

# **Efficient Provision of Social Protection**

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# Raison d'être of Social Protection

***The Overriding Premise:*** All individuals need a minimum basket of goods and services for existence and beyond this to achieve and maintain good health and a decent standard of living.

***The overriding goal of government involvement:*** To provide sufficient minimum protection for the whole of society; and especially those who for various reasons are temporary or permanent circumstances are poorly equipped to provide for themselves.

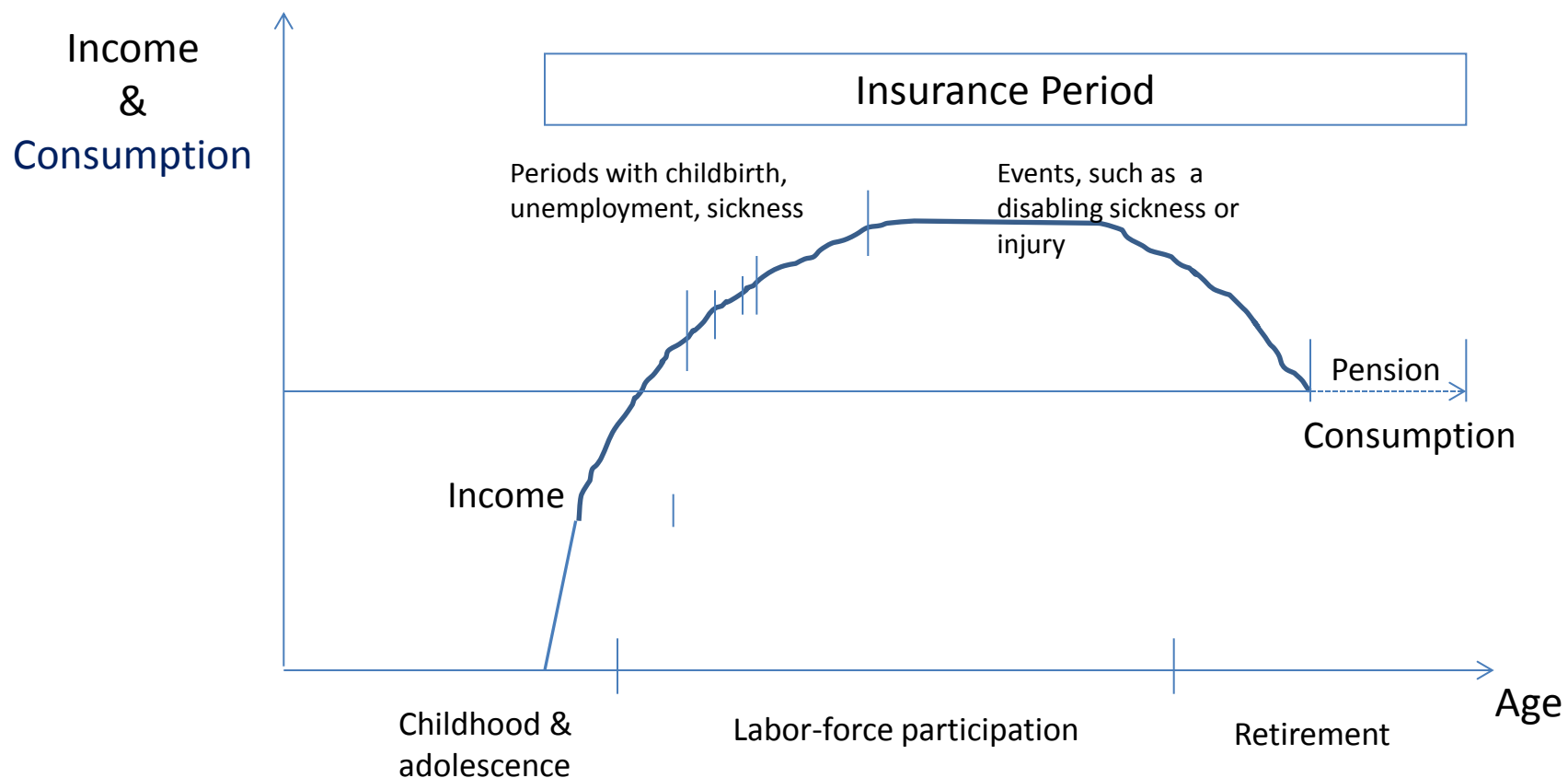
# The Institutions of Social Protection

- ***The Family*** – distribution of work and consumption between members of the extended family.
- ***The State*** – mandated income redistribution between households through taxation, establishment of mandated social insurance schemes and public provision of services.
- ***The Market*** –provision of private insurance schemes and provision of services.

