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FOR DEBATE AND GUIDANCE

FOURTH ITEM ON THE AGENDA

Social protection as a productive factor

Contents

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1. Context and definitions

1. At its 286th Session (March 2003), the Governing Body endorsed the Global Employment Agenda (GEA) which the ILO has developed as a response to requests from the World Summit of Social Development 1995 and the 24th Special Session of the United Nations Special Assembly in 2000. Both meetings called upon the ILO to develop a coherent and coordinated international strategy to promote freely-chosen productive employment. The agenda's main aim is to place employment at the heart of economic and social policies. The agenda, and in particular its ten core elements, also embody the employment dimension of the ILO's Decent Work Agenda. Since March 2003, the Employment and Social Policy Committee has selected several of the core elements for in-depth discussion and review. "Social protection as a productive factor" is item eight in the list of ten core elements.

2. In this paper, the term "productive factor" is mainly understood as a force enhancing sustainably the total level of output of an economy in particular through enhancing the level of output per worker or per hour worked (i.e. "labour productivity"). [1]

3. Social protection (or social security) [2] can be understood as being a set of institutions, measures, rights, obligations and transfers whose *primary goal* is:

(a) to guarantee access to health and social services; and

(b) to provide income security to help to cope with important risks of life (inter alia, loss of income due to invalidity, old age or unemployment) and prevent or alleviate poverty.

Social security is a human right (article 22 of the Universal Declaration of Human Rights), is part of the ILO's mandate [3] and is enshrined in a series of ILO Conventions, most prominently the Social Security (Minimum Standards) Convention, 1952 (No. 102), which became the blueprint for the European Code of Social Security. The need to extend social security was confirmed by the International Labour Conference in 2001, which also mandated the ILO to launch a major campaign to promote the extension of social security. In the same session, the Conference recognized that "social security […] enhances productivity". [4]

4. Core element No. 8 of the GEA basically lists three major conduits by which national social protection systems may become a productive factor. Firstly, social protection helps people to cope with important life risks and loss of income. In doing so, it can enhance and maintain the productivity of workers and creates possibilities for new employment. [5] Secondly, social protection can also be a critical tool in managing change in the economy and the labour market. Thirdly, social protection can stabilize the economy by providing

[1] Other concepts are capital productivity or total factor productivity.

[2] The term "social protection" is used in this paper interchangeably with "social security".

[3] See Declaration of Philadelphia (1944). Article III provides for a broad definition of social protection.

[4] See ILO (2001), p. 2.

[5] See ILO (2003).

replacement income that smoothes consumption in recessions and thus prevents a deepening of recessions due to collapsing consumer confidence and its negative effects on domestic demand. The extension of social protection through universal and community-based methods, as well as overcoming the challenges created by ageing populations, are seen as the major challenges for national social protection systems. The potentially positive economic role of social protection thus found tripartite consensus when the GEA was adopted.

5. It has to be acknowledged that the characterization of social protection as a productive factor is not necessarily shared outside the ILO and other institutions professionally dealing with the issue.[6] Public discussions often convey the impression that social protection is rather considered as hampering economic growth (productivity) than reinforcing it. However, there is also a growing recognition that social protection policies can have a positive impact on the economic environment either directly through fostering productivity and – more indirectly – through fostering social cohesion and social peace which are prerequisites for stable long-term economic growth. The core of the debate on the economic repercussions of social protection is thus whether social protection systems are purely mechanisms that redistribute consumption based on some normative rules among citizens – which could have negative effects on economic performance – or whether they can also be considered a societal investment in social and human capital with long-term growth enhancing effects.

6. There is thus good reason to reconsider the impacts of social protection on economic performance and, especially, productivity – which is at the heart of this paper –and relate it to earlier and potential future ILO action. We start by revisiting recent economic theory on growth and its determinants, then explore potential effects of social protection on economic growth, and provide possible interpretations on available evidence. Perhaps the main finding is that the view that there is an inevitable trade-off between the *levels* of social protection and economic *growth* is most likely wrong, as the world's most productive economies tend to have strong social protection systems. While the exact nature of all interrelationships between the economy and social protection may not be entirely clear, ILO action so far aimed at avoiding negative impacts. ILO action focused on avoiding waste of societal resources by ensuring through advice, research and capacity building that social protection systems are effective and efficient. The draft research and action agenda for the future, which we give at the end of this paper, is drawn up on the basis of an analysis of the economic debate, available statistical evidence and ILO experience.

