresa* conditional cash transfer (CCT) program (now called

*Oportunidades*) were found to be less likely to drop out of school if an adult in the family became unemployed (de Janvry et al. 2006, in Alderman & Yemtsov 2013).

While small-scale, informal coping mechanisms (such as relying on neighbours or community funds) may be sufficient to recover from one-off and idiosyncratic shocks, repeated and/or co-variate shocks require more formal, larger-scale responses. The most appropriate instrument depends on the nature of the shock and the vulnerabilities and livelihoods of affected households. Existing systems might need to be scaled up or emergency measures put in place. In both cases timeliness and sequencing are critical.

## 4.2 Accumulating productive assets

Social protection instruments can enable poor households to accumulate productive assets by providing assets directly, supporting investment or increasing access to credit. Productive programs often provide productive assets (or vouchers for them), cash transfers with conditions (such as attending training or investing a percentage) and micro-credit. Participants in Ethiopia's PSNP accumulated assets, with 15 per cent investing their transfers in farming and 8 per cent in buying livestock (Devereux et al. 2006 cited in Arnold et al. 2011). Women often face additional barriers to enhancing productivity. In the agricultural sector, for example, women tend to have fewer rights to own and control productive assets such as land. They also face additional time and labour constraints and have more limited mobility, access to information and social capital (Holmes et al. 2009). In this context, productive transfers can play a transformative role by targeting women to reduce systemic inequalities in the productive sectors.

The primary objective of unconditional cash transfers (UCT) is to increase consumption. By enabling investment in livelihoods, these transfers can also lead to sustained higher incomes, challenging the assumption that transfers for the poor are purely for consumption. Gertler et al. (2012) found that households enrolled in Mexico's *Oportunidades* program invested about 26 per cent of transfers, increasing agricultural income by almost 10 per cent after 18 months of benefits. Evidence exists that regular transfers to poor households can increase credit worthiness and thus access to credit for investment. Programs in Paraguay (CCT), Ethiopia and Colombia (public works) and China (UCT) all showed positive impacts on the saving and borrowing capacity of participant households (Independent Evaluation Group (IEG) 2011). Recipients of the social pension in Brazil have accessed bank loans by showing their pension payment card to prove their regular income (Scott 2009).

## 4.3 Increasing innovation and risk taking

Evidence is increasing that cash transfers enable households to invest in higher return livelihoods strategies. Innovative, high return livelihoods strategies come with levels of risk that are often too high for poor households to carry. Long-term and predictable cash transfers provide households some security against potentially catastrophic outcomes. For example, small-scale farmers in Maharashtra, India, have invested in higher yielding, but riskier, crop varieties as a result of their enrolment in the Maharashtra Employment Guarantee Scheme (Devereux 2002). Case study 2 provides another example.

This ex-ante insurance function exists as long as transfers are regular, predictable and long term (for example, statutory social pensions or employment guarantees). These traits provide some guarantee that consumption levels can be maintained and productive assets can be protected in the event of entrepreneurial failure. Bianchi and Bobba (2012, cited in Alderman & Yemtsov 2013) found that among households enrolled in Mexico's CCT, future expectations of transfers had a larger impact on entrepreneurship than did current receipt of transfers. For a transfer to have this effect, basic consumption needs must already be met and other livelihood options and complementary services must be in place. For example, more than 90 per cent of participants in Bangladesh's Income Generation for Vulnerable Groups Development program, combining food aid and micro-credit, started borrowing from other micro-credit organisations after the two-year program ended (Hashemi, 2001 cited in Alderman & Yemtsov 2012).

## 4.4 Investing in human capital development

Social protection can increase productivity by promoting investment in the development of human capital. In the long run, it can increase productivity and help break the cycle of inter-generational poverty by overcoming the savings and credit constraints preventing human capital investments. This is important for households in chronic and transient poverty that do not have enough resources to access adequate and nutritious food, health care services and education. It is also important for girls, who tend to experience social and economic inequalities.

Strong evidence exists that social protection instruments significantly improve nutrition outcomes for children and access to health care. Cash and in-kind transfers (conditional and unconditional) and fee waivers address demand-side barriers to accessing sufficient and nutritious food and health services. The child support grant and old age pension in South Africa have improved nutrition, health and height of children (Aguero et al. 2006; Samson et al. 2004; Case, 2001 cited in Samson & Miller 2012). Other more specialised programs include supplementary or school feeding targeted to areas with high rates of malnutrition, and vaccination and public health initiatives.

Social protection can address the demand-side barriers to education, as can other public initiatives such as school feeding and enrolment drives. CCTs in Colombia, El Salvador, Honduras, Mexico, Nicaragua and Turkey have all been found to increase enrolment rates by between 2 and 13 percentage points. School feeding programs in Bangladesh, Burkina Faso, India, Kenya and Uganda have increased attendance between 6 and 20 percentage points (IEG 2011). For true impact, social transfers must complement adequate investment in the supply and quality of services. Imposing conditions on receipt of transfers, such as requiring attendance at schools or clinics, are common in many social transfer programs that have explicit objectives for improving human development. However, evidence that the condition—rather than the transfer alone—improves outcomes is mixed (Slater & Tsoka 2007; Holmes & Barrientos 2009).

The receipt of transfers also has the potential to enable excluded groups to participate in growth processes. Targeting women with transfers has been shown to increase their decision-making power within the household. This often leads to greater spending on children, which improves their chances of survival, and their health and educational outcomes (Samson & Miller 2012; Scott 2009). The highest increase in enrolment rates among children living in recipient households of South Africa's social pension, for example, was among girls (7 per cent) (Scott 2009).

## 4.5 Influencing labour market participation

Some concerns exist that social protection creates disincentives to work and invest in education and training for higher skilled jobs. This is widely known as dependency and is a major concern of developed and developing country governments and of bilateral and multilateral donor agencies. However, micro-level evidence shows little evidence from developing countries of work disincentives (Scott 2009; Arnold et al. 2011; Alderman & Yemtsov 2012). There are also concerns that cash transfers and public works (if access is geographically determined through targeting and/or bureaucratic requirements) may reduce economically motivated migration (Slater et al. 2010).

