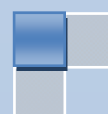
IPC-IG Discussion Paper:

Intersections between Social Protection, Inclusive Growth and Fiscal Space

Issues Paper for G20 DWG on Growth with Resilience

International Policy Centre for Inclusive Growth



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Issues Paper for G20 DWG on Growth with Resilience

Intersections between Social Protection, Inclusive Growth and Fiscal Space

In this paper, we present an analytical framework to identify the links between macroeconomic and social protection policies from an inclusive growth perspective. In the first section, we present the objectives of macroeconomic and social protection policies. In the following section we analyze how these policies interact. The third section is dedicated to an analytical framework of how social protection policies affect macroeconomic growth, especially growth. The fourth section presents the design and the objectives of some social protection programmes, emphasizing how they interact with the growth goals. The last section presents the implications of these interactions in fiscal space.

1.1 Objectives of macroeconomic and social protection policies

While macroeconomic policies can have many objectives, there is consensus that there are three core objectives of such policies are:

- Stable Growth;
- Price Stability;
- External Sector Equilibrium.

The instruments of macroeconomic policy are used in tandem to secure the above objectives. Other objectives or constraints may be placed on the operation of macroeconomic policies by political leadership (e.g. full employment or exchange rate management) but the above are the basic and fundamental objectives of macroeconomic policy, irrespective of the policy stance.

With social protection policies, the picture is more complicated. The nomenclature indicates that such policies are designed to "protect" identified agents or social and economic groups. The form and shape of such protection varies by context; for the purposes of this paper, we generalize *two* overarching objectives of social protection policy:

- Equity;
- Vulnerability

Equity, at first sight, would appear as a purely deontological objective, with little policy rebalance. Yet the concern with equity has been a key feature of social protection policies, culminating in the development of the Welfare State following the Second World War. Equity is different from inequality. The objective is not so much to equalize incomes, but to redress inequities in opportunities, capabilities and access of specific societal groups. Redressing equity involves protecting society from the deleterious effects of such inequities.

Vulnerability, on the other hand, refers to the possibility of redress from an attained state of well-being. Vulnerability can arise from the existence of a particular demographic or societal feature (gender, ethnicity, poverty, disability) that can impair the ability of a socio-economic group to withstand exogenous shocks, including macroeconomic shocks. It is now accepted (IMF, 2011) that developing country populations, particularly those on low incomes suffer more from the

consequences of such shocks due to weak institutions, disappearance of traditional socialized risk coping mechanisms in the drive to modernization, and poor access to risk smoothing financial products. When social protection policies are thought of as "safety nets" they seek to address these types of vulnerability.

The first step therefore in specifying the links between macroeconomic and social protection policies is, therefore to examine the interface between the objectives of the two sets of policies and, transitively, the policy instruments used to design and implement specific policies. Table 1 provides a matrix of such interface.

Table 1
Goals of Macroeconomic Policy and Social Protection

Macroeconomic Policy			Social Protection
Growth	Price Stability	External Sector	
✓	✓	-	Equity
✓	✓	-	Vulnerability

1.2 The interface between macroeconomic and social protection policies

In Table 1 we have focused on the links between two major macroeconomic policies – growth and price stability – and social protection policies. While policies to address external account balance can have important consequences on equity and vulnerability in specific contexts and settings, this paper focus on the first order – closed economy – interface between macroeconomic and social policies.

1.2.1 Growth and Equity

There is a rich debate in the development literature on the interaction between these two policy objectives: growth and equity. From the 1950s into the 1970s, emphasis was on probable trade-offs between growth and income inequality. In contrast, work in the 1970s sought to identify re-distributive mechanisms for poverty reduction without hampering growth (Weeks, 2010).This was a short-lived focus of the literature, reversed with the rise of neo-liberalism and the *Washington Consensus* in the early 1980s. For the latter, growth itself would be the vehicle for poverty reduction, achieved through 'trickle-down' mechanisms not always clearly specified. In the last decade, both the neo-liberal analysis and the earlier view of a trade-off between growth and equity were challenged by a number of studies. (Weeks, 2010)

In the late 1990s the bilateral and multilateral development agencies placed increasing emphasis on poverty reduction in developing countries. This emphasis led to the establishment by the United Nations of the Millennium Development Goals. The achievement of a target requires policies, and policies are most effective within an overall, coherent strategy. With the adoption of the Millennium Development Goals, the focus shifted from broader issues of equity to the more specific issue of poverty reduction. The straightforward conclusion was that higher levels of growth would reduce poverty with complementary microeconomic measures. The task therefore was to maximise growth and then, through income transfers and poverty reduction programmes, to use the benefits of such growth to reduce poverty. This view, while influential, did not quite enjoy the status of a consensus.