2. Key determinants of economic performance

7. Standard economic growth theory explains that in the long run output per worker (productivity) is determined by the rate of investment in capital[7] and by the efficiency of labour, i.e. workers' skills to use the capital. Investment in capital has three functions: (i) to replace that part of the capital stock that was consumed during the production process; (ii) to increase the capital stock to supply additional labour with a sufficient capital base; and (iii) to ensure the use of latest technology in the production process. Thus, investment intends to maintain the capital stock in line with the "technological frontier". Investment in people ("human capital") aims at maintaining the labour force skills required

[6] See, for example: ILO (2004; 1), para. 489.

[7] A reminder: Capital is *not* money and is *not* financial markets assets. De Soto (2000), pp. 39-67.

for operating the capital stock efficiently. It is the simultaneity of investment in physical capital and in human skills that allows for the maximum production of income. [8]

8. Empirical evidence broadly supports the theory, which applies to formal and informal [9] economies alike. Rich countries or formal sectors invest high shares of their GDP in physical and human capital. They undertake continuous efforts to maintain their tangible capital and they devote much time to education and skills development. Countries, such as those of the OECD area, are not only rich because they spend large amounts on such investments but also because they use these production inputs very productively. "Not only are poor countries [informal sectors; included by the authors] lacking in capital and education, but the productivity with which they use the inputs … is low as well." [10]

9. *Why* do some countries spend more resources, time and effort on their production factors than others and *why* do some use the available resources more productively than others? A number of hypotheses have been advanced [11] to explain such differences. More recent developments in growth theory successfully focus on the extent of *different institutional settings* possibly providing answers to the large income differentials observed among countries/economies. Institutional settings are defined here as all government-dependent measures guaranteeing societal stability and safety of investment (return), [12] including prevailing socio-cultural and philosophical attitudes. [13] Most recently, literature on growth with a focus on developing countries has stressed the existence of *formal systems of property rights* as indispensable prerequisites for economic growth. [14] In this paper, social protection systems are understood as being part of societies' institutional settings that should be tested for their potential impact on productivity.

10. *Institutional adequacy and stability* can strongly determine the expectations of the returns to investment. A country that operates on inadequate rules and institutions, not adjusted to the requirements of the day, possibly forgoes given growth potentials. However, if rules and institutions are frequently changed, a country is usually considered as being risky by potential domestic or international entrepreneurs. A country with an inclusive legal system [15] of property rights allowing for the creation of capital, and a reliable education system issuing sufficient numbers of adequately educated and skilled persons, will be considered an attractive place to invest. A country with a *reliable social protection system,*

[8] DeLong (2002), Chapter 4. This is only one out of a number of different prerequisites.

[9] Instead of "informal" the notion "extralegal" has been introduced recently. See De Soto (2000).

[10] Jones (2002), p. 194.

[11] For reasons of (limited) space we do not cover in this paper factors like natural catastrophes and wars (including civil wars), which might have deep impacts on countries' growth potentials. SIPRI (2004).

[12] Frenkel (1999), pp. 307-320.

[13] North (1990); Weber (1976). Standard growth theory has not systematically included such attitudes in its reasoning. This failure has narrowed its view on *technology* and *education* and contributed to the fact that growth theory can only partially explain the growing income differentials between developed and developing countries.

[14] De Soto (2000), Coase (1937)/(1960) with focus on the minimization of transaction costs and the role of property rights.

[15] In which the total population has access to the system. De Soto (2000).

covering the whole population, reduces people's propensity to behave in a way that could divert resources from productive use through illegal activity, corruption or otherwise.

11. In order to test for empirical evidence of the above, an *index* reflecting societal infrastructure [16] was constructed and correlated, for around 100 countries, with the investment share in GDP, the average years of schooling, and the total factor productivity (TFP). [17] Results show strong positive correlation in all three cases: the higher the index of societal infrastructure, the higher the rate of investment, the investment in education and skills, and the TFP. In extrapolating these findings, it is argued here that only countries with sufficient levels of reliable social protection offered to their workforce (population) are able to run an explicit pro-production policy while, at the same time, opening borders for international trade and competition.

3. The debate about social protection as an input to economic growth

12. National social protection systems and their perceived effects on economic performance have been subject to intense policy debates in many countries during the last decades. On the one hand experts (notably those working in international finance institutions) [18] claim that social systems redistributing up to 35 per cent of countries' GDPs are no longer affordable. Social protection expenditure at and beyond this level is seen as an impediment to growth, creating negative short and long-term growth effects.

13. Social protection is considered to have detrimental economic growth effects through the following conduits: [19]

(a) Labour markets are negatively affected if transfers are exclusively financed through taxing labour (under rigid wage structures; see, however, point 14(l)).