However, unconditional cash and food transfers have been shown to lead to better employment opportunities for resource poor households by freeing up time and allowing a portion of the transfer to be invested in job seeking or migration. Recipients of social cash transfers in South Africa and elsewhere have increased job-seeking efforts and migration and resulted in more recipients than non-recipients finding employment (Samson et al. 2004 cited in Samson & Miller 2009; Kessel et al. 2005 cited in Samson 2009). Certain design features can help minimise the risk of dependency. Turkey's CCT, for example, requires participants to visit government offices and banks to increase contact with job markets (Grosh et al. 2008).

Social protection leads to better employment opportunities by enabling job seeking and supporting active labour market policies. These impacts have often been shown to be greater for women. Brazil's *Bolsa Família*, for example, increased labour-market participation of beneficiaries by 2.6 per cent compared with non-beneficiaries, with women's participation 4.3 per cent higher than that of men (Oliveira et al. 2007 cited in Holmes & Jones 2013). Active labour market policies can include education, training and job search facilities, wage subsidies and legislation (such as minimum wages) and may be linked to specific sectors or part of a public works program.

At macro-level, active labour market programs have had positive effects on productivity and labour market participation. The evidence is inconclusive for the effects of social assistance programs and has demonstrated some small negative effects with specific programs (Section 6). Levy (2007, in Alderman & Yemtsov 2012) has found, for example, that free health care provision for informal workers in Mexico has created an incentive for these workers to stay in the informal sector, although this incentive is smaller than others that have prevented them from formalising businesses and employment.

### Case study 1: Indonesia

Indonesia demonstrates how social protection programs can contribute to and enhance economic growth at different levels.

At macro (national) level, social protection has played an important role in facilitating the reform of economically inefficient fuel subsidies. Between 1998 and 2005, the cost of fuel subsidies averaged three-quarters of the social protection system budget, with costs rising to 5 per cent of GDP when global fuel prices went up. In 2005, the Indonesian Government reduced subsidies by about US\$10 billion. The government used one-quarter of the savings to fund a temporary (year-long) UCT program for 19 million poor and near-poor households. It used the rest to block grants to schools, health care and health insurance, as well as for village improvement programs.

In 2008, the government again reduced fuel subsidies. It did so once more in 2013, by approximately US\$3.2 billion (IDR 35 trillion). Part of the savings funded a compensation package, including temporary UCTs and an increase in the level of subsidised rice for 15.5 million poor households. In addition, permanent changes were made to the national scholarships for poor students (nearly doubling coverage to 16.6 million poor students) and *Program Keluarga Harapan*, the national CCT program, increasing the average benefit by nearly 30 per cent.

Despite early implementation difficulties due to the rapid rollout of programs, compensation efforts mitigated the effects of fuel price increases on poor households and enabled reforms to go through without major public protest (Grosh et al. 2008; personal communication to Department of Foreign Affairs and Trade from the Vice President's Office; media reports).

At meso (community or local regional) level there is interesting evidence of the spillover effects of the CCT on non-recipients. *Program Keluarga Harapan* began in 2007 and now covers around 1.5 million households in Indonesia's 33 provinces. A program evaluation found that households not enrolled also increased their health-seeking behaviour, perhaps because of exposure to complementary social marketing (World Bank 2011, cited in Alderman & Yemtsov 2013).

At micro (individual or household level), social protection measures introduced in response to the East Asian financial crisis were instrumental in protecting productive and human capital, thereby preventing decreases in productivity. School enrolment rates dropped during the crisis, especially among the rural poor (Frankenberg et al. 1999 cited in Grosh et al. 2008). Measures introduced included targeted fee waivers for public health care, scholarships for poor children and rice subsidies. Studies have shown that service use fell less among recipients than among non-recipients (Cameron 2002; Saadah et al. 2001, in Grosh et al. 2008) and that the response was instrumental in stabilising consumption and reducing child labour (IEG 2011).

## 5. Impacts at meso level

The impacts of social protection on economies at meso level have been less studied than have the impacts on micro and macro levels. However, the body of evidence from LICs and MICs is growing. As identified in Table 1, social protection could lead to growth in the local economy by way of three channels:

1. multiplier effects from increased local consumption and production
2. accumulation of productive community assets—most commonly through public works program
3. labour market impacts including inflation effects on local wages.

The section concludes by considering the effect of these processes on long term aggregate growth.

### 5.1 Multiplier effects from increased local consumption and production

At meso level, social protection results in multiplier effects—from increased consumption and production. This is particularly so for social protection targeted to poor households in small, self-contained community or local economies (more typical of LICs and MICs) that tend to spend locally and on locally produced products (Arnold et al. 2011; Barrientos & Scott 2008).

Impact evaluations of multiplier effects should focus on non-beneficiaries rather than transfer recipients, which is rarely the case (Barrientos & Scott 2008). Nonetheless, a few evaluations have done this. Mexico's *Oportunidades* has increased consumption and productive assets among households located in the program target area but not enrolled in the program, with greater effects for households with an initially lower asset base (Angelucci & De Giorgi 2006; Barrientos & Sabates-Wheeler 2009). Some increases were due to gifts and loans from recipient households (Angelucci & De Giorgi 2006). Mozambique's cash transfer (GAPVU) has stimulated business among local traders operating near transfer dispensing offices (Barrientos & Scott 2008). Taylor et al. (2013) found that Kenya's cash transfer for orphans and vulnerable children has increased real income in the local economy by 1.58 Ksh for every 1 Ksh transferred, with most additional benefits accruing to non-recipient households. Alderman and Yemtsov (2012) summarised evidence of local economic multipliers, finding positive effects in Brazil, Ethiopia, Lesotho, Malawi, Meciso, South Africa and Togo.

The extent of these multiplier effects depends on the nature (cash or in-kind) and size of transfers, as well as the number of recipients in a locality relative to the size of local markets. In many LICs, the very small size of transfers limits multiplier effects. This is typical for public works programs where wages are often deliberately set low to facilitate self-targeting of only the poorest and for fear of inflation effects on local wages (McCord 2012). If the objective is to support local economic development, other approaches may be more appropriate. However, it is still important to consider the potential for multiplier effects when designing and evaluating social protection programs (Arnold et al. 2011).