First there was a difference on what precisely constituted pro-poor growth. It was argued that pro-poor growth was not just about a simultaneous increase in growth and a reduction in poverty; rather, "Growth is pro-poor when the incomes of the poor rise proportionately more than the incomes of the non-poor" (Roy and Weeks, 2004). This in effect would mean paying attention to equity. These concerns also began to inform the views of bilateral and multilateral institutions.

Thus, the World Bank took the view that improves in the fight against poverty in the 1990s were hindered by the increase of inequality in a few countries that accounted for a large share of the world's poor. Therefore, "In looking ahead to 2015, continued increases in inequality coupled with less than robust growth would imply failure to reach the poverty target for developing countries as a group, and in particular substantial increases in the number of poor in Sub-Saharan Africa" (World Bank, 2001, p. 7)

The conclusion was that growth was not enough. The World Bank affirmed that "the alternative [growth] scenarios highlight the importance of achieving fast growth, as well as distributing the benefits of growth equitably" (World Bank, 2001, p. 10).The same point is made by UK DFID: "without growth the poverty reduction target will not be achieved, but it is not enough on its own" (DFID, 2000, p. 11).

An important change in the discussion in the past decade has been the shift of the focus from inequality of incomes to equality of opportunities and an increase in access to basic services, for poverty reduction.

The rapid increases in levels of growth of emerging developing economies, including India, Brazil, Turkey and China as well as the historic experience of key middle income countries such as South Korea, opened a new dimension in the growth equity debate. The old age of "you can't redistribute poverty" was called into question, not least by policy makers in these countries. In their policy pronouncements many of these countries emphasized the importance of inclusive growth, not as an end in itself but asked to ensure the political economic and social sustainability of growth. "Jobless growth" became a central policy concern; reducing spatial and regional inequalities and avoiding growth leading to an unequalising spiral (Bacha and Taylor 1978; Roy 1994) were central concerns of policymakers in these countries.

This also impacted the implementation of social policies in these countries rather than viewing such policies as *compensating* those left out by the growth process[1], the concept of inclusive growth focused on ensuring that the growth process was targeting at better *inclusion* of citizens – as workers, entrepreneurs and consumers of public and private goods – into the delivery of growth.

1.2.2 Price stability, equity and vulnerability

The traditional approach to the price stability objective in macroeconomic policymaking has been to focus on the overall price level, using monetary or fiscal instruments. These instruments are used to target a desired rate of overall inflation and to smooth excessive volatilities in such inflation.

[1] Such policies follow a Kaldor-Hicks (Kaldor, 1939; Hicks, 1939) compensation principle, according to which a greater social surplus would be achieved if those that are made worse off after the growth process are compensated by those made better off.

Subsidies and tax concessions were the principal instruments used to control specific prices and to ensure that poor and vulnerable groups were able to access key basic goods and services.

Within the inclusive growth approach, there are two important modifications to the above. First, while monetary policy is used to target the overall price level, there is also the active use of instruments like conditional and unconditional cash transfers to enhance the affordability of basic goods and services – particularly public goods and essential commodities – rather than subsidies and tax concessions. It is increasingly recognized that well targeted cash transfers that can demonstrably enhance the welfare of specific target groups by enabling them to better afford such goods and services can be more effective than subsidies. Social protection policies are thus important complementary policies to address *vulnerability* of different target groups, when such vulnerability is impacted – as during the recent food crisis – by rising or volatile price movements. Such social protection policies also serve as *countercyclical* measures to enable vulnerable populations to better cope with the fallout of exogenous shocks that adversely impact their livelihoods; thus both Brazil and India expanded the scope of their social protection programmes during the recent economic crisis to address the vulnerability issue

Thus, in contemporary economic policy discourse there are key complementarities between the objectives of social protection policies and macroeconomic policies. The change, led by the emerging developing economies has come in the paradigm – social policies can complement macroeconomic policies by enhancing the inclusivity of growth, by improving the sustainability of growth, reducing countercyclical pressures and enabling growth to be inclusive through participation in its delivery, rather than just participation in the benefits of growth through compensating those left out of the growth process.