(b) Alternatively, if financed out of general revenue, social protection (due to its system dynamics) negatively affects the government budget balance, increases interest rates and, hence, by crowding-out effects, reduces public and private investment.

(c) Institutions providing income protection in case of unemployment or in the form of early retirement schemes trigger withdrawals of potentially productive employment from the labour force.

(d) If administration costs are at levels constituting fiscal waste, high economic opportunity costs occur as required contributions or taxes could, alternatively, be used for financing investment into capital.

[16] The index captures: (1) the extent to which a country favours production over "diversion"; and (2) the fraction of years since 1950 that the economy is classified as open to international trade according to several criteria. See: Jones (2002), p. 144.

[17] Jones (2002), pp. 143-147. TFP = combined productivity of capital and labour.

[18] IMF (2003), Ch. IV.

[19] Proponents of this line of argument dispose of a "canonical", mathematically formulated set of models, whose results overwhelmingly point in the same direction. The mainstream of "neo-historic" economic growth theory also takes an *anti-social protection position*. De Soto (2000), for example, argues on a neo-liberal basis and does not address the potentially growth-fostering role of social protection systems in Europe during the nineteenth and twentieth centuries.

14. On the other hand, potential conduits for positive economic growth effects of reliable social protection systems are that:

(e) They substantially reduce existential insecurity, counterbalance the need to resort to extralegal or illegal methods of income generation, reduce the potential for social unrest and, hence, create social prerequisites for long-term profitable investments.

(f) Employment-related schemes (including unemployment insurance) help to facilitate labour force adjustments to structural changes of economies.

(g) General health care and occupational safety and health, including systems specifically addressing the prevention and alleviation of HIV/AIDS, increase labour productivity.

(h) National pension savings can become a major supply in financial markets and may thus, transitionally, play an important role in economic growth policies.

(i) Social services themselves generate substantial employment.

(j) Providing income to the unemployed, the disabled, the elderly, the sick and other social groups stabilizes consumption during recessions and hence supports firms' sales and their preparation (restructuring) for the next growth cycle.

(k) Formal social protection systems are channels through which positive income effects of globalization can be allocated to the vulnerable persons in societies; through this mechanism they contribute to acceptance of globalization and reinforce global pro-growth policies.

(l) Labour productivity is positively affected if transfers are partially or exclusively financed through taxing labour (under rigid wage structures; see, however, point 13(a)).

(m) In the presence of social protection systems, the equilibrium labour cost in economies is substantially lower than in their absence; this is a result of the risk-pooling under social protection, which allows for achieving pre-defined lifetime income levels at a lower cost than where workers would have to strive individually for lifetime income security. In short, risk-pooling reduces the equilibrium wage, frees resources for investment and, thus, contributes to productive employment.

(n) Formal social protection systems provide an enormous source of information to business on core parameters of competition, such as national and regional wage structures and distribution of purchasing power among people. Thus, social protection helps to avoid growth-hampering decisions of firms. Also, through the participation of employers, workers and governments in social protection administration, core economic actors dispose of an invaluable communication network fostering growth.

(o) In developed countries, social protection systems facilitate attracting foreign workers, a process required to replace upcoming employment shortages due to ageing (replacement migration) and, thus, to avoid deterioration in the standards of living.

15. Despite the fact that the weighted list of pros and cons seems to be fairly balanced, insufficient attention has been devoted to analysing the net impact of these competing forces in the real world. [20]

4. Social protection containment policies and economic growth

16. Social protection's current defensive position in national and international policy debates can be traced back to about the middle of the 1970s. After the first oil crisis, the major welfare states entered a period of *welfare state containment*, i.e. they broadly kept their social expenditure shares in GDP at the levels reached. After the fall of the Iron Curtain, these ratios transitorily peaked at high levels in those countries economically most affected by the resulting changes in multilateral trade relations and by other factors. Meanwhile, all these countries are back to their "normal" levels. [21] The containment measures taken reflect the *new paradigm of economic policy* increasingly dominating political and socio-economic analysis for about the last 20 to 25 years, which claims that low European growth rates are, inter alia, a result of too high and wrongly-designed social protection provisions.

17. It is not clear yet whether this "new paradigm" will result in even further reductions of the GDP shares of social spending in future. In any case, such moves would have to be implemented against counteracting societal forces like increased unemployment, increasing health-care costs, changing family structures or increasing old-age dependency rates, which all increase insecurity in the industrialized countries. Thus far, what can be observed is that social expenditure in the OECD (measured as a percentage of GDP) has stabilized at long-term levels, which equally applies to countries with lower and with higher economic growth.