### 5.2 Accumulation of productive community assets

Most public works programs result in the creation of new productive community assets, such as roads, or projects related to land management, such as irrigation. In the right circumstances, these assets have positive effects on the local economy, directly increasing productivity (for example, irrigation systems) or improving access to markets (for example, roads).



Investment in public infrastructure is a well-known determinant of growth through its role in improving the efficiency of productivity and reducing transaction costs (Alderman & Yemtsov 2012). Many examples exist of public works programs creating assets, including soil and water conservation, irrigation systems, social infrastructure and roads. Two of the largest ongoing works programs internationally include Ethiopia's PSNP, which provides seasonal employment for approximately 8 million people (around 10 per cent of the population), and India's Mahatma Gandhi National Rural Employment Guarantee Act, the world's largest rights-based social protection program, which guarantees 100 days of employment a year to all poor households and reaches 55 million workers annually (McCord 2013a).

However, despite ample evidence of infrastructure construction, very few studies examine its economic impacts. These studies have mixed results. Over time, the irrigation projects under Ethiopia's PSNP have changed water availability for agriculture (Subbarao et al. 2013). One study using a social accounting matrix, and focusing on a dam de-silting project in India, found a contribution to increased agricultural output of 2.2 per cent (Subbarao et al. 2013). However, McCord and van Sventer (2004) found no discernible economic benefits from roads constructed by South Africa's Extended Public Works Programme. Other anecdotal evidence suggests that the quality of assets produced is often poor and economic effects often marginal (Barrientos 2013; McCord 2013b).

### **5.3 Labour market impacts and inflation effects on local wages**

Public works and other labour market programs help improve the functioning of local labour markets, with positive impacts on the supply, demand and cost of labour. Evidence is substantial of positive impacts on growth from public works (in LICs and MICs) and other active labour market programs (in MICs), either by increasing participation in the work force through increased demand or improving performance through training programs and other services. Given the macro-level impacts discussed in the previous section, there will by implication be effects at meso level, especially when public works programs are concentrated in areas for the construction of community assets. There is also evidence that employment programs can change the relationship between labourers and landowners. Poor households enrolled in Ethiopia's *Meket* Livelihoods Development Project (a cash for work program) have renegotiated sharecropping and livestock arrangements with better-off households (Adams & Kebede 2005, in Alderman & Yemtsov 2012).

Public works programs also have inflation effects on local wages (Arnold et al. 2011; Alderman & Yemtsov 2012). Wage inflation is assumed to be negative in some LIC contexts, and is one reason some international institutions set very low public works wages. However, where labour market failures mean the prevailing minimum wage in the bottom segment of the labour market is already very low, an intervention that pushes up the cost of labour can be positive. A review of India's Maharashtra Employment Guarantee Scheme showed that it contributed to increasing the reserve wage for agricultural labour. This reduced landowner profits and put more hands in to the money of poor labourers, decreasing local income inequality (Gaiha & Imai 2005; in Arnold et al. 2011). Again, the extent of these effects depends on the nature of the transfer (cash, in-kind, training or services), its size, the number of recipients in a locality, and the existence and level of integration of local markets.

### **5.4 Linking meso and macro levels**

There is evidence of the real and potential positive local economy effects of social protection through various channels. Whether these lead to increased aggregate growth in the long term is undetermined. Positive impacts would need to be weighed against the opportunity costs of funding programs (usually, but not always, from taxation), and the impacts would depend on factors such as program scale, how programs interact with other social and economic investments and additional features of the wider economy.

## 6. Impacts at macro level

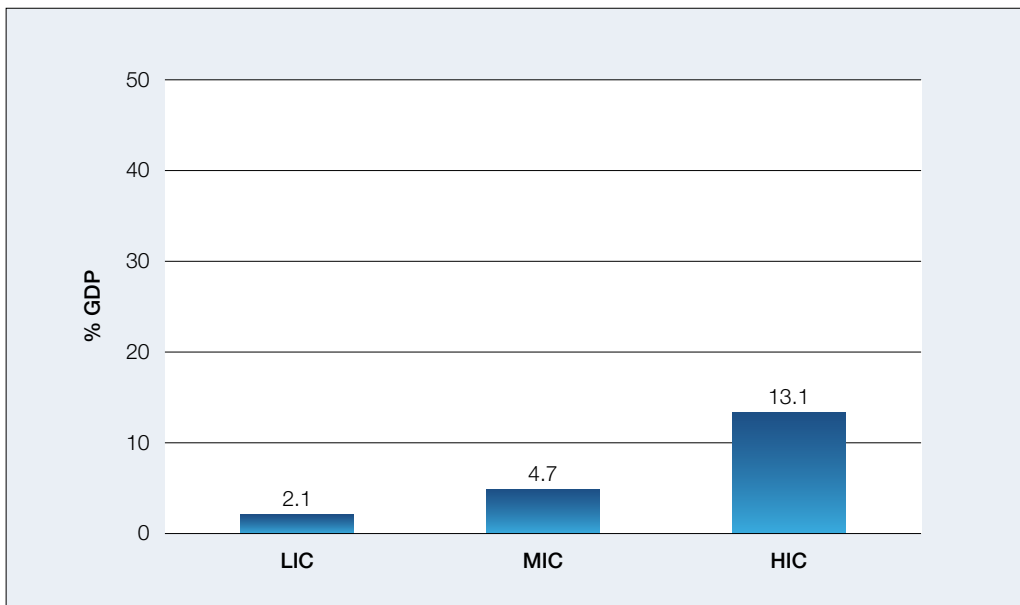
This section considers the likely extent of aggregate growth impacts in low-income contexts. In light of this discussion, it then considers the evidence of impacts of social protection on GDP.

### 6.1 Understanding the scale of aggregate growth impacts in low-income contexts

A number of authors suggest the impact of social protection on aggregate economic growth in low-income contexts is likely insignificant (Barrientos 2013; Levy 2006; Piachaud 2008). This may be the case for two main reasons: the scale of spending on social protection; and the marginal share of national income in the hands of the poor.