1.3 An analytical framework

Given the above, it is important to propose an analytical framework within which the interactions between social protection policies and macroeconomic policies can be made explicit. Such a framework is as yet undeveloped. Macroeconomic policy analysis focuses on its own objectives as do social protection frameworks. This (Roy and Heuty, 2009) can lead to some dissonance in discourse with social protection being seen purely as “costs” to the public exchequer and macroeconomic policies being, in turn being viewed as “constraints” by those who wish to maximize the benefits of social protection policies. Yet, the recent experience of emerging developing economies and middle income countries shows that there is considerable potential complementarity between the two sets of policies.

The key unifier in this context is the concept of inclusive growth; this is a living policy discourse in contemporary times and it is, indeed, no coincidence that the planning frameworks of emerging economies and middle income countries like India, China, Brazil and South Africa take inclusive growth as the cornerstone of their economic development strategy.

To illustrate how such a framework can be conceived we describe the growth process as follows:

$$G = f'(Pk.K, Pl.L) + g'(th) + p'(\frac{K}{Y}, \frac{L}{Y})$$

G = Growth

K = Capital

L = Labour

Pk = Price of Capital

Pl = Price of Labour

Th= Technology

K/Y = Capital productivity

L/Y = Labour productivity

Growth thus occurs through a combination of increases in the application of resources (capital and labour) improvements in the productivity of these resources, and improvements in innovation (whether technical, procedural or institutional) that enable more to be produced with the application of the same quantum of resources. The equation is to be understood as being quantified in nominal monetary terms.

To see how inclusion works we make a simplifying assumption (following Kalecki, 1954; Rowthorn, 1977; and Kaldor, 1956): namely that L is the factor of production exclusively supplied by those who (by some criteria such as income inequality or vulnerability) are the targets of social protection policies; and K is supplied exclusively by those who are not such targets.

A process of inclusive growth would be one in which G is secured by an increase in the intensity of use of the factor of production[2] L in this simplified version this can happen if:

- The Price of L and/or the quantity of L used to produce G increases;
- L/Y increases;
- The greater the returns to L owners from the returns to g(th) increase relative to the state of affairs prior to the working out of the growth process.

Social protection policies that secure any of the above will increase inclusion.

An apparent example of the above in policy terms would be social protection policies that – through conditional cash transfers as in Brazil's *Bolsa Familia,* for instance – enhance the human capital available of "L" owners. This could happen through improvements in health and education, and can reasonably be expected to trigger one or more of the following:

[2] Equally, if L owners begin to also own K and apply it, the growth process becomes more inclusive.

- An increase in Pl i.e. an increase in the average wage due to an increase in the quality of L;
- An increase in g(th) and/or L/Y due to an increase in the productivity and/or efficiency of the application of L[3].

Equally public works programmes or employment programmes could increase the intensity of use of L to produce G as well as increase Pl by, for instance, better enforcement of the minimum wage, as happened in India following the implementation of the NREGA.

The model above appears simple. However its explanatory potential involves departing from two fundamental assumptions made in most growth analyses:

(1) Most growth models assume that the policy objective is to maximize growth;
(2) This maximization happens through (a) the application of all the resources (K, L in this exposition) available in the economy and, then through increases in productivity.

In the real policy world neither of these assumptions holds, especially in developing countries. Policy makers do not maximize growth; aware of the historical background of the development process, political economy constraints, and country specific opportunities and constraints, they *choose* a target rate of growth to be achieved. Thus the above argument needs to be understood in the following sense: *Having* chosen a target rate of growth, what complementary social protection policies that seek to address equity and vulnerability could be adopted over the planning horizon consistent with the achievement of the policy target growth rate?