18. Most obviously, this policy has not led to higher economic growth. Instead, economic growth rates have come down to moderate levels since the mid-1970s. It is since then that growth rates have hovered around a fairly stable 2 per cent trend. While ranking of countries' growth performance changes over time, all industrialized countries together are highly interdependent in their economic development. The further, slight, decline of rates since the early 1990s must be attributed to other effects than social spending (which did not change).

19. In summing up, over the past three decades there is no negative correlation between countries' economic growth rates and their share in GDP of social protection spending. Obviously, governments of major countries have, over the past 30 years, continuously taken steps to contain social protection spending at stable levels, [22] while, over the same period, GDP growth rates were generally declining. [23] Whether a reversion of GDP growth rates to higher average levels will take place is an open question. However, it seems

[20] ILO (2001), pp. 11-12. A prominent reason, out of many, for this state of the art is that there is no methodological convention among academia that would allow applying formal social protection tools to the promotion of development and growth. Important prerequisites for long-term economic performance, such as social peace, are simply difficult to model.

[21] ILO (2004).

[22] There are exceptions to this observation. Greece, for example, extended its social spending share in GDP substantially over a period of about 20 years while Ireland significantly reduced it.

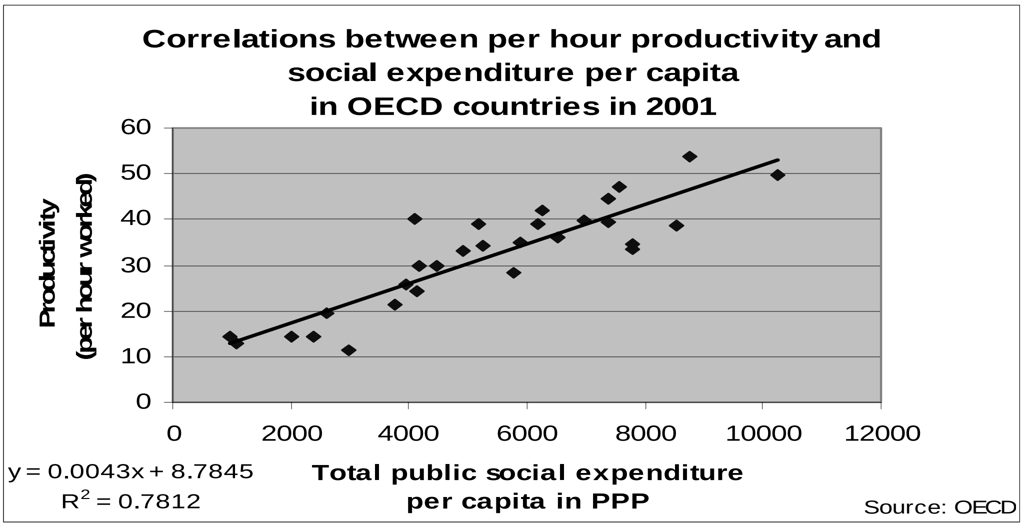
[23] EUROSTAT (2004).

obvious that such a reversal will not likely be triggered by a mere stabilization of social spending. The next section shows that there may be sound reasons to assume the contrary.

5. Empirical evidence – Productivity and social spending

20. For the OECD region, statistical analysis shows a strong positive correlation between social expenditure per capita of the population and labour productivity [24] measured as GDP per hour worked.