Social protection spending is approximately 17.2 per cent of global GDP (International Labour Organization (ILO) 2011). However, most of this spending is concentrated in HICs. Spending in LICs and MICs typically represents just a small share of resources relative to GDP. Once the figures are weighted by population, the averages across categories of countries reduce. Figure 1 shows that among LICs, spending on social protection is just 2.1 per cent of GDP (weighted by population), compared to 4.7 per cent in MICs and 13.1 per cent in HICs. In addition, the poor tend to have only a marginal share of aggregate income. Figure 2 shows that the proportion of income in the hands of the lowest two income deciles (the poorest 20 per cent of households) in LICs and MICs for which data exists between 2002 and 2011, is between 2 per cent and 10 per cent.

Figure 1: Social protection spending\* as % of GDP (weighted by population)

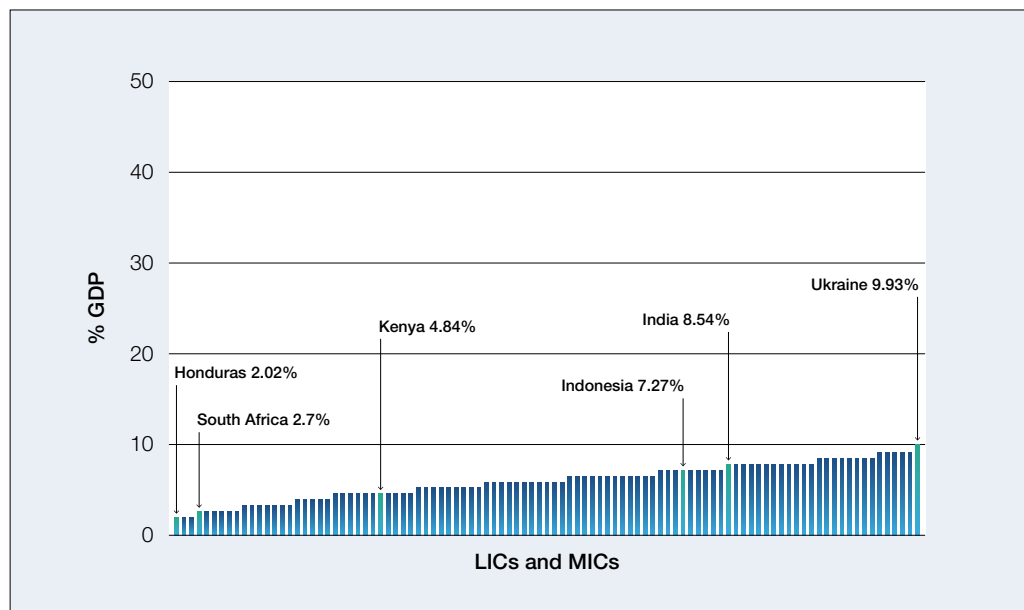


\*Includes old-age, survivor and disability pensions, unemployment insurance, family allowances and other social security expenditure. Excludes public health.

Source: ILO (2011)

For a country with lower inequality, such as the Ukraine where poor households claim 9.93 per cent of GDP, a 5 per cent increase in the income of the poorest households would translate to 0.5 per cent aggregate growth. In Honduras, a highly unequal country with just 2.02 per cent of GDP in the hands of the poorest, a 5 per cent increase in income for all poor households would result in only a 0.1 per cent increase in aggregate growth. Thus, while social protection may impact on productive capacity at household level, it is unlikely to have significant direct effects on aggregate growth and even less so in countries with high inequality and low social spending (Barrientos 2013; Levy 2006).

Figure 2: Income share of the poorest 20% of the population in LICs and MICs\*



\*All LICs and MICs for which data is available between 2002 and 2011. The latest data is used in each case.

Data source: World Bank (2013)<sup>8</sup>

Nonetheless, the issue of aggregate growth effects remains important as governments expand the coverage and generosity of social protection. In 2008 in Brazil, for example, total expenditure on cash transfer programs was equivalent to 8.4 per cent of GDP (37.5 per cent of federal government expenditure) benefiting 21.9 million people, of which 5.9 per cent constituted contributory social insurance and 2.5 per cent non-contributory cash transfers (ILO 2009).

## 6.2 Evidence of the impacts of social protection on GDP

The results of research on the impact of social protection on aggregate growth in HICs are mixed. Various studies in the 1980s and 1990s found that social protection increased growth (emphasising the role of imperfect capital markets and contributions to social stability), but other studies contradicted these findings (Arjona et al. 2002; Atkinson 1999). Arjona et al. (2012) found that increased spending on social protection by 1 per cent of GDP in OECD countries only moderately reduced growth by 0.7 per cent of GDP in the long term, whereas a similar increase in economic investment would lead to a 1.3 per cent rise in GDP. Disaggregating by types of social protection shows that a marginal increase in spending on programs primarily aimed at improving productivity and employment leads to a 1 per cent increase in GDP, while similar increases on consumption-smoothing programs lead to a 0.2 per cent decrease.<sup>9</sup>

A handful of theoretical and empirical studies summarised by Alderman and Yemtsov (2012) suggest that social protection in LICs and MICs can have positive impacts on aggregate growth. For example, McCord and Van Sventer (2004) suggest that spending 0.2 per cent of GDP on labour-intensive public works in South Africa would increase GDP by 0.34 per cent. Alamgir (1996) and Mallick (2000) found that BRAC's rural development and micro-credit programs costing 0.2 per cent of GDP increased GDP by 1.15 per cent. However, these growth effects are small and in most cases indiscernible from natural variation in growth measurement.

Hypotheses that social protection affects aggregate growth are complicated by a number of factors. Most important are the difficulties in disentangling the effects of income redistribution in general from the nature of the social protection policies that affect growth. Most cross-country empirical studies of OECD countries have not addressed this to any great degree, other than to distinguish (somewhat unsatisfactorily) between programs that aim to enhance productivity and those that are concerned with consumption transfers (Arjona et al. 2002).<sup>10</sup> Results must therefore be interpreted cautiously, especially when extrapolating to different contexts. Indeed, the conditions within which social protection and economic growth interact in HICs are markedly different to those of LICs and MICs. For example, Barro (2008) points out that one main reason inequality in LICs and MICs is more evidently bad for growth is because of greater credit market constraints. This would imply that social protection as a mechanism to overcome capital constraints will have greater positive impacts on productivity in LICs.

