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Robert Walker, Sony Pellissery

Giants old and new: Promoting social security and economic growth in the Asia and Pacific Region[1]

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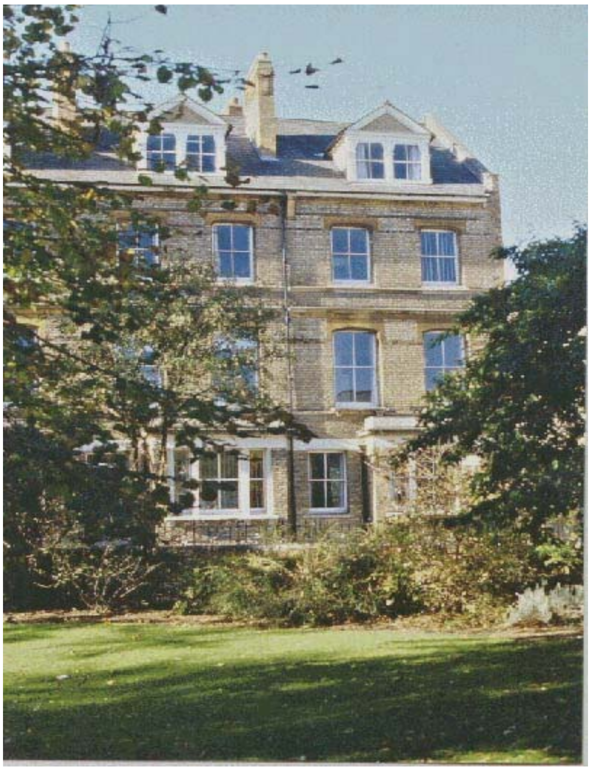

Editors:

Professor Ann Buchanan
Dr Martin Seeleib- Kaiser

Department of Social Policy and Social Work
University of Oxford
Barnett House
32 Wellington Square
Oxford
OX1 2ER

ann.buchanan@socres.ox.ac.uk
martin.seeleib@socres.ox.ac.uk

Abstract:

The Asia and Pacific region, recognised by the International Social Security Association, is characterised by vast diversity and yet warrants distinct attention. There have been great achievements in recent years in promoting growth, building social security and cutting poverty but giant challenges remain, nine of which are identified. Five resemble problems prevalent in Europe 60 years ago: want; squalor; underemployment; poor education; and bad health. The four others, inequitable growth, discrimination, corruption and an aging demography, lessen the effectiveness of policies targeted on the other five. A four fold strategy is sketched to extend and strengthen social security provision.

[1] Adapted from a keynote address to the ISSA Regional Conference for Asia and the Pacific, New Delhi, 21st November 2006

1. Introduction

It was not until 2002 that the *International Social Security Review* devoted an issue to the experience of the Asia and Pacific region. This late recognition of the region may perhaps be explained by the vast diversity evident in economic, cultural and social circumstances and the corresponding multiplicity of different social security provision. Such variety is a great strength in the development of policy providing, as it does, the scope for policy learning based on an enormous natural laboratory for social security experimentation.

It is important to take account of this diversity in assessing the challenges and opportunities faced by the social security policy community in the region. The existing pattern of provision, outcomes and achievements helps determine individual and social resilience and shape political ambition. For some jurisdictions in the region, notably those belonging to the OECD club, the task ahead is likely to be one of refinement and adjustment unless struck by unanticipated political or economic upheaval of cataclysmic proportions. For many others, however, the challenge is to put infrastructures of basic provision in place to reach substantial proportions of the population living on the threshold of survival at a time when demographic and global economic change is multiplying political and policy uncertainties.

At a different time and place, Sir William Beveridge, architect of the UK post-war welfare state, identified five giants standing in the way of economic and social reconstruction: want; squalor; idleness; ignorance; and disease. Dressed in new clothing, poverty, inadequate housing, unemployment and informal employment, illiteracy and low skills, and ill-health, perhaps most notably, HIV/AIDS, the same giants still stand tall. Moreover, the giants hold hands. Poverty will not be overcome if unemployment is not slain and that is unlikely without tackling ill-health and killing off illiteracy. Furthermore, there are at least four other giants lurking in the region: inequitable growth, corruption, discrimination in the context of social or cultural diversity, and population aging. The first three each protect the five primary giants by lessening the effectiveness of the weapons used against them, reducing and misdirecting the resources available, one of the most important of which is social security. The fourth, aging, is less predictable in its impact, imposing demands that may be become excessive if the other giants remain active.

It is important to begin by recalling recent achievements. These give lie to the fear, the myth, that policy is a blunt sword against rampaging giants. Equally, it is essential to recognise the true size of the giants, to measure their girth, so as to be able to forge and wield weapons in ways capable of slaying them. Again, it is helpful to take note of the successes since these can provide stimulus, insight and models for policy development.

2. Achievements

Social security comprises programmes of benefits that replace or supplement income or provide for prescribed expenditures. The benefit may be in cash and kind but will be established by statute with allocation based on contributions, citizenship or need. Characterized in this way, social security is neither new nor rare in Asia and the Pacific. Indeed, if coverage is defined by country rather than population, social security proves to be almost universal within the region (Figure 1). Benefits for old age, survivors and disability exist in virtually every country and, as in Europe, the majority of schemes are funded by contributions from employers, employees or both, with benefits linked in size to former earnings. The risks of old age and work injury were typically the first to be covered with schemes being later extended to embrace survivors and, less commonly, disability.