Figure 1. Labour productivity per hour and social expenditure, OECD



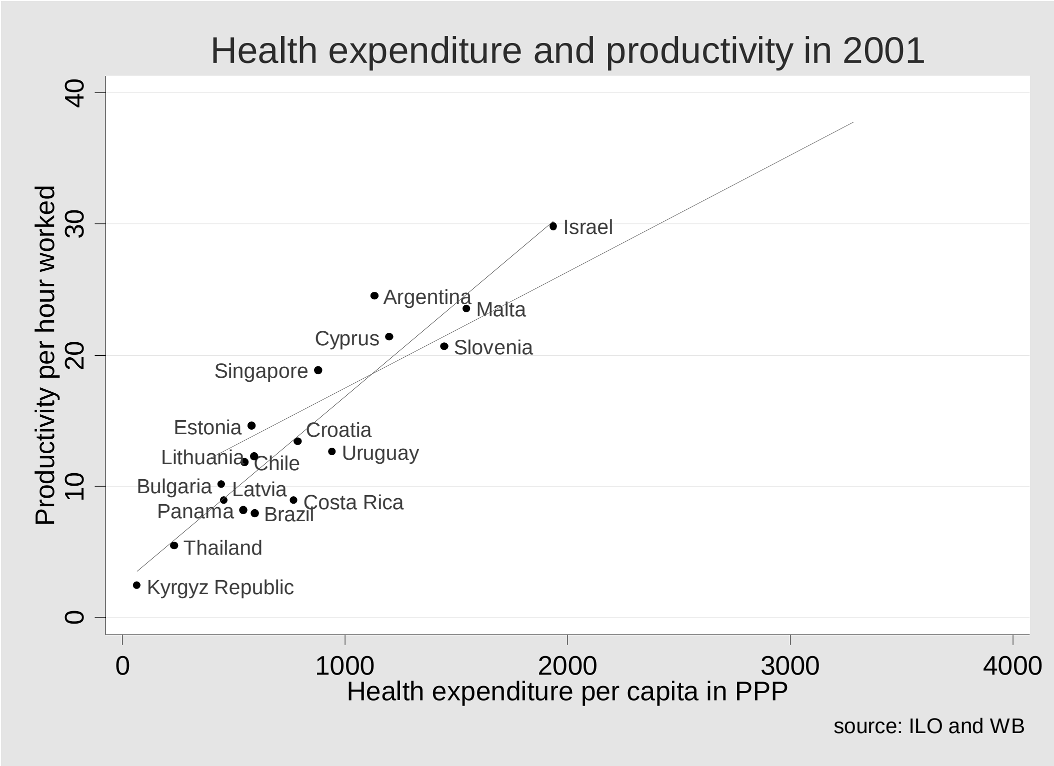
Source: ILO calculations, based on OECD/SOCEX database.

The correlation between "simple" per-worker productivity and social expenditure per capita is still positive but less tight.

21. The same relationship seems to hold true for non-OECD countries. The data situation is weaker, so we have limited ourselves to analysing the relationship between health expenditure per capita and hourly productivity. For the time being, health expenditure is seen as that part of overall social expenditure with the most direct impact on maintaining workers' productivity.

[24] These findings are not contradictory to para. 23 (first sentence). Para. 23 addresses development over time whereas here findings relate to different countries in a given year.

Figure 2. Health expenditure per capita and hourly productivity, non-OECD



Again, the correlation is less tight but still significant if productivity is measured as simple per-worker GDP.

22. Objectively, different (and, to some extent, contradictory) interpretations can be made in respect of these observations.

(a) The standard interpretation is, of course, that social spending can (only) be increased as labour productivity and output increase. Productivity is a prerequisite for social protection, rather than the converse. The higher the labour productivity, the higher the overall size of national output and the more that can be redistributed through national social protection systems.

(b) Another interpretation could be that there is an inherent necessity for social spending when labour productivity is high. One could argue that human capital operating at high productivity is – similar to physical capital – subject to a high "depreciation rate". Social protection would then have to be interpreted as measures compensating for the depreciation of human capital. Unemployment benefit systems and pension systems would then be interpreted as systems that allow for human "escape" from labour, a buy-out of exhausted persons from the production process. [25] Health care would be interpreted as a system operating in order to try to maintain the productive capacity of labour by extending the potential time that a worker can remain in the production process.

[25] For pensions, Sala-i-Martin (1996) argues that retirement schemes exist in order to buy out less productive persons from the labour markets.

(c) This case takes a similar route of argument as case (b). While those effects, however, can be considered direct effects, case (c) focuses more on indirect effects. Such effects could especially result from high levels of income security and access to health care, which would increase the motivation and the physical and mental ability to focus on work and, hence, increase productivity.

23. Even if open to differing interpretations, the basic fact should not be overlooked that there is nothing among the above empirical findings suggesting that high social protection spending is commonly associated with low productivity. Simplified contestation along these lines is not consistent with observed facts. On the contrary, there seems to be strong empirical evidence indicating that high productivity is generally accompanied by high social spending.

24. The weaker positive correlation between social protection per capita and per-worker productivity indicates that some benefits might discourage labour force participation. This hints at structural effects of (possibly badly designed) social protection. Apparently the institutional arrangements that govern the transfers can create microeconomic incentives as well as disincentives and inefficiencies. Social expenditure, thus, may facilitate high levels of GDP through the productivity conduit but it may not lead to a full exploitation of countries' production potential [26] if badly designed. One key issue for the future will be to discern between good and bad design of social protection systems.

25. The widely held view that there is an inevitable trade-off between the *levels* of social protection and economic *growth* is most likely wrong. The following country experience offers some casuistic support for this statement.