The main conclusion here is that results from the literature on social protection on aggregate growth are somewhat inconclusive. The most recent literature suggests that 'productive' social protection spending in HICs is positive for growth, but that even in countries where spending represents a relatively large share of GDP the effects on growth are small.<sup>11</sup> Similar effects are unlikely to be felt to any great degree with LICs and MICs in light of the significantly lower spending on social protection and the marginal share of income among the poorest. Finally, it is worth noting that social protection programs may simultaneously have positive and negative effects on different parts of the economy (Atkinson 1999). It is therefore important to consider the channels through which social protection may affect economic growth.

### **6.3 Evidence of the ways in which social protection affects aggregate growth**

Social protection could impact on national (macro-level) growth directly, through increasing household productivity and employment, stimulating aggregate demand, affecting labour force participation and influencing savings and taxation; and indirectly, through facilitating economic reforms, building human capital, contributing to social cohesion and influencing demographics. These effects are discussed here.

#### **6.3.1 Direct effects**

The literature on social protection and growth in developing and rich countries identifies the following four direct channels by which social protection can have impacts on aggregate growth.

##### **Increasing household productivity and employment**

In theory, the increases in poor households' productivity discussed in section 4 can have a cumulative positive impact on aggregate growth. While certain social protection instruments, when implemented with the right complementary investments, are designed to increase productivity (for example, Ethiopia's PSNP or Bangladesh's Challenging the Frontier of Poverty Reduction), the primary function of social protection in developing countries is most often to help protect a minimum standard of living through consumption transfers to the chronic poor and vulnerable groups. Importantly, however, significant evidence shows that productivity gains can result from social protection instruments and safety nets, even if they are not designed primarily to increase productivity.

Many macroeconomic studies cited in Section 6.2 show positive impacts in certain circumstances and how active social spending (programs with a productivity enhancing objective) more likely leads to increases in aggregate growth (Arjona et al. 2002). However, these studies do not provide certainty about the channels through which growth impacts occur and caution should be exercised in extrapolating findings to other contexts. For example, the findings for OECD countries relate to active labour market policies focused on increasing formal employment, whereas poor households in LICs and MICs predominantly engage in small-scale farming and informal livelihoods.

More relevant for the developing country context, Alderman and Yemtsov (2012) summarise various studies examining the benefit-cost-ratio and economic rate of return of particular social protection projects, including consumption transfers and productive safety nets. All studies selected show positive returns on investment (with an internal rate of return of between 8 per cent and 17 per cent), although this is not necessarily as high as alternative investments in other sectors (with an average internal rate of return of 25 per cent). It is not possible to conclude from this that aggregated increases in household productivity resulting from these programs have led to an overall increase in growth, but they provide evidence of the potential to do so. In addition, as discussed earlier, micro-level increases in productivity are important for reducing poverty and promoting inclusive growth.

### Stimulating aggregate demand

ILO (2011) and Alderman and Yemtsov (2012) highlight the potential of social protection to stimulate aggregate demand in an economy by providing counter-cyclical spending during economic downturns. ILO (2011) suggests that countries with effective social protection systems better responded to the recent global financial crisis and that social protection measures were as effective at saving jobs as were other adhoc stimulus packages. Furthermore, the cost of the measures were typically half that of the economic costs of increased unemployment.

In these circumstances, social protection may be better than other government spending because getting cash into the hands of poor people, who tend to spend on local basic goods and services, acts faster to increase aggregate demand through multiplier effects (Alderman & Yemtsov 2012). Thus, increasing social spending by redirecting it from other parts of the economy or even through increased borrowing (as occurred in many OECD countries in the recent global financial crisis) may benefit growth, as long as the crisis or downturn is relatively short in duration. Evidence from the United States' multi-billion dollar stimulus package in 2009 showed that expanding food stamps had a multiplier effect of 1.7, while investments in infrastructure and extension of unemployment benefits had a multiplier effect of 1.6 (Zandi 2009, cited in Alderman & Yemtsov, 2012).

The impacts of short-term responses to economic fluctuations depend on the scale of public spending. In LICs and MICs, employment guarantee schemes, such as India's Mahatma Gandhi National Rural Employment Guarantee Act, are potentially effective in simultaneously protecting employment and providing economic stimulus (ILO 2011). However, while evidence is substantial of this approach being employed by governments during the recent global financial crisis, evidence of the effectiveness of stimulating aggregate demand through increased social protection spending is not so substantial (McCord 2013a).

### Labour force participation

Social protection could lead to an increase or decrease in labour force participation. On the one hand, employment levels may increase as a result of public works programs and employment guarantees schemes, other active labour market policies, or improved access to labour markets supported by the receipt of transfers. Social pensions and child benefits may also shift less productive members of society (children and the elderly) out of the labour market, allowing more productive working age members in (Piachaud 2013; Arjona et al. 2002; ILO 2011). On the other hand, there are concerns that receipt of transfers can act as a disincentive to work, and that employment legislation (such as minimum wages) may contract demand for labour.

In practice, evidence of the effects of social protection on labour force participation and employment at macro level is inconclusive. As identified earlier, Arjona et al. (2002) found that isolating the effects of active labour market policies showed net positive impacts on GDP in OECD countries. However, the same caveats apply here to the contexts in LICs and MICs and the size of aggregate effects, which are likely to be small. Only in very large-scale programs (there are very few in LICs and MICs, with India's Mahatma Gandhi National Rural Employment Guarantee Act and Ethiopia's PSNP notable exceptions) might the impacts on employment be large enough to affect aggregate employment.

In contrast to earlier quantitative studies that showed no correlation between social protection benefits and unemployment, a well-known study by Layard et al. (1991, cited in Atkinson 1999) found that social protection may have increased unemployment in a selection of OECD countries, specifically with the level and duration of benefit transfers. In addition, the study found that the persistence of unemployment is strongly related to the duration of benefits but not the level, suggesting that social protection may lead to dependency. However, Atkinson (1999) points out that correlations between unemployment, benefit levels and duration can be misleading. First, causality could run either way—rather than social protection causing unemployment, a country with high unemployment or informality may not be able to afford high benefits, or a country prone to unemployment for other reasons may require higher benefit levels. Second, it is very difficult to disentangle the effects of particular policy design features and see them separately from the social protection system as a whole and the wider economy. Long-term unemployment is often more to do with lack of jobs and employment opportunities than individual choices to rely solely on benefit payments (ILO 2011).