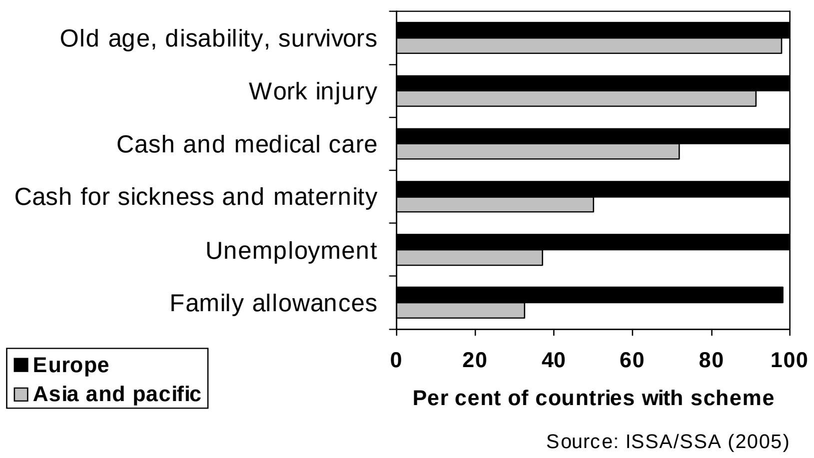

Figure 1 Regional coverage of social security

Around three quarters of countries in Asia and the Pacific also have cash benefit schemes that cover income loss due to sickness and maternity and over half have health care insurance systems. Most countries have also implemented social assistance programmes targeted on the most vulnerable and designed to reduce abject poverty, quite often as a response to natural disaster or military conflict. With important exceptions, including Japan, the Republic of Korea and Malaysia, these schemes are rarely universal in coverage or access and are frequently funded by local rather than national government (Howell, 2001). Unemployment benefits and family allowances, important components of most European social security systems, are much less common in Asia and the Pacific although over a third of countries, including the most economically developed ones and those moving from highly centralised to more free market regimes have implemented schemes.

Within this general picture, though, there is vast variety. A few countries such as Australia, New Zealand and Japan have long-established comprehensive systems, the first two increasingly based on universal social assistance, the third on traditional social insurance principles. Much more recently, countries such as Thailand and the Philippines have also begun to construct social insurance schemes covering both public and private sector employees. Other countries, including India, Singapore, Malaysia and Sri Lanka have systems that are heavily reliant on provident schemes, systems of compulsory personal savings managed by government, that lack the financial advantages of risk pooling and which, perhaps because of this, are comparatively rare in Europe. Coverage of schemes within countries is highly variable. For the most part, self-employed workers and those in the informal sector (in many countries the majority of those employed) are excluded although they may be entitled to social assistance. Within the formal sector, provision is often most developed for, and sometimes limited to, civil servants or to the public sector more broadly defined, while coverage of the private sector is frequently restricted to particular industries or groups of employees.

Another achievement of the region is the success in raising per capita incomes since the 1990s. There is little doubt that this achievement has been driven by economic growth rather than by social security provision and/or redistribution. Indeed, analysis by the Asian Development Bank (2004, p.35) indicates, albeit on the basis of incomplete data, that ‘the largest reductions in poverty in Asia and the Pacific have all taken place in the context of distribution changes that went *against* the poor’. However, it is also true that economic growth has benefited the poor more directly in Asia than in other parts of the developing world. Differences in growth rates account for 65 per cent of the variation in the speed of decline in poverty in Asia and the Pacific, while each percentage increase in economic growth has, on average, generated a two per cent decline in poverty, twice the global average.

A number of reasons have been posited for this success but the most persuasive have to do with the initial level of inequality and changes in inequality over time (Ravallion, 2004). Where inequality is high the poor have less chance of accessing education, land, credit and other resources and therefore of sharing in the benefits of growth. Compared with other developing regions, income inequalities have been less extreme in Asia and the Pacific, the poverty gap more moderate and growth, with significant exceptions, more equitably shared.

3. Giants old and new

Want and squalor

While achievements have been great, giant challenges remain. First, despite undoubted progress, the Asian Development Bank, an institution not given to the use of hyperbole (ADB, 2004, p.1), concludes that 'the magnitude of poverty in the region is staggering'. Statistics for 2002 indicate that virtually 690 million Asians lived on less than $1 per day and 1.9 billion had incomes below the $2 poverty threshold. Moreover, it is easy to misinterpret the degree of progress that has been made. The People's Republic of China alone accounted for 75% of the decline in extreme, $1 per day, poverty achieved between 1990 and 2002, and the countries of Southeast Asia for a further 21 per cent. Progress elsewhere was comparatively slow. Even in 2003, over 30 per cent of Indians and Bangladeshis lived in extreme poverty as did more than a quarter of people in Nepal, Cambodia and the Lao People's Democratic Republic. Taking the more generous measure of $2 per day, an amount still meagre relative to poverty thresholds in Europe, poverty rates across the developing Asian economies are very unlikely to fall below 30 per cent within ten years and may continue to exceed 50 or even 60 per cent in South Asia.

Squalor, poor housing and sanitation often accompany poverty. Despite significant advances in South Asia, 65 per cent of the population still lack sanitation and fourteen per cent access to an improved water supply (World Bank, 2006). Overall, the situation is even worse in East Asia and the Pacific where 24 per cent of the population lacks access to an improved water supply and 52 percent has no access to sanitation although there are marked variations between countries, usually with poorer ones lagging behind (World Bank, 2006). For example, about 85 per cent of Filipinos have access to improved water compared to only 34 per cent of Cambodians. Those without access to water tend to be concentrated in rural areas: in East Asia and the Pacific 73 per cent of people without access to sanitation live outside urban areas.