The second assumption of full utilization of resources ignores realities, especially everyday developing country realities. Unemployment, as understood in the conventional sense would mean destitution, if not extinction in developing countries. Most people therefore are employed, but at very low levels of productivity, in low skilled and low paid occupations, in an environment of informality where the link between work and remuneration is fuzzy. This is at the core of both inequity and vulnerability. Equally, despite the relative scarcity of capital and investment resources relative to labour, the latter can be underutilized due to adverse political economy and institutional environments, lack of complementary human capital, and high levels of uncertainty.

Hence, in the above exposition we allow policy interventions to achieve the targeted growth rate that involve increases in the deployment of factors of production.

Both the above are not pure semantic distinctions. The presentation of academically impeccable but policy irrelevant trade-offs between different policies has long limited the efficacy of development policy discourse. It has been shown (Roy and Heuty,2009) that such a state of affairs is both undesirable and unnecessary; the recent successful experience of the emerging economies in addressing issues of equity and vulnerability in a manner complementary to the achievement of inclusive growth has emphatically underscored this point in recent times.

[3] An increase in ownership of K.

1.4 Design and objectives of existing social protection policies

1.4.1 Design and objectives of existing social protection policies

An examination of the policy objectives of existing social protection programmes reveals the complementarities between such programmes and macroeconomic policies. In the past decade, social protection programmes have moved away from the “safety net” approach whereby the policy objective is to protect those who are excluded from the growth process. To be sure, safety net programmes have their own importance; targeting groups who, due to physical, cultural demographic and other factors are unable to benefit from development transformation remains an important objective of social protection. At the same time several programmes, particularly in emerging and middle-income countries (but not confined to these countries) also explicitly attempt to improve what Brazilian policy makers term “productive inclusion”. They also attempt to address key structural constraints underlying vulnerability in access to opportunities.

Many social protection programmes have the objective of increasing the investments in **human capital** through the support families give to their children. The type of support given varies according to the country development level: some programmes target health and education while other are concerned with a more basic need, nutrition.

- The Brazilian “**Bolsa Família**” thus seeks to promote access to health, education and social assistance; to fight hunger and poverty; and to stimulate the sustained emancipation of families living in poverty and extreme poverty. This is done through the offer of cash transfers to poor families. In the case that the family has children under seventeen or a pregnant woman, this transfer is conditional to school attendance and/or medical check-ups and immunization (Soares and Silva, 2010).
- The Colombian **“Familias en Acción”** aims to increase the investments by families in extreme poverty on their children’s human capital. The programme offers direct monetary transfers to families with children on the condition of passing through medical check-ups or attending to school, depending on the children’s age (Acción Social, 2011).
- The **Philippine 4Ps** is a programme focused on improving human development of extremely poor households, given the observation that low schooling, ill, health and high malnutrition are strongly associated with the poverty cycle in the Philippines. The programme aims to achieve these goals by providing cash grants to households with pregnant women or children aged between zero and fourteen years-old (Pantawid, 2011).
- The Mexican “**Oportunidades”** aims to enhance the opportunities of social and economic development of those in extreme poverty through the improvement of their education, health and nutrition options. To achieve these goals, the programme delivers cash transfers conditional on interventions regarding health, nutrition and education (Oportunidades, 2011).
- The Ethiopian **PSNP**’s objective is to fight food insecurity to reduce household s’ vulnerability. The Programmes addresses not only immediate food security, but also its underlying causes. An effort is made to provide rural nonfarm employment, e.g. in soil and water conservation activities, which potentially enhance rural productivity while mitigating food insecurity (Lieuw-Kie-Son, 2011).

Employment and public works interventions, too, attempt to induce structural change while providing guaranteed employment. The intention is to use this mode of social protection to effect institutional and structural changes that increase the participation of a wider section of society ion the growth process.