Box 1
Republic of Cyprus – Simultaneous expansion of
social protection and growth of the economy*

Panayotis Yiallouros, one of the prominent planners of the Cyprus national social insurance system during the 1970s to 1990s describes the relationship between his country's economic development and the developments of the national social security systems as follows:

Economic performance

The performance of the economy of Cyprus since independence in 1960, except for a short period that followed the partition of the country following the 1974 invasion, has been quite satisfactory. During 1961 to 1973 real GDP grew at an average rate of 6.8 per cent, the unemployment rate dropped from 3 per cent to 1.2 per cent, the average rate of inflation was 2.4 per cent, and the average increase in productivity 5.8 per cent. Real investments rose from 19.7 per cent of GDP in 1961 to 30.2 per cent in 1973. The events of 1974 led to a fall of GDP during 1974/1975 by 18 per cent. This decline, however, was followed by an "economic miracle" during 1975-1978, when the average real growth rate was 13.8 per cent and investments increased from 22.5 per cent of GDP in 1975 to 30.7 per cent in 1978. The average real growth rate during the 1980s was 6.2 per cent and in the 1990s 4.4 per cent. In and after 2002, the Cyprus economy, meanwhile highly dependent on tourism, suffered a substantial deceleration of its economic growth due to the aftermath of the 11 September events in the United States, and the international increase in oil prices. Nevertheless, the achievement of high levels of development, stability and social justice, together with almost full employment and macroeconomic stability allowed Cyprus to become a member of the EU in 2004. In 2003 GDP per capita was estimated at €15,800, about 65 per cent of EU15-average.

[26] Recently Cichon, Scholz et al. (2004) reasoned that it "is probably fair to conclude that economic theory and evidence alone do not give us a clear-cut answer as to what the net effect of the different kinds of welfare states on economic performance and hence the welfare of the population is. However, what we have learned confirms previous findings that social protection measures can indeed achieve positive social outcomes and do not strangle economic development. That is encouraging".

Development of social protection and its impact

At independence, the new State had inherited an embryonic social protection system. In the period after independence the social security system developed gradually, but steadily, as an integral part of the overall development into a truly comprehensive system.

The social protection system as a whole played an important role in the provision of income support in the period after the 1974 events until the recovery of the economy and the absorption of the unemployed. Investments in social protection thus reduced the impact of a political and economic shock.

These investments still pay off. In Cyprus tourism has been the main source of foreign exchange, influencing directly and indirectly the economy as a whole. This dependency makes the economy extremely sensitive to external influences. In the period 1991-92, for example, as a consequence of the Gulf War, unemployment rose sharply, but benefits offset to a substantial extent the adverse income effects of unemployment for workers in the tourism industry, and helped the tourism industry to keep its labour force available until recovery. The same mechanism helped to mitigate the effects of 11 September 2001 and consequent events.

On the whole the social protection system in Cyprus that covers all the major social, economic and biological risks had a positive impact on productivity and growth. Sickness, invalidity and employment injury benefits, as well as health care helped workers achieve and maintain high levels of productivity, playing a key role in development and economic growth. Social protection and health-care benefits reduced measurably the loss of human capital due to disability and premature death caused by lack of access to health care and income support. The elimination of gender inequalities and the introduction of maternity and child benefits in the social protection system had a positive impact on the labour force participation of women providing the growing economy with much needed labour. During the period of the major economic crises since independence social security benefits helped contain an emigration of skilled labour and thus enabled rapid economic recoveries. Moreover, social benefits contributed to maintaining consumption levels and thus mitigated the effects of unemployment on demand. Equally important was the impact of income security on preventing poverty throughout the last decades and hence its detrimental consequences for social peace and cohesion and in turn economic performance.

The role of the ILO

Cyprus became a member of the ILO soon after independence. Ever since it has been guided by the ideals and principles of the ILO. Committed to the principle of tripartism, Cyprus has developed a network of tripartite consultative bodies that contribute to the promotion of social dialogue in the broader field of labour and social policy. Cyprus has so far ratified over 50 ILO Conventions among them three important Conventions in the field of social security, i.e. Conventions No. 102 (minimum standards), No. 121 (employment injury benefits) and No. 128 (old age, invalidity and survivors' benefits). Moreover, the ILO has helped Cyprus, especially in the first decades after independence, through its technical assistance programme, in developing its institutional infrastructure in the labour and social protection field. It is worth noting that the ILO has been extensively involved in the design and development of the General Social Insurance Scheme, for which it is still offering actuarial and advisory services. The latter efforts now concentrate on keeping the schemes affordable through a tripartite consultative process.

* Based on a paper by P. Yiallouros: Social protection as a productive factor in Cyprus. Draft mimeo. Nicosia, August 2005.

6. ILO action to date

26. While the academic debate on the economic effects of social protection was raging, the ILO over the past decades has taken pragmatic measures to improve the impact of social protection on economic performance. The rationale behind its action was simple: if social protection systems are a social necessity in decent societies, then improving their (productive) efficiency (i.e. avoiding waste) can only improve the overall allocation of resources in an economy and hence – according to all economic theory – improve the growth performance of that economy.