Ignorance and disease

Beveridge recognised that the role of health and education, not only as self-evident aspects of well-being but as instruments for securing improvements in individual incomes, and collectively as means of boosting economic productivity. Sen (1998), too, identifies, good health and education as critical for the enhancement of capability. At a societal level, healthy and well-educated workforces enable countries to compete globally in terms of a high-productivity, high-wage portfolio. With initially low labour costs, Asian countries are able to capitalise on the labour-intensive nature of health and education provision and attain outcomes comparable to those achieved in the economically developed North (ADB, 2006).

Taken as a region, indicators of health and educational status reveal vast diversity, with some countries, including Korea, Malaysia and Sri Lanka as well as Japan, Australia and New Zealand, matching health standards set by OECD high income countries and with high literacy scores across the central Asian republics. In marked contrast, five countries (Bangladesh, India, Nepal, Pakistan and Taiwan) have literacy rates below 75 per cent and approximately 16 per cent, or 219 million, Chinese are unable to read. Similarly, infant mortality rates in countries as culturally diverse as Bangladesh, India, Nepal, Papua New Guinea, Turkmenistan and Pakistan are 20 to 26 times more than those in Japan. HIV/Aids has not yet brought the catastrophe on a societal scale that it has in Sub-Sahara Africa but prevalence rates in four Asia counties (Cambodia, Myanmar, Papua New Guinea and Thailand) are already many times those in Europe.

As a proportion of gross domestic product, average government spending on health and education by the developing countries of Asia and the Pacific exceeds that of Sub-Saharan Africa but is less than that of Latin America (ADB, 2006). Generally spending is more in higher income countries reflecting higher preferences for spending and increased labour costs attributed to higher wages (Herrera and Pang, 2005). Inevitably the link between spending and health and education outcomes is complex, and mediated by the efficiency and effectiveness of programmes, factors in turn influenced by geographical, cultural and administrative constraints. However, the Asian Development Bank (ADB, 2006, p.3) argues that, since low labour costs ensure that services are cheap to provide, 'the poor health and education outcomes observed in some Asian countries signify poor governance, either in the form of lack of political will, or in the form of inability to implement effective social policies'. Given the direct link with individual well-being and indirect ones with economic development and poverty reduction, the social costs of poor governance are clearly very high.

Idleness

Beveridge's giant of idleness lurks in Asia as underemployment and informal employment as well as unemployment (which tends to be relatively low compared to other developing areas). Underemployment is evidenced by workers involuntarily working less than full time; skilled workers forced to take jobs requiring less skill, over-staffing and workers compensating for lack of capital investment. Estimates are only available for the first form of under-employment, so-called time-based under-employment. However, taking these and adding them to the unemployment rate suggests that a minimum of 500 million out of a total labour force of 1.7 billion, 29 per cent, are affected (ADB, 2005).

Given that most people sustain themselves, directly or indirectly through, labour, this under-utilization is a root cause of poverty and low income. In this informal economy, a disproportionate proportion of the risks (financial and health-based) associated with the production process are borne by workers. Wage and employment contracts are ill-defined if they exist at all and work arrangements are fluid. Much of the informal sector is characterized by self-employment and by workers directly selling their labour to employers on a daily or even hourly basis. While informal employment exists on a large scale in rural areas, the informal sector is also often the dominant sector within urban areas. In many countries, women constitute a disproportionate share of informal employment (ILO, 2004).

Not surprisingly, statistics on the size of the informal sector are difficult to assemble but it is clear that in many Asian countries the informal economy accounts for the vast majority employment (Figure 2). Moreover, there is evidence that the informal economy is continuing to grow in countries as diverse as India and the Philippines, the fast growing transitional economies of China and Vietnam, and perhaps even faster in countries that have suffered economic setbacks such as Indonesia and Thailand (ADB, 2005). The scale of the sector, combined with its unregulated and administratively invisible nature, imposes a major brake on the development of effective systems of social protection that might alleviate some of the risks borne by workers. The fluidity of jobs and employers makes registration and compliance difficult to ensure while low wages and productivity undermine actuarial viability and inhibit provision and uptake. Consequently, social security often serves as a discriminating feature of the formal employment sector rather than a mechanism for social cohesion.

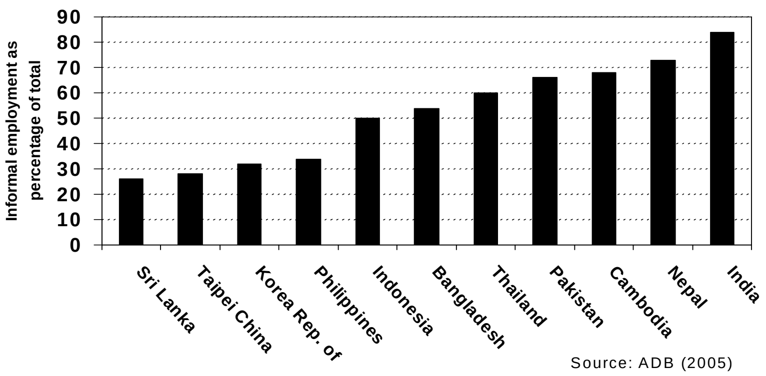

Figure 2 Size of the informal labour market in non-agriculture and urban employment

Inequality

Although Beveridge did not name the giant of inequitable growth, it was undoubtedly active during the Great Depression in 1930s Britain. As already noted, Asia's relative success in reducing poverty is partly explicable in terms of initially comparatively modest income inequality. Growth is least likely to be pro-poor when income and power are concentrated. Addison and Rahman (2001) demonstrate this neatly; using income inequality as a measure of the concentration of power, they demonstrate that, in low income countries with much income inequality, public spending on primary level schooling that most benefits the poor is often exceeded by that on secondary and tertiary education.