- India's **National Rural Employment Guarantee Act** (NREGA) aims at enhancing livelihood security of households in rural areas of the country. It does so by providing at least one hundred days of guaranteed wage employment in a year to every household who demand it. The work done is usually unskilled manual work. If no job is offered, the household is entitled to an unemployment allowance. Employment is intended to be on public works and at the minimum wage. A major achievement of the programme has been the enforcement of the legislated minimum wage, for work outside the programme, as a consequence of work available, at the minimum wage, on tap, within the programme. **NREGA** seeks to "strengthen the natural resource base of rural livelihood and create durable assets in rural areas". This is done by providing employments on works that address problems such as drought, deforestation and soil erosion (NREGA, 2008).
- The South African **"Expanded Public Works Programme"** (EPWP) was launched to promote economic growth and provide poverty and income relief. It aims to half unemployment by 2014. The programme aims to achieve it through the offer of temporary work related to public and community services for unemployed people (EPWP, 2011).

The above examples indicate an important departure in conceptual approach from social protection programmes as conceived of in the past, whereby these were seen principally as safety nets. With the safety net approach it is possible to separate the question of the sources of growth from that of inclusion. This separation draws analytically on what is termed the Kaldor Hicks efficiency principle (Kaldor, 1939; Hicks, 1939). Using Kaldor–Hicks efficiency, an outcome is more efficient if those that are made better off could *in theory* compensate those that are made worse off. Thus, it is not necessary for growth to be inclusive as long as those who benefited from growth could (through, say redistributive taxation) be made to share some of their gains with those who did not so that society as a while was better off. In our view, the approach to social protection taken by the above programmes does not rely on this principle. The concern is as much with enhancing inclusion in the growth process as with the equitable distribution of the benefits of growth. This is an important departure and required considerable fresh policy thinking on the macroeconomics- social protection interface.[4]

As argued by the ADB in the quote below, if there were no social protection programme the outcome of the growth process would be held by a specific part of the society. A share which is determined by the assets held in terms of human capital or capital.

> "Economic growth has been the driving force in reducing poverty in the region. To reduce poverty, this requires that more people become economically productive citizens and share

[4] The above is not to deny the need for safety nets. When social demographic or other conditions prevent participation, then such safety nets will be needed in the form of, for example, old age pensions or affirmative action transfers. The principle refers to those who could potentially participate in the growth process but are unable to do so because the nature of the growth process precludes their participation – resulting in phenomena such as jobless growth, or spatially uneven growth

in a society's growing wellbeing. While a sustainable economic growth will create and expand economic opportunities, it is important that a broader access to these opportunities be ensured so members of the society can participate and benefit from growth. Without additional measures, the advantages of the market economy may be limited to a part of society only, namely those who are educated, own productive assets, and have participated in successful economic activities." (ADB, 2011)

1.5 Implications: Fiscal space

Traditionally social protection, like expenditure on defence and internal security, has been viewed as a "regrettable necessity" an expenditure necessitated by *force majeure.* As a result, such expenditures have typically been viewed as detracting from the pool of resources available to secure a development transformation. This view has, in recent times, begun to change. Social protection, it is argued, can improve the quality and stability of macroeconomic policy. Transitively, social protection can help secure the allocation and stabilization objectives of public finance. It is therefore possible to view public expenditures on social protection as not just compatible with, but actively contributing to, fiscal and macroeconomic stability. Our analytical framework provide an illustration of how this could be the case.

What then are the issues to consider in assessing fiscal space available for social protection?

The sustainability of policies to create fiscal space is a function of *what* the fiscal space is used for. The balance of emphasis placed on the stabilization, allocation and distribution and growth functions of fiscal policy would differ according to (Roy, Heuty and Letouze, 2009):

- the timeframe of the analytical framework
- political economy context

Finding sustainable fiscal space for social protection therefore involves asking what the *purpose* of social protection is, the timeframe for its implementation, and the political economy context within which it is implemented.

In a macroeconomic context, a typical developing country is prone to be hit by exogenous shocks and is less equipped to mitigate their consequences than high-income countries (Williamson, 2005). The examples of India and Brazil show that social protection programmes can have significant countercyclical value, as was demonstrated during the recent economic crisis. This is because social protection in these countries was not designed to act purely as safety nets or "floors", but embedded in overall development policy. The development results secured by this approach hence "paid" for the initiatives across the medium term. The political economy context with social protection in place also allowed government political room to increase aggregate demand that would not otherwise have been forthcoming as the machinery to deliver such demand increases to populations with a high marginal propensity to consume were already in place.