27. The Social Security Department has, over decades, conducted actuarial, financial and social budgeting reviews as well as managerial reviews of social security schemes in over

70 of its member States, in all continents ranging from island States in the Caribbean, Cyprus and Fiji to major populous countries such as China, Turkey and Ukraine. These reviews have provided guidance to governments with respect to enhancing the efficiency of these schemes. The Department's STEP (Strategies and Tools against Social Exclusion and Poverty) programme provides assistance to community-based insurance schemes to enhance the social effectiveness and economic efficiency in societies where the State does not or cannot provide social protection for all. Related but not strictly belonging to the definition of social protection used in this paper, the activities of the Social Protection Sector to improve occupational safety and health, to improve working and living conditions and to promote HIV/AIDS awareness campaigns at the workplace, have all had a direct impact on productivity and the economic validity of investments in the skills of the workforce.

28. At the same time the Social Protection Sector is undertaking major knowledge transfer exercises, which focus on the dissemination of knowledge that allows productive efficiency to be improved. They aim at upgrading the capacity of national experts and policy-makers to analyse and exploit the potential positive economic effects of social protection. One such exercise is the CIARIS (Centre for Informatic Apprenticeship and Resources in Social Inclusion) Internet platform that is being created by the STEP programme supporting an interactive learning process about community-based social protection systems. Based on the conviction that, at university level, social protection should become a standard element of the syllabus of social sciences, and that research on development and growth should be systematically expanded on the growth impact of social protection in the past and its potential pro-growth role in future, the ILO filled the void in academic literature on the financial and economic analysis of social protection by creating its own textbook series "Quantitative Methods in Social Protection". [27] This series is the core of the syllabus for a joint masters' programme in social protection financing with the University of Maastricht (the Netherlands). In the meantime, students from more than 20 countries participated in the programme and have returned to their home countries to work in national social protection institutions and government agencies. The programme is about to be extended to other universities in different parts of the world. The ILO will increase its investments in social security experts from governments, employers' and workers' organizations to facilitate the transmission into concrete policies of emerging academic knowledge about the economic effects of social protection.

29. The following example shows how the ILO toolbox and its capacity-building investments result in concrete government action.

Box 2
Health budgeting in Ghana – Improving access to health care in a cost-effective way

Universal access to health care can foster the productivity of the workforce. Introducing a national health insurance system aiming at universal access is a major governance and financial challenge issue for every government. In mid-2003 the Government of Ghana introduced legislation on a new National Health Insurance System (NHIS). The ILO, at the request of – and in partnership with – the Government of Ghana, carried out a financial study which provided an assessment of the costs involved in providing public health care and its financing during the next decade.

[27] Five textbooks have been issued so far: *Modelling in health care finance* (1999), *Actuarial mathematics of social security pensions* (1999), *Social budgeting* (2000), *Actuarial practice in social security* (2002) and *Financing Social Protection* (2004).

This was possible because of an ongoing Dutch-funded Global Social Trust pre-pilot programme.* The ILO appointed as Chief Technical Adviser (CTA) of the project a recent graduate of the Masters' programme in social protection financing of the University of Maastricht. Moreover, in the past few years the ILO has been assisting the Social Security National Insurance Trust (SSNIT), the pension scheme in Ghana, to build capacity in the actuarial and budget areas through training a number of SSNIT personnel in Maastricht. One SSNIT staff member developed the health budget model for Ghana in the framework of the project.

The health budget model is a tool for evaluating different health-care coverage outcomes resulting from various policy options. The budget quantified the amount that the Government and the new NHIS would spend on health care and its financing sources.** The budget model allows for simulations of alternative financial scenarios and serves as a planning tool for timing the introduction of various elements of the NHIS.

The World Bank, having concerns with respect to the fiscal sustainability of the new NHIS actively supported the ILO activities. A Joint ILO/WB mission was organized during the spring of 2004 and further projections under different economic scenarios were simulated with the health budget model to facilitate the Government's decision-making process on the modalities of the implementation of the NHIS. It is expected that the NHIS in Ghana once fully introduced not only contributes to the Millennium Development Goals 1, 4, 5 and 6 but directly or indirectly also supports labour productivity.

* ILO, Improving social protection for the poor: Health insurance in Ghana – The Ghana social trust pre-pilot project, final report (2005), Geneva.

** Léger, F.; Yankah, B: Financial analysis of the national public health budget and of the National Health Insurance System, Discussion Paper No. 4 (Geneva, ILO, February 2004).