The new challenge for Asia and the Pacific is that there is considerable evidence that inequality is increasing: only Thailand of the countries included in Table 1 has experienced a notable reduction in inequality. Moreover, in some countries, most notably China, Lao People's Democratic Republic, the Philippines and Bangladesh the growth in inequality has been dramatic and, for the reverse of the reasons noted above, this increased inequality is likely to inhibit continued pro-poor growth. To illustrate, in the early 1990s a one per cent economic growth rate yielded a more than one per cent fall in rural poverty in the People's Republic of China. Thereafter, with much increased inequality, growth actually increased rural poverty. Asian Development Bank (2004) analyses suggest that increased inequality could, by 2015, more than double the $1 per day poverty rate expected in the Asia and the Pacific region from four per cent to 8.3 per cent under a baseline growth projection. In a low growth scenario, poverty would increase from 6.2 per cent to 11.5 per cent, thereby condemning another 200 million people to severe poverty. While globalisation sets the parameters for these developments, governments are not devoid of policy choices in relation to inequality. Governments can use fiscal policies and social security itself to temper growing inequalities.

Table 1 Change in inequality, selected countries

	Initial year		**Later year**	
	Gini coefficient	**Year**	**Gini coefficient**	**Year**
East Asia				
China, People's Rep.	30.57	1990	36.33	2001
South East Asia				
Indonesia	33.12	1987	34.30	2002
Lao PR	30.40	1992	37.00	1997
Malaysia	48.63	1984	49.15	1997
Philippines	41.04	1985	46.09	2000
Thailand	45.22	1981	43.15	2000
Viet Nam	34.91	1993	37.63	2002
South Asia				
Bangladesh	26.92	1985	31.79	2000
India – rural	28.59	1993	28.11	1999
India – urban	34.34	1993	35.00	1999
Pakistan	33.35	1987	32.99	1999
Sri Lanka	32.47	1985	34.36	1995

Source: ABD (2004)

Corruption

Corruption is a giant unknown to Beveridge but one that is likely to be motivated by and to assist inequality. Transparency International (2006) includes 11 Asian and Pacific countries in the worst two categories of its Corruption Perceptions Index, which is determined on the basis of expert assessments and opinion surveys. There is evidence that corruption reduces economic growth (Lambsdorff, 2005), results in less social expenditure, ostensibly because it offers less rent-seeking opportunities (Mauro, 1998), adds to administration costs and inefficiency and effects a transfer of resources away from poorer people thereby further increasing inequality (Gupta et al., 2002). This, in turn, explains the finding from the World Values Survey that respondents living in societies that are more unequal are more likely to consider that acceptance of bribes can be justified (Lambsdorff, 2005).

Evasion of tax and social security contributions is a related problem that weakens policy effectiveness. Failure by employers to register employees, or to make contributions on their behalf, undermines the public's trust in social security institutions, while collusion in non-payment by employers and employees prioritises short-term wants above long-term security and understates the true value of social security. Furthermore, the failure to collect revenues means, with funded schemes, less finance to invest, higher premiums or lower benefits and, for pay-as-you-go designs, lower benefits, more subsidy or the need for greater targeting.

The scale of evasion can be striking. It has estimated, as recently as 2005, that the Social Security System in the Philippines collected only 26 per cent of contributions due for employees working in the formal sector. Moreover, revenues could have been almost doubled had the estimated 5.1 million informal workers been bought into the scheme (Ortega, 2006). Improved enforcement in India in 2001 resulted in the addition of almost 116,000 enterprises and 11.5 million workers to the Employees' Provident Fund, 5.79 of them first time members (Viswanathan, 2006).

Discrimination

The giant of discrimination is sometimes twinned with corruption in culturally and ethnically diverse communities since rent-seeking can both be framed by, and foster, community fragmentation. Addison and Rahman (2001) characterised the countries of Asia and the Pacific according to the degree of ‘ethno-linguistic fractionalization’, the Republic of Korea being the least diverse and India, the most, and found that spending on education was most inequitable in the countries that were most ethno-linguistically diverse. The interpretation was that gatekeepers look after their own kind, insiders at the expense of outsiders, adapting and ignoring administrative rules in the process. Similarly, Pellissery (2006) has documented how access to income maintenance and employment creation schemes in rural India is mediated by an intermediary class, comprising state officials and local elites, that determines programme entry through systems of ‘patronage’ fuelled by social, economic and political payoffs. Proof of eligibility almost always requires the intervention of a member of the local elite who favour their own casual employees. Claimants, often the casual employees of members of the local elite, are ‘engineered for a fit’ (Houtzager, 2003) often by means of petty corruption and forged documents resulting in uptake by ineligibles and the exclusion of often poorer eligible applicants aligned with weaker factions and/or drawn from minority ethnic communities.

Working together the giants of inequality, discrimination and corruption can undermine the legitimacy of social security provision and frustrate the objective of targeting need and fostering social cohesion.