Importantly, substantial evidence from LICs and MICs concludes there are no harmful work disincentives associated with social protection (Barrientos & Scott 2008). The effects on individual labour incentives among poor households are discussed in Section 4.

### Effects of savings and taxation on capital, investment and resource allocation

The economic growth literature points to three other channels through which social protection may directly affect aggregate growth.

The first channel is the role pension funds can play in deepening capital markets by providing capital to stock and bond markets (Alderman & Yemtsov 2012). Corsetti and Schmidt-Hebbel (1995) show how social protection, specifically pension insurance, may marginally promote growth by encouraging savings. However, their macro-economic simulations predict an increase of just 3 per cent to 5 per cent in GDP over 110 years as a result of moving from a pay-as-you-go (state run) to fully-funded (private) pension scheme.

The second channel is the potential negative impacts of taxation on savings, investment and innovation among (non-recipient) taxpayers (Arjona et al. 2002; Piachaud 2013). Traditional economic theory suggests that any form of redistribution reduces growth because the rich have higher rates of savings than the poor and higher taxation reduces incentives to innovate. However, the standard growth models predicting these effects assume that social protection is simply income redistribution from productive to unproductive people (Alderman & Yemtsov 2012). In reality, these lines are not clear cut—social protection has both insurance and efficiency functions. Redistribution takes place not just between rich and poor but at different times of the life cycle, and a complex social protection system comprises a mix of contributory and tax-funded schemes often supplemented in LICs and MICs by donor funding.

The third channel is the potentially destabilising effect of government spending financed by increasing debt in the (unlikely) circumstance that LICs and MICs borrow beyond their capacity to finance social spending. High levels of debt can be destabilising, as evidenced by the debt crises of the late 1970s and 1980s. For selected European countries, Checherita and Rother (2010) found that when government debt reaches around 90 per cent to 100 per cent of GDP it begins to have a detrimental effect on long-term economic growth.<sup>12</sup> However, the size of these effects is uncertain. Research by Herndon et al. (2013) found that while similar debt levels for 20 advanced economies had a small negative effect, growth still averaged around 2.2 per cent. For responses to economic downturns where social protection may be

used as an economic stimulus it may be viable to fund increased expenditure through further borrowing in the short term. However, it is generally not advisable to fund the recurrent costs of social protection programs through borrowing (Hagen-Zanker & Tavakoli 2011).

### 6.3.2 Indirect effects

The literature on social protection and growth in developing and rich countries identifies the following four indirect channels by which social protection can have impacts on aggregate growth.

#### Facilitate economic reforms

Social protection helps governments to facilitate other economic reforms that reduce inefficient government spending (Alderman & Yemtsov 2012). Alderman and Yemtsov (2012) summarise a number of cases since the 1970s, including economic reforms in Latin America following the debts crises of the 1970s and 1980s which were facilitated, for example, by introducing public employment programs (Chile) and poverty transfers (Bolivia). In the 1990s, South Korea strengthened its social protection programs to win support for greater flexibility in the labour market, resulting in a large number of lay-offs (DFID 2006). Indonesia reformed the fuel subsidy without significant social unrest, in part by introducing cash transfer programs funded by fuel subsidy savings and increasing grants to social services and communities. See Case study 1 on the growth-enhancing effects of social protection in Indonesia.

#### Enhance human capital

There are well-known, positive impacts of social protection on human capital improvements (better nutrition, health and education) at micro level (discussed in Section 4). Evidence exists, mostly from HICs (especially the United States) of the long-term impacts of healthier and better educated people on productivity and growth (Weil 2005; Ashraf et al. 2009; World Health Organization (WHO) 2001; Krueger & Lindahl 2000). The importance of health and education in social and economic development is well accepted and there is a strong correlation between GDP per capita and education levels, life expectancy and other health measures.

There is general consensus on the evidence that individual health is important for individual economic performance. Weil (2005) suggests that healthier people are better workers and healthier students have better cognitive ability, with both missing fewer days of employment or schooling respectively. Ashraf et al. (2009) point to measures of poor health, including malnutrition, anaemia and early childhood diseases, that impact on earnings. In addition, improvements in mortality mean people save more for retirement, thus increasing capital available for investment.

However, there is more uncertainty about the extent of aggregate effects of improved health on growth. Barro (2008) provides quantitative evidence that growth is enhanced by higher life expectancy. Ashraf et al. (2009) are less optimistic about the size of aggregate effects, showing that large improvements in health lead to only modest increases in GDP per capita over decades. They found that eradicating Malaria in a sub-Saharan African country would raise GDP by about 2 per cent in the long term. This contradicts the more popular view that health is a strong determinant of growth. The Commission on Macroeconomics and Health suggests that \$360 billion could be saved annually by preventing 8 million deaths within several years (WHO 2001). Nonetheless, the evidence is consistently positive, and even if growth effects are small, it is difficult to argue that investment in better health—for which social protection plays an important role—is undesirable.

## Case study 2: Mexico's *Oportunidades* conditional cash transfer program

Mexico's *Oportunidades* (formerly *Progresa*), a relatively generously funded CCT, has been highly evaluated, offering rich evidence of the impacts of social protection on productivity at micro level. *Oportunidades* was introduced to replace a number of inefficient food transfer programs and price subsidies. In 2007, the CCT was reaching 5 million households (approximately 25 million people, or one-quarter of the population), and cost US\$3.3 billion (about 0.4 per cent of GDP) (Grosh et al. 2008). Receipts of transfers are conditional on children attending school and health care visits, with women in participating households receiving cash payments as well as schools supplies and nutrition supplements.

*Oportunidades* has resulted in **increased productive investment** by allowing households to overcome credit constraints. A 2006 evaluation showed that program participants invested around 12 per cent of their transfers which increased consumption by one-third over five years (Gertler et al. 2006). A follow-up study in 2012 found that household investments had grown to 26 per cent of the transfer, increasing the value of livestock and micro-enterprises (Gertler et al. 2012). Importantly, a number of studies looking at the labour incentive impacts of the CCT found no negative impacts on adult labour force participation or work effort. However, the program has resulted in reductions in child labour participation rates by up to 25 per cent (Parker & Skoufias 2000; Skoufias & di Maro 2006).