The cases of Brazil and India

Brazil was one of the last economies in the world to be hit by the financial crisis of 2008 and also one of the first to recover. An important reason for this was an increase, since 2003, in the coverage and depth of Brazil's social protection policies The main instruments of social protection were social security benefits, unemployment insurance, and the "*Bolsa Familia*" minimum income programme (Barbosa 2010). The total value of these income transfers increased to close on 9.3 per cent of GDP in 2009, amounting to an addition of 0.7 per cent of disposable income. This bolstered domestic private consumption during the worst period of the crisis. Barbosa (2010) estimates the value of the countercyclical impact of social protection initiatives to be 0.7 per cent of GDP in 2008-09. This was more than double the impact of the tax cuts.

In India an expansion of the National rural employment Guarantee programme was an important part of the fiscal stimulus package introduced by the Government of India in 2009. Several fiscal experts (e.g. Chakravarty, 2009) identified NREGA as a useful instrument to use to rapidly shore up aggregate demand while minimising the impact of medium term fiscal sustainability. This expansion was complemented by increasing the fiscal space available to both the Central and State governments to ensure that the programme was truly demand led. The Thirteenth Finance Commission, responsible for intergovernmental fiscal assignments in the period 2010-15 also complemented these policy actions by specifying a path for fiscal correction that allowed a gradual return to fiscal stability over the next five years, as growth rates returned to historically high levels.

In low income countries, the focus of national development strategies has been on securing economic growth through investing in the social and human resources that enable such growth to be resilient. This is a sharp break from the growth mantras of the 1980s and 1990s which focused either on growth driven by an increase in exports based on static comparative advantage or on import substituting industrialization that, for lack of physical and social infrastructure and human capital, faltered in its execution. This important change in thinking about of development strategy is epitomized in the centrality of policy interventions to scale up those investments that secure the achievement of the Millennium Development Goals (MDGs). Considerable progress has been made in many low income countries in designing and implementing supply-side interventions to secure the MDGs. More recently, attention is being paid to ensuring that exposure to economic shocks and to asymmetries in access to the public goods necessary to secure the MDGs does not retard or even derail progress towards those goals (UNDP, 2010). It is here that social protection measures assume an important role in the overall context of macroeconomic policy making.

What are the factors that need to be taken into account in assessing the fiscal space for social protection? Social protection is financed out of current expenditure. Macroeconomic prudence requires a zero current deficit except in times of temporary cyclical stress (Roy Heuty and Letouze, 2009). However, in developing countries, putting social protection systems in place, current expenditure increases in social protection are typically permanent in the short to medium term; although, with increased incomes and improved employment performance, they decline as a proportion of total expenditure in the long term. They also generate the need to undertake increases in current expenditure to secure the increases in the supply of public and merit goods

needed to match the demand increases triggered by the establishment of a social protection system. In such a scenario expenditure switching policies have limited utility unless it is possible to reduce other current expenditures. In most developing countries the bulk of current expenditures are committed to pay for essential public goods. For these reasons finance ministries worldwide have been skeptical of arguments to enhance outlays on social protection.

The design of social protection programmes needs to be such that they embody highly specific objectives that deliver development results within the planning horizon; the development impact of such expenditures can then be expected to enhance the taxable capacity of the economy and allow for a broadening in ambition of the social protection programme in the medium term. If this is demonstrated to be the case in the design of social protection strategies then evidence indicates that the current fiscal space utilized for social protection in most low income countries is of an order of magnitude that would permit an increase in the fiscal allocation for key social protection programmes mindful of the above constraints. There are three ways to illustrate this (Table 2).

Table 2
Military and Social Expenditure

	Military expenditure	**Social Spending**		**Flagship Social Protection Program**		**Social Spending / Govt Revenues**
	% of GDP	% of GDP	Per capita	% of GDP	Per capita	
	2008			2009		
Europe						
Turkey	2.2	17.10%	$ 1,405	0.10%	$ 8.2	76.00%
Latin America						
Argentina	0.8	11.77%	$ 1,133	0.15%	$ 11.3	60.75%
Bolivia	1.5	16.24%	$ 178	0.35%	$ 6.2	57.18%
Brazil	1.5	13.67%	$ 598	0.40%	$ 32.2	53.88%
Colombia	3.7	12.64%	$ 376	0.24%	$ 18.0	80.29%
Asia						
Bangladesh	1	3.00%	$ 40	0.15%	$ 0.7	27.03%
India	2.6	4.70%	$ 145	0.48%	$ 5.4	45.63%
Philippines	0.8	4.60%	$ 162	0.57%	$ 2.3	31.51%
Africa						
Kenya	1.9	3.08%	$ 22	0.03%	$ 0.2	13.69%
South Africa	1.3	19.92%	$ 1,100	1.20%	$ 66.0	74.32%