Aging

The final giant to stand in the way of progress is aging, partially filling a gap created by the weakened power of the great reaper, premature death. Asia and the Pacific is the most rapidly aging region of the world such that by 2025, the proportion to the world’s population aged 60 and over living in the area will have risen to 59 per cent from 52 per cent in 2002. Since the elderly are one of the groups already most vulnerable to poverty and continued migration is liable to weaken the ability of extended families to support their elders, this demographic change is likely to put further upward pressure on regional poverty rates. Such pressure is further heightened by the greater life expectancy of women who constitute the majority of the very old (75 and above) and are particularly susceptible to poverty since many work only in the home or informal economy and experience low wage levels and broken work histories that prevent the accumulation of retirement income.

However, it is critical to appreciate that China dominates this regional picture and that, in some respects, the policy scenario varies markedly between sub-regions and countries. The dependency ratio, people aged 65 or more and children aged 14 or less as a proportion of the total population, provides a useful measure of the economic challenge presented by the changing demography since it indicates the number of people needed to be supported economically by each person of working age. Despite an expected increase of 97 million in the aged Chinese population between 2005 and 2025, the dependency ratio rises only marginally from 0.41 to 0.46 in China until 2025 because the population of working age continues to increase while births remain low (Table 2). Thereafter, however, the Chinese dependency ratio increases markedly to 0.65 in 2050 as the effects of the one child policy become dominant, while that in South and Central Asia continues to fall potentially creating formidable pressures for migration within the region (Holzmann, 2006).

Table 2 Dependency ratios in Asia and the Pacific

	Dependency ratios (Age group-14 plus 65+ to age group 15-64)				Changes in the labour force, median variant, millions	
	2005	2015	2025	2050	2005-2025	2005-2050
China	0.41	0.39	0.46	0.65	19.1	-95.8
High-income E.Asia	0.47	0.54	0.62	0.88	-5.7	-25.0
Low- & Middle-income E.Asia & Pacific	0.54	0.47	0.45	0.54	93.7	128.1
South & Central Asia	0.62	0.54	0.50	0.50	292.2	514.3
Europe & Russia	0.47	0.48	0.55	0.74	-37.5	-98.4
Sub-Saharan Africa	0.87	0.82	0.74	0.55	211.3	591.7

Source: Holzmann, R. (2006) and UN

4. Slaying giants

There is no way in which these nine rampaging giants can be slain by social security provision alone. Beveridge's great insight was to recognise that the power of social security is enhanced when implemented together with comprehensive economic and social policies. Such policies need to be founded on principles of good governance and designed to support full employment and sustained economic growth through investment in human, environmental and economic capital. However, as the International Labour Organisation (ILO; 2006, p.28) affirms, 'social security transfers are the only direct means to overcome poverty and social insecurity in the short term'. Other expenditures, for example on health, education and public infrastructure, take time to generate effects.

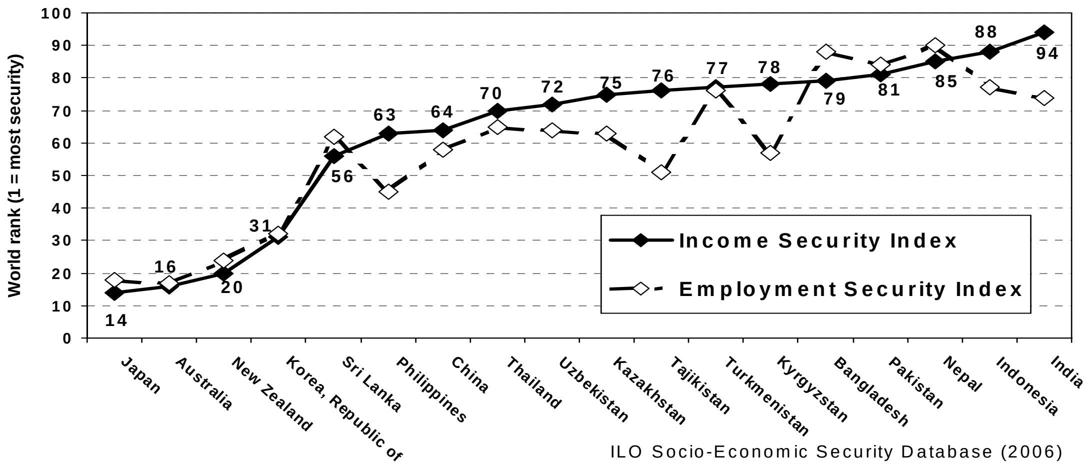

Figure 3 ILO Income Security Index (and Employment Security Index)

With important exceptions, social security provision in Asia and the Pacific is inadequate in relation to ILO guidelines (Figure 3). Japan, Australia and New Zealand are the only Asia and Pacific countries ranked in the top twenty in terms of the ILO Income Security Index, with South Korea ranked 32 and Sri Lanka at 55. All the remaining countries are ranked below 60 with Indonesia 88th and India 94th out of the 96 countries for which adequate data exist to compile an index. The index combines ratification with ILO conventions, level of social security expenditure, the existence of unemployment benefit and state pension as measures of activity, with measures of outcome including the poverty rate, per capita GDP, income inequality, male/female income differentials, life expectancy at birth, income security in retirement, and foreign indebtedness as a measure of national income vulnerability.