# Social Protection in the Modern Welfare State

- The state/public sector is – at the very minimum - the established provider of social protection of last resort.
- The overall social protection system consists of income support and service provision.
- The components of public involvement
  - are mandated by the state
  - may be administered by private or public agencies
  - may be universal or targeted schemes/programs
- Policy fills in the “income gaps” in the life-cycle earnings profile through social insurance for loss of earnings, income grants to provide a minimum income and public services.
- Studies show that 80 percent or more (e.g., Sweden) of the redistribution can be viewed as life-cycle redistribution, if education, child care and care of the elderly, etc., are included.

# Social Protection – A Life Cycle Matter



# Two Models of Public Provided Social Protection

- ***Basic Income Model*** – Public sector provision of basic income protection (e.g., flat-rate benefits). supplemented with handicap allowance.
- ***Social Insurance Model*** – Public sector mandate or/and provision of insurance and services, supplemented with a guarantee level benefit.
- Both can be topped with privately provided individual, employer, union, etc. insurance.
- However, the social insurance model is more efficient in covering the needs of “the economically rational individual”.

# Social Insurance

Sickness income-loss and health insurance, unemployment insurance, work injury insurance, disability insurance and pensions

- The Best foundation for achieving universal social protection is universal social insurance.
- The motivation of social insurance as the main pillar of social protection derives from the economic man's need for insurance.
- How is this explained?

# Begin with the question: Why Insurance?

- Ex ante perspective: Individuals desire to maximize their lifetime consumption given their human capital.
- People are aware of the risks of losing income due to sickness, unemployment, etc. and the risk of living longer than the average person.
- In the absence of insurance risk averse individuals will need to save considerably to cover these possible negative contingencies.
- With insurance these risk are distributed among the entire insurance collective.
- To acquire insurance, the individual has to forego an amount of consumption equal to the insurance premium, i.e., the average outcome.



# Now Ask: Why Social Insurance?

- Market deficiencies
  - a significant number of people may not be able to purchase insurance at a reasonable price – and others not at all.
  - adverse selection
- Not everyone who can will purchase insurance. Why?
  - Myopic individuals will wait until it's too late.
  - Free riders will reason that society will care for them anyway.
- Society/policy makers want to have a non-insurance-based distribution of risks, e.g., non-risk-discrimination of persons born with functional disabilities.
- In sum: The arguments favor mandated universal insurance with the same rules for all. This is the logic of social insurance.

# Criteria for Efficiency of Social Protection – Social Insurance and Social Grant Schemes

- Income and service support schemes taken together should be sufficient to provide an adequate level of welfare for the least well-off in the overall population.
- The bottom support level consists of basic income assistance and grants (e.g., for housing, children, studies, the elderly and handicapped).
- It is important that the income and service systems that fulfill their main goal of social protection ...
- But, that they also:
  - a) promote or are neutral vis a vis employment of working-age persons and
  - b) are designed and administered to minimize negative incentives on work force participation.

# The Virtue of the Social Insurance (SI) Model Is that It Supports Economic Efficiency - Why?

**Social Insurance** is based on the direct link between social protection and employment. It supports society's goal that individuals provide for themselves, with social protection as the safety net.

Society is insured against inability to provide fully for oneself due to a handicap or functional disability.

The good society also provides work possibilities for those who can not fulfill the full productivity requirements of the market. This may entail subsidizing employers, etc.

# The Composition of Social Protection

- **The unemployment component of social insurance** provides the social insurance net for persons in transition between jobs. It promotes labor mobility while providing income security.
- **The disability component of social insurance** provides income security for persons with functional impairments.
- **The old age component of social insurance** provides income security in old age.
- **Social assistance** (means-tested) provides income support for persons who do not qualify for the insurance benefits.
- **An income “guarantee”** (means-tested) covers persons with functional impairment/old age or participate fully in labor market.
- **Universal health care** provides health care benefits to all.
- **Universal care services** for the functionally disabled (handicapped and elderly).

# Measurement of the Efficiency of Social Protection – income protection

- Basic – absolute and relative poverty measures with decomposition by population and social group
- Decomposition of equivalent disposable income by source:
  - factor income
  - taxable transfers
  - non-taxed transfers
  - taxes
- Decomposition of equivalent disposable income by population and social group

# **Additional Criteria Needed to Measure Efficiency of Social Protection – Services**

- Level and distribution of employment, including gender distribution of market work.
- Measures of integration into society for persons with functional disabilities, immigrants.
- Measures of opportunities (educational levels, ability of educational system to match demand and supply, etc.)
- Efficient delivery of services (output per unit of input) and quality of output in publicly and privately provided educational and care services (access, delivery times, quality of outcomes, etc.) must also be measured.
- These measures should also be decomposed into population and social sub-groups.

# Other Possible Macro Measures

- Fertility rates reflect families perception of their ability to pay for children.
- Corruption perception rates reflect perceptions of the administrative functioning of the social protection systems.
- Indicators of people's trust in the ability of the system to deliver the perceived commitment of the state.
- Measures of the capacity of the state to deliver, i.e., long-term financial (structural) stability of social protection systems.
- General overall measures of society's well being.

**Thank You**