Mexico's CCT also provides evidence of the potential for social protection to promote **increased risk taking**. Participating households have developed more diversified livelihoods through reallocating labour from agricultural to non-agricultural activities which attract higher returns (Behrman et al. 2010 cited in Alderman & Yemtsov 2012). Another program study suggests that entrepreneurial activity was higher when households had greater certainty about the future receipt of transfers (Bianchi & Bobba 2012, cited in Alderman & Yemtsov 2013).

*Oportunidades* has also been instrumental in allowing households to **invest in human capital**. Attanasio et al. (2005) found positive impacts on primary and secondary school enrolment rates. The greatest effects was for girls with an increase of 7 to 9 percentage points (up from 67 per cent) in rural areas. A study by Todd and Wolpin (2006) predicted that children of participating households would complete school with almost one extra year of education. A number of studies have shown positive impacts on child growth, with lower probabilities of stunting for children aged 12 to 36 months and an 11 per cent decline in infant mortality among children of beneficiary households in rural areas (Behrman and Hodinott 2005; Gertler 2000; Gertler & Boyce 2001).

As with social protection, findings for the impacts of health and education on growth must be treated with caution. This includes, for example, the possibility of reverse causality, where higher education and better health may result from increased demand due to higher incomes. Variance in study findings may also be due to variances in context and time. On the one hand, the type of education and level of a country's development influences results—primary education may have been more important in HICs many decades ago but no longer show significant growth impacts in today's economies. On the other hand, the impacts of primary education may still be significant in LICs, with high levels of agricultural and informal employment. Ravallion and Datt (1999) found that growth in 15 major states of India between 1960 and 1994 had a higher effect on poverty reduction, where educational attainment (measured as literacy) was higher because of the more inclusive nature of that growth. Education, in effect, allows the poor to participate in growth processes.

### Enhance social cohesion

Much has been said about the role of social protection in enhancing social cohesion and strengthening the social contract between state and citizen (Babajanian 2012; Carpenter et al. 2012). Strengthening the social contract, rather than poverty reduction per se, was the primary aim of some of the first social welfare programs in Europe. The growth theory suggests that a more stable, cohesive society is more conducive to investment and economic activity.



However, Lindbeck (1975, in Arjona et al. 2002) argues that the development of welfare states has resulted in citizens' pursuit of material gain through political—rather than economic—means, thus reducing the overall productivity of society.

Despite many positive claims, there is little evidence of the impacts of social protection on state-building and social cohesion (Babajanian 2012; Carpenter et al. 2012). Babajanian (2012) highlights three areas where inferences can be made about the role of social protection in enhancing social cohesion. The first is through program effects, for example where rights-based measures contribute towards greater social inclusion such as India's employment guarantees and specific elements of Kenya's Hunger Safety Net Programme.<sup>13</sup> The second is through avoiding design features that undermine social cohesion, such as social categorical targeting in fragile contexts, and conditions that reinforce gender roles (increasing the workload of mothers, for example). The third is through ensuring that external actors do not undermine the role of the state in service provision.

There is also little evidence of the impacts of social cohesion on growth. Barro's (2008) regression analyses of the impacts of inequality on growth suggest that aggregate growth is enhanced by better rule of law. Alderman and Yemtsov (2012) point to post-war Germany and post-apartheid South Africa as examples of social protection's role in peace-building and state-building. However, recent experiences, for example in Brazil and in the Arab Spring uprisings, show that even in states with strong and expanding social protection programs, social and political unrest can still occur. Even in South Africa, the role of cash transfers in allegedly supporting the contract between citizens and the state must be considered with the decision to allow the 'Blue Card'—the country's contributory unemployment fund—to wither away. Overall, evidence on the role social protection and other social services can play in peace-building and state-building is weak (Carpenter et al. 2012).

### Reduce inequality

Social protection can help reduce income inequality. For example, Brazil's *Bolsa Família* was attributed with contributing 12 per cent to 14 per cent of the country's reduction in income inequality between 2001 and 2005 and for reducing the Gini coefficient by 21 per cent between 1995 and 2004 (Holmes et al., 2011 summarise these findings). Crucially, consensus is growing that the role of social protection in reducing inequality is positive for economic growth, especially in LICs and MICs (Ravallion 2005; Barro 2008; Arjona et al. 2002). Grosh et al. (2008) explain that high inequality slows growth because high political and social inequalities lead to the development of institutions and policies concentrating income in the hands of privileged groups rather than the creating of a broad base for growth. The poor and near-poor (who constitute most LICs and MICs) are therefore locked out of opportunities to participate in growth processes. Increasingly, evidence is consistent that there is no trade-off between greater equality and growth (Ravallion 2005, Arjona et al. 2002) and even that greater equality leads to higher growth (Perotti 1996; Barro 2008), especially in LICs and MICs. Barro (2008) provides empirical evidence of the negative effects of inequality on growth in countries with GDP per capita of up to US\$11,900<sup>14</sup> (adjusted for PPP), a level similar to that of Brazil.

### Impact on fertility rates

It is possible that social protection programs may have long-term effects on fertility which will affect aggregate growth or the share of gains from growth. Some programs explicitly aim to promote and support families (for example, child grants) which could provide incentives to have more children; however, programs often factor in these incentives by including a cap on the total value of transfers per household. While some evidence exists that reductions in fertility in a country with existing high levels of fertility would lead to small increases in GDP per capita (Ashraf et al. 2012), evidence from LICs and HICs suggests the impacts of social protection programs on fertility rates are negligible (Holmqvist 2010; Neyer 2012).

## 7. Summary of gaps in the evidence

The impacts of social protection on productivity and labour market participation at micro level are well studied. In LICs and MICs, the evidence overwhelmingly shows positive impacts, and very little evidence of potential negative impacts, especially labour disincentives. The evidence also shows that design and implementation are critical. As Alderman and Yemtsov (2012) point out:

... the relative weakness of evidence in support of the growth enhancing potential of social protection should not be overemphasized ... What is missing is not so much the solid evidence on the impacts of social protection programs on income growth, particularly at the individual and household level, but clarity on practical steps to apply this perspective in practice.