The ILO also compiles an economic security index, the weighted summation of seven socio-economic indices. For the most part, the countries of Asian and the Pacific score similarly on both indices but the Philippines, Tajikistan, Kazakhstan, India, and to a lesser extent, Indonesia are all ranked higher on the economic security index than on Income Security. In the case of the central Asian republics of Tajikistan and Kyrgyzstan in particular, this was because of their strong commitment to labour market security (on which they were respectively ranked 52nd and 36th compared with 76th and 78th for income security) although this might reflect labour hoarding and underemployment. The Philippines performed especially poorly on income security (63rd and also on safety at work, 73rd) being rated as high as 27th on the ILO Representation Security Index and 35th on the Job Security Index, while India's overall score was helped by a ranking of 57th on employment protection. Nevertheless, based on this analysis the ILO (2006c) concludes that most countries in Asia fail to provide adequate income security such that there is 'much to be done' in improving policies.

Strategy and rationale

Social security is both a process and an outcome, a means of mitigating the consequences of risk for individuals and society as a whole. The two central objectives of social security are poverty relief (and prevention), which entails transfers to bring incomes up to the poverty threshold, and income maintenance, replacing incomes lost as the result of prescribed contingencies (Figure 4). Both objectives necessarily effect a redistribution of resources between individuals, or over time, or usually both. This lessens inequality that in turn leads to a reduction in risk aversion (since the costs of failure are lessened) and less corruption (since the incentive is reduced together with the potential because power imbalances are diminished). Less risk aversion and corruption both enhance economic development. Economic growth increases the resources available to be redistributed and eases the political challenge of effecting such redistribution. Income maintenance, perhaps more so than poverty relief, also serves in this respect by enhancing social cohesion since all residents (or citizens) have a self-evident personal stake in the system.

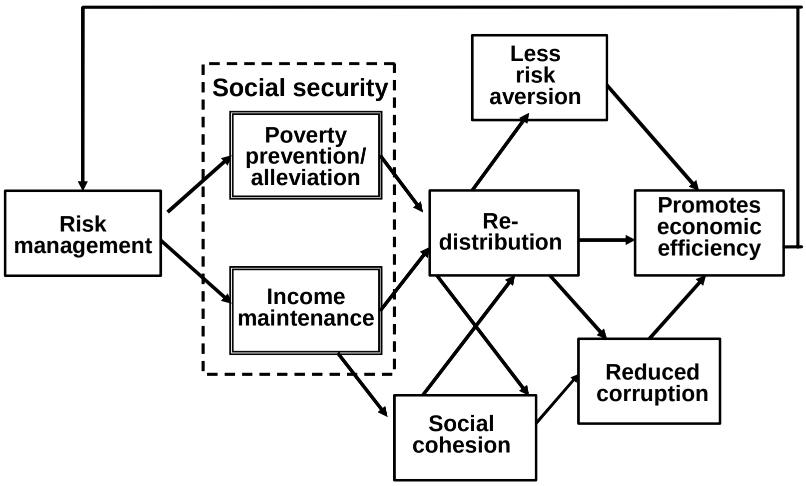

Figure 4 Social security and economic performance

Although it is theoretically possible for social security provision to erode economic performance, by lessening incentives to work and save, empirical evidence is inconclusive, while the palpable ability of societies to continue to prosper with comprehensive social security systems is irrefutable. Even the prospect of globalisation with the increased openness of societies to external risk cannot be allowed to delay implementation of social security systems. Current and projected levels of poverty in Asia and the Pacific region are indefensible and social security is the only policy mechanism proven to alleviate poverty on a large scale over long periods of time. However, Beveridge recognised that countries could not tackle his five giants without assistance. He supported the post-War creation of international institutions and British social security benefited indirectly from the Bretton Woods agreement (that established the General Agreement on Tariffs and Trade [GATT], and the International Monetary Fund [IMF]) and US investment in Europe through the Marshall Plan. By analogy, countries in the Asian and Pacific region cannot readily succeed in eradicating poverty without international cooperation and support.

Further development of social security within the Asian and Pacific region requires a tripartite approach to extend coverage of risks within the formal employment and informal employment sectors supported by a social assistance safety net for those historically or currently excluded from the labour market. This approach has, to be supported as Beveridge advocated, by a comprehensive security focussed strategy only one element of which is discussed below, namely that to expand the formal employment sector at the expense of the informal.

Extending the formal employment sector

As noted above, the majority of Asian workers are employed in the informal sector with low wages, few employment rights and no contact with formal social security. In contrast, the informal sector is generally small in OECD countries having been eroded historically by economic maturation that demanded skilled and stable workforces, growth of trade union power and the emergence of democracy supported by a free regional press unafraid to publicise malpractice and abuse. This has not happened spontaneously in much of Asia.

A range of policies is likely to be required. DeSoto (2001) convincingly argues that many Asian countries have legal systems that are insufficiently strong to protect ownership and thereby to allow persons to accumulate and retain capital necessary to increase productivity and, ultimately wages. There will usually be a place for an industrial policy framework that seeks to coordinate private and public sectors in order to encourage appropriate forms of production, restructuring, diversification, and technological innovation that exploit existing physical and human resources while recognising that development is likely to be less labour intensive than in earlier generations. Such a policy is likely to include the goal of the enhancement of the rural infrastructure, specifically to increase the supply price of labour. Investment, both in rural and urban areas, should prioritise quality jobs that offer decent wages and training that constitute a cumulative investment in human capital. This may, in turn, require prior public investment in training to ensure that the vicious circle of low wage, low quality, low investment is avoided.

As detailed above, it is imperative, therefore, to try to bring some of the benefits of the formal sector to the informal by, for example, extending basic employment rights to all employees, including freedom of association and freedom from discrimination and forced or compulsory labour,. This will require not just legislation but deliberate attempts to spread awareness and to empower community associations to challenge violations.