Flagship Social Protection Programmes: Argentina: AUH. Bolivia: Bono Juancito Pinto and Bono Juana Azurduy. Brazil: Bolsa Família. Colombia: Familias en Accion and Red. Bangladesh: PES and FSSAP. India: NREGA. the Philippines: 4Ps. Kenya: OVC. South Africa: Child Support Grant.

Flagship Social Protection Program data are for 2009, except for Bangladesh, which are for 2008. Figures for Bolivia, Colombia, Bangladesh, the Philippines, and Kenya refer to the respective year's budget. Turkey's and South Africa's data are spent estimations and other countries data are actual spent amounts. Kenya's figures refer to the government budget allocation, disconsidering donors contributions.

Flagship Social Protection Programe data source: Latin American countries' data are from ECLAC. Turkey's data are from UNICEF. South Africa's and India's data are from the country's budget. Kenya's and Philippines figures are from the country's budget (quoted by Ikiara, 2009 and Pablo 2009, respectively). Data for Bangladesh are from UNDP (2009)

Flagship Social Protection Programe % GDP data: For Latin American countries, Bangladesh and Kenya, data were provided in $ and compared to GDP (current $). For India, and South Africa, data were provided in local currencies (LCU) and compared to GDP in LCUs. For Turkey and the Philippines, data were provided in % of GDP.

Flagship Social Protection Programe per capita data: When data were provided in LCU, per capita $ amounts were estimated using the respective year average exchange rate.

Social Spending data: the Philippines, Turkey and South Africa: 2009. Latin American countries', India and Bangladesh: 2008. Kenya: 2007

Social Spending data: Latin American countries' data are from ECLAC. India, Bangladesh and the Philippines, from ADB. Turkey data are from UNICEF. South Africa's data are from the country's budget. Kenya's numbers are from the IMF and refer to public social protection and health expenditure.

Government's revenue data. Latin American countries' data are from ECLAC. Turkey's, Kenya's and South Africa's figures are from IMF Art IV report. Data for India, the Philippines and Bangladesh are from ADB.

Military Expenditure data source: the Stockholm International Peace Research Institute.

First, flagship social protection programmes tend to involve extremely low outlays, measured as a percentage of GDP. Second when compared with expenditures on a “regrettable necessity” such as military expenditure, such programmes are magnitudinally small. Hence if the intent is to introduce programmes that, boost aggregate demand or broaden the domestic consumption base or, in terms of countercyclical policy, to scale up aggregate demand, the discretionary incremental fiscal space necessary is typically available.

A third way to highlight the potential for increasing fiscal allocations for social protection would be to look at their magnitude relative to total revenues. In the middle-income countries of Latin America Europe and Africa, social spending (including social protection) tends to be three times that prevalent in low-income countries. Most of these middle-income countries follow fiscally prudent, even conservative, policies while maintaining such levels of outlay. There is therefore scope for developing countries to judiciously expand fiscal allocations to social protection programmes without significantly jeopardizing the fiscal balance. This is specially the case as improving revenue balances permit increased domestic spending on social services allowing donors to more generously finance social protection initiatives.

There is also some scope for expenditure switching. In many cases, social protection expenditures can be used to replace existing attempts to secure access to merit goods through subsidies and/or direct provisioning. As long as there is sufficient capacity to enhance the supply of the relevant merit goods, social protection programmes can be financed through expenditure switching policies, as what is being undertaken is a change in the mode of provisioning rather than an increase in provisioning itself. An example is the 2011/12 budget announcement, in India, of cash transfer programmes to replace existing untargeted fuel subsidies that in fact offer prospects for fiscal savings rather than increases in public expenditure.

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