More research is required at meso level on the impacts of social protection on local economies, especially the potential multiplier effects of social protection and the economic impacts of infrastructure created through public works programs. Macro-econometric evidence, while not entirely conclusive and sometimes contradictory, nevertheless suggests that social protection could have positive impacts on GDP. However, macro-level studies are only useful to a degree. From a practical perspective, more research is required around the channels through which social protection may affect economic growth at aggregate level, particularly in LICs and MICs. This research should aim to clarify if—and to what extent—certain objectives often attached to social protection programs are borne out in practice (for example, economic empowerment and social cohesion); and identify the policy approaches that are most beneficial for growth, sustainable and inclusive of the poor.

This review has highlighted gaps that should be of interest to those guiding policy decision making and designing social protection programs. Gaps include the:

- > understanding of the thresholds at which certain impacts are maximised, such as relationships between the size of a cash transfer, depth of poverty and propensity to save and invest
- > economic impacts of infrastructure produced by public works programs
- > labour market effects of social protection, specifically with potential disincentives to remain in the formal sector larger scale and expanding social protection programs
- > heterogeneous impacts of social protection on growth between men and women and between households within different income distributions
- > impacts of social protection and other social services on social cohesion and state-building and how this contributes to economic growth.

## 8. Conclusions

This research synthesis examines the impacts of social protection on growth at macro (national), meso (community or local levels) and micro (individual or household) and through direct and indirect channels. While most channels suggest positive impacts on growth, social protection can impact negatively on growth in a number of ways, which require scrutiny.

The evidence base is strong for the positive growth impacts of social protection at micro level. Evidence is growing on its potentially positive impacts at meso level. At macro level evidence is somewhat inconclusive although there are some indications of net positive effects. Evidence is mixed from OECD countries although the most recent studies suggest positive impacts on aggregate growth from social protection instruments that have improving labour market participation as a primary objective. It is, however, difficult to disentangle these effects from other policies and to identify the channels through which such impacts occur.

Evidence at macro level is scarcer for LICs and MICs. However, studies of individual programs suggest the potential for small, but positive impacts on aggregate growth from programs with productivity and poverty alleviation objectives. Along with micro-level evidence this suggests that in the short term, social protection mainly supports growth through by enhancing productivity and labour market participation. In the long term, it does so by enabling protection of and investment in human capital.

This review examined a broad range of social protection programs, mainly social assistance most relevant for LICs and MICs. It also looked at social insurance and active labour market programs.

A number of important design features emerged which should be considered when aiming to maximise the growth potential of social protection. A detailed analysis of this was beyond the scope of this review but some important considerations include:

- > The choice and combination of social protection instruments depends on the poverty and labour profile of households (whether their needs are to protect consumption, prevent losses in productivity or promote investment) as well other important factors such as affordability, feasibility of implementation, and political acceptability.
- > For social protection programs to achieve their productive potential, multi-faceted programs, simultaneous investments in complementary policies, services and interventions, as well as appropriate sequencing, are crucial.
- > Transfers must be of sufficient value to meet basic consumption before investment in productive capacity can occur.
- > Transfers must also be provided at the right time (for example, following shocks) and be regular and predictable to give households the security they need to invest and diversify into higher risk livelihoods.

In summary, this review has shown that social protection is an important tool for promoting inclusive growth. It demonstrates its potential to contribute, if only marginally, to aggregate growth. Thus understanding and assessing the growth-enhancing impacts of social protection at micro and meso levels as well as identifying the most appropriate design and implementation features to achieve this should form part of policy and programme decisions.

There are, of course, opportunity costs related to public spending, including on social protection. Higher rates of return may be gained by prioritising investment in other sectors. However, assessments of the worth of expenditure on social protection, and what kind of social protection to prioritise, should primarily be made for their potential to reduce poverty, vulnerability and inequality. Achieving a certain level of equity is a paramount consideration in most societies.

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## Endnotes

- 1 <http://www.worldbank.org/en/news/press-release/2013/10/01/world-bank-group-bold-steps-accept-smart-risks-help-end-poverty-jim-yong-kim>
- 2 An examination of the growth effects of wider taxation and redistribution systems is beyond the scope of this review.
- 3 Alternative measures include Gross National Product which measures the value of production of a country's citizens regardless of where production takes place, and excludes domestic production owned by non-citizens, and Gross National Income which adjusts for payments to, and income earned from, the rest of the world.
- 4 Data source: <http://data.worldbank.org/indicator/NY.GDP.PCAP.PP.CD>
- 5 These criticisms do not mean that GDP is not useful, but that caution should be taken in accepting it as the dominant measure of social wellbeing and developmental success.
- 6 Pro-poor growth can be defined as when income poverty falls more than it would have if all incomes had risen by the same rate (the poor benefit proportionally more from gains in growth) or, simply, that growth leads to reductions in income poverty (Ravallion, 2004).

- 7 Harod-Domar on capital and savings (1940 to 1950s); Solow and Swan on technology on human capital (1950s to 1960s); Romer, Lucas and others on endogenous growth theory (1980 to 1990s).
- 8 Data source: <http://data.worldbank.org/indicator/>
- 9 Some studies distinguish between passive and active social protection spending, examining separately programs that primarily constitute social transfers and active labour market programs. However, the distinction is not always clear cut with many programs having elements of both (Atkinson 1999; Arjona et al. 2002).
- 10 There are also methodological issues related to the measurement of growth effects, including reverse causality—whether increased aggregate income allows for higher levels of social spending or whether greater investment in social protection leads to higher economic growth—and a host of data problems well summarised by Arjona et al. (2002); Atkinson (1999).
- 11 Atkinson (1999) questions the size of growth effects in a number of earlier studies—notably those of Weede (1986); Korpi (1995)—demonstrating that based on their predictions, the impact on GDP growth of changes in social protection spending in the Netherlands and the United States would be of a quantitative magnitude beyond believability.
- 12 Some of these countries have debt levels higher than 100 per cent of GDP today.
- 13 The Hunger Safety Net Programme, a cash transfer programme in Northern Kenya, includes rights education, increasing the ability of citizens to make claims on public services.
- 14 After which there is no longer an observable negative effect, but neither is there a positive effect.