Extending coverage to the informal sector

At first sight, the informal sector might seem impenetrable to the expansion of social protection agencies, characterised as it is by heterogeneity, instability, small scale enterprise, low wages and invisibility to public scrutiny. Yet, in many respects Asia's informal economy differs little from that in late nineteenth and early twentieth century Europe where social security was born. There, provision often began with neighbourhood and work based mutual institutions that were variously taken over or superseded by trade union and state schemes because of their greater ability to pool risk and ensure compliance.

In considering strategies for outreach, it is prudent to reflect on the comparative advantage of the various kinds of social welfare institution and the objectives. (Loewe, 2003). While the state has a role as catalyst, regulator, underwriter and provider, it is likely that local and community organisations are key to unlocking social protection in the informal sector, their bottom up development deserves to be enthusiastically supported by government through regulation and financial and other support. Existing social and private insurers will need to diversify their products and engage in outreach and may secure advantage in this through working with community level providers. Government can assist in this process through regulation, the creation of incentives and, arguably, as provider of last resort. Finally, government must provide for those who have already succumbed to the consequences of uninsured risk: the sick, retired and destitute.

One of the key methods of providing service through local organisations is in the form of micro insurance in which the fund is held by a legal entity different from the pool of contributors, often a micro-finance institution. The prefix 'micro' alludes to the fact that while micro-insurance adopts a full-service insurance model, both the premiums paid and the sums assured are small although, in reality, such schemes tend mostly to serve medium scale entrepreneurs leaving non-governmental organisations (NGOs) to provide similar services to the most vulnerable population groups. In the field of health provision, provider insurance schemes exist in which subscribing members are entitled to cut-price treatment.

Such developments could be encouraged by government. Imposing social responsibility obligations on insurance companies to disseminate expertise to community organisations or to widen their portfolios could increase coverage and stimulate the creation of partnerships. As either an alternative or a complement to this, incentives offered in the form of tax relief or non-refundable tax credits to agents, partners or both might similarly stimulate supply. More radically, governments could legislate that firms ensure that all employees and subcontractors are covered by social risks insurance. At minimum, however, government would need to establish a compliance regime and system of accountability that minimised the risk of fraud and abuse and was transparent in order to build expectations of, and confidence in, the system of provision.

Extending coverage of the formal sector

While in the context of an agenda to tackle extreme poverty, expanding coverage to the formal sector may not be the first priority, it is still of vital importance. Coverage is currently often limited to elites and the consequences of uninsured sickness or otherwise losing contact with the labour market are dire for individuals and their families.

Obstacles that inhibit expansion are likely to include resistance from employers on grounds of financial and compliance costs, understandable in an increasingly competitive global economy, especially when surplus labour lessens the imperative to retain staff. Employees may also feel that on low wages current demands take precedence over insuring against future risks even when, as in the case of retirement, the chance of occurrence is high. Ignorance or feigning ignorance may make life simpler in the short term. Similarly, financial institutions may prefer the security of the status quo, perceiving that high marketing and compliance costs and greater risks associated with expansion would outweigh gains from increased scale.

If wages are low, as for the most part they are in Asia and the Pacific in both formal and informal sectors, the contributions required to achieve even subsistence-level benefits will necessarily be high. This applies equally to provident and voluntary actuarial schemes. If the schemes are compulsory, cover a range of income groups and are preferably sector wide, some degree of vertical redistribution may be possible without generating unsustainable social friction. Where income inequalities are large, however, such redistribution may still be difficult to achieve, unless facilitated by state subsidies to low waged earners or through the introduction of compulsory state insurance.

As already explained, growing inequality is inimical to the assault on poverty and can even frustrate the effectiveness of actuarial insurance. Nevertheless, social security – and fiscal policies more generally – remain the most effective means of directly tackling poverty and inequality. There is growing support, therefore, from the International Labour Organisation (ILO 2006b) among others, for the implementation of universal tax funded systems to provide basic health care, family benefits to combat child labour and promote school attendance, and pensions for old age, invalidity and survivorship with social assistance in reserve to prevent abject poverty (Table 3). Being universal, and thereby fostering social cohesion, tax funding would ensure substantial transfers from the more affluent to the poor.

Table 3 Summary of three packages for basic social protection benefit

	Content of benefit package				
ILO Package	**Old age**	**Disability**	**Child allowance**	**Health**	**Social assistance**
1 **Most generous**	US$0.5(PPP)day for all aged 65 or older	US$0.5 (PPP)/day to 1% of working age population	US$0.25 (PPP)/day for children 0-14 yrs	US$34/capita in 2007 and US$38/captia in 2015	
2 **Least generous**	30% of GDP/capita capped at US$1(PPP)/day		15% of GDP/capita for HIV/AIDS orphans aged 0-14	Provision of 300 health staff for every 100.000 population	
3 **Intermediate**				As package 1	US$13.71 (PPP) to 10% poorest households

Source: Mizunoya (2006)

Fixing a safety net

Neither economic growth nor social security will protect everyone from abject poverty all the time. In theory, a foundation system of basic provision such as that suggested by the ILO would protect all but the able bodied poor, although eligible persons would no doubt on occasion be unable to access formal provision. Hence, a system of final resort requires an open door.