7. A tentative agenda for further action

30. While the ILO is making noticeable progress in enhancing the productive efficiency of national social protection systems, there remains a lack of understanding as to how individual social protection benefits can and do impact positively on productivity and economic performance. This represents further areas of applied research and consequential action where the ILO could serve to enhance economic efficiency. The following agenda of future ILO work is proposed:

(1) Empirical research on the role of social protection in countries considered growth success stories (e.g. Republic of Korea), as opposed to countries with growth problems (e.g. Argentina): if the standard economic growth theory is right in stating that the elements of pro-growth policies can be identified and enumerated – then there should be a chance to find such elements also within the potential range of social protection measures. International social policy advice could take advantage from the results by enabling the development of a "list" of "dos" and "don'ts" for countries opting for an explicit growth strategy.

(2) The promotion of the extension of social protection in low and middle-income countries through the global campaign based, among others, on the findings under (1) could be intensified. The acceptance of social transfer policies, including their extension to migrant workers, will increase if the growth-enhancing potential of social protection can be exploited in national systems. Simultaneously, better understanding of the design of growth-enhancing social transfer schemes at the national level will contribute to the corroboration of research findings. Such activities would also comprise enhancing the administrative efficiency of social protection systems themselves (i.e. minimizing the waste of resources) and the potential financial support for the financing through the Global Social Trust. [28]

[28] The first pilot project under this initiative is under way pairing Luxembourg and Ghana. An information note about the progress of that project is available to all committee members.

(3) Research could be undertaken on the growth-fostering role of social protection systems in the most advanced countries. These countries are faced, to a similar extent, with problems of population ageing. For these countries it is necessary, at least for a transitory period of around 25 to 40 years, to switch to a higher growth path in order to solve the problems related to population ageing (inter alia, in order to create the fiscal space for necessary transfer levels). Social protection systems should be explored for their potential to contribute actively to enhancing the productivity of ageing workforces. The question of to what extent social protection legislation can facilitate the maintenance of economic growth in ageing societies through controlled replacement migration could also be analysed.

(4) Options for the design of social protection benefits that facilitate economic and labour market adjustment processes necessitated by globalization or other factors (e.g. migration) could be developed in the framework of national campaigns for the extension of social security. The potential role of national social protection systems to distribute the proceeds of globalization fairly within societies (inter alia, between different income strata, the sexes, and the original and migrant population) could be further enhanced. The latter would increase the acceptance of globalization and immigration and help countries in harnessing their potential benefits.

(5) In many countries national pension systems are being recapitalized. Regardless of whether one agrees or disagrees with the specific forms of that process, the fact remains that pension fund investments are taking an increasing share of total financial market transactions. The ILO could develop guidelines, or a best practice guide that fosters investments of social security reserves that are economically and, equally, socially useful – which would also ascertain that, at least in developing countries, national savings and hence national resources for investment do not by-pass national entrepreneurs. Concretely, research could include the question of how to make use of pension funds for financing business start-ups.

(6) Generally improved levels of health also create a healthier workforce which, in turn, has a positive effect on productivity. In conjunction with occupational safety and health programmes, AIDS awareness and outreach programmes at the workplace, as well as general access to high-quality health care through universal insurance coverage can help to prevent deterioration of productivity levels and human suffering. The ILO should continue and intensify its technical cooperation efforts and capacity-building programmes that aim at implementing such combined initiatives.

(7) The productivity-enhancing role of social protection depends on sound system design, efficient administration and good governance. Genuine tripartite involvement in design and implementation of social protection policies is an important instrument to ensure high quality and broad public acceptance. The ILO should continue the capacity-building work for its constituencies and provide assistance to strengthen their role as competent actors in the development and governance of social protection systems.

This agenda can only propose broad guidelines, which would have to be turned into concrete research projects. Also, the necessary resources would have to be made available. In addition to resources for technical cooperation the Social Security Department is able to devote a minimum of 24 work-months per biennium for the next three biennia to initiate research on the above. Further resources – notably for rapid in-country work in the framework of the Global Campaign – will be sought from donors.

31. In the light of the above review the Committee may wish to:

(i) discuss the role of social protection in fostering labour productivity, as well as the potential of national social protection systems for the creation of a stable social environment that is conducive to economic growth;

(ii) contribute national experience regarding social protection benefits that do not negatively affect labour force participation and facilitate economic adjustment processes; and

(iii) discuss the identified areas for action and research, and guide the Office in its future technical cooperation work and research to achieve a greater emphasis on the growth and productivity enhancing characteristics of national social protection systems.

Geneva, 30 September 2005.

Submitted for debate and guidance.

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