Social assistance schemes are still comparatively rare in Asia and the Pacific. It was once thought that social assistance users were of two kinds, those affected by a short-lived environmental or other financial crisis and those who required long-term support. In reality, this not to be the case since a large proportion of the population of potential social assistance users experience repeated spells of need (Webb 2002; Balisacan and Nobuhiko, 2005). This suggests that social assistance should be differentiated in terms of its aims and mode of provision. It needs to mitigate the consequences of collective and individual crises and also prevent declines in living standards, as well as coping longer-term with persistent vulnerability due, for example, to disability, severe illness, age or neglect. Food subsidies to the most vulnerable groups in the pre-harvest period can prevent malnutrition and redistribute income effectively from government to local communities. Public works, or food for work, programmes support families and develop individuals' skills and status while simultaneously building rural infrastructures that foster sustainable development and curtail out-migration. In urban areas, similar programmes that enhance urban infrastructures potentially enhance social cohesion by benefiting poor and non-poor alike. Micro-credit can tide families over crises (albeit at risk of spiralling indebtedness) and, invested by small landholders and businesses can stimulate future incomes. Longer term support by means of public housing can provide life-saving shelter and avoid the creation of slums, while health and education subsidies can sustain life and build protective human capital.

Care needs to be taken in the design and delivery of social assistance (Pellissery, 2006). Many initiatives have been frustrated by inadequate time allowed for design and preparation, compounded by incomplete and inaccurate data, and by the failure adequately to integrate individual schemes within a coherent framework. Stigma, sometimes deliberately encouraged to reduce demand, has deterred take-up by deserving potential recipients and thereby reduced effectiveness. Perhaps most importantly, schemes have often proved susceptible to corruption, collusion and nepotism. While decentralisation permits programmes to be more accessible, better targeted, more responsive to local need and more cost-efficient, implemented without regard to local circumstances, social divisions and power structures, social assistance becomes a tool of oppression and exclusion. Government has to take responsibility for effective design and monitoring. Eligibility criteria should be consistent and transparent with close linkage made between eligibility and entitlement in order to avoid scope for brokerage, patronage and petty corruption. Independent systems of appeal and redress of grievance are required to ensure accountability, and professionalism and impartiality need to be fostered among administrators. Finally, it is important, when engaging with local partners, that the ownership of projects is not taken over by elites and used to reinforce their own positions (Pellissery, 2006)

5. Conclusion: At what cost?

The nine giants identified (there may be others) are large and powerful but not invincible. Since they gain much of their strength by working together, it follows that tackling some with effective policy weapons will simultaneously weaken the influence of others. Attacking ignorance will reduce idleness; reduced idleness will diminish want, lessen squalor and, in turn, curtail disease; overpowering inequality will restrain corruption and reduce discrimination; reduced discrimination will mount a further, perhaps fatal, attack on ignorance.

Moreover, to forge the necessary policy weapons costs less than one might envisage. To take one example, the squared poverty gap, a measure of the total amount by which incomes fall short of the poverty line, could be reduced by 50 per cent in Pakistan merely by smoothing incomes over time through the introduction of savings or credit schemes (McCulloch and Baulch, 1999). This would entail no cost (other than of administration) but achieve the same result as increasing mean adult equivalent income by almost 40 per cent.

Table 4 Cost of basic social protection that could be financed by government (Scenario 1 and Scenario 2, 2010-2030, as per cent of the total costs)

		Package 1		Package 2		Package 3	
Scenario	**Year**	**1**	**2**	**1**	**2**	**1**	**2**
Bangladesh	2010	7	22	44	100	8	44
	2020	9	29	52	100	10	52
	2030	12	37	56	100	13	67
India	2010	14	93	41	100	18	100
	2020	20	100	51	100	24	100
	2030	28	100	61	100	34	100
Nepal	2010	5	21	32	100	6	42
	2020	7	27	40	100	8	53
	2030	9	35	46	100	10	69
Pakistan	2010	2	56	9	100	3	100
	2020	3	72	11	100	4	100
	2030	4	97	13	100	5	100
Vietnam	2010	13	81	52	100	16	100
	2020	16	95	54	100	19	100
	2030	19	100	50	100	23	100

Scenario 1 assumes that current levels of public spending on basic social protection would be kept constant; Scenario 2 is based on the assumption that public expenditure on basic social protection would be increased to a maximum of 20 per cent of total government spending.
Scenarios: as outlined in Table 3 above
Source ILO (2006b)

The ILO has costed three packages providing different levels of welfare provision under two public expenditure scenarios (Table 4; for details see: Mizunoya et al., 2006). All three packages include tax financed provision for the contingencies of old age, disability and ill health with benefits to help meet the cost of child-rearing. The first two packages are differentiated by level of benefits (the second being less generous than the first), while the third substitutes universal cash benefits in the first model with social assistance benefits targeted to the poorest ten per cent of people. Funding the least generous package would mean the five Asian countries considered (Bangladesh, India, Nepal, Pakistan and Vietnam) each at least doubling spending on social protection. However, with changed priorities, and social protection spending set to 20 per cent of total public expenditure (much less than the European average), all five countries could meet the basic package from their domestic resources. Moreover, India, Pakistan and Vietnam would be in a position to cover the cost of the full social protection package by 2010. With high growth rates as high as those achieved in the recent past, the target is made much more manageable.

To conclude, slaying the nine giants is not only desirable it is essential for the well-being of the 60 per cent of the world's population living in Asia and the Pacific. Moreover, the goal is well within reach. A package of basic social protection such as that proposed by the ILO could be largely funded from domestic resources. With a modest commitment from the international community, analogous to that which the United States afforded Europe after World War II, the giants could be sent back to the land of fairy tales.

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