

COVID-19 shows we need to strengthen social protections

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One question which COVID-19 has brought to the fore is whether global pandemics are random events, beyond anyone’s control, part and parcel of living in a hyperconnected, nonlinear world. Or do they, in fact, reflect failures of governance, manifesting multiple weaknesses in our economic, social, political and environmental systems, which put our future at risk? And, if the latter, what can we do to mitigate them in the future, given the huge costs?

Where do we stand?

The economic impact of COVID-19 is beyond what most of us have seen in our lifetimes. We thought of the global financial crisis in 2008–09 as having been the most disruptive wealth-destroying event of the past 80 years; but global GDP in 2009 actually contracted by “only” 0.1 percent. There were, of course, sharp regional variations, with the advanced economies being the most affected—see table below—but already by 2010, every region of the world was in a robust phase of recovery. GDP growth rates in 2020, however, are virtually all projected to be negative and the extent of the contraction is of a sharply different order of magnitude. Indeed, the figures

for 2020 may well be an underestimate, forcing the IMF, when these forecasts were released in mid-April,¹ to candidly accept the possibility of much more ominous scenarios.

| Real GDP growth (annual % change) | 2009 | 2010 | 2020 |
|---|------|------|------|
| East Asia | 4.5 | 8.7 | -0.1 |
| North America | -2.8 | 2.8 | -6.0 |
| South Asia | 7.2 | 9.1 | 1.5 |
| Advanced economies | -3.3 | 3.1 | -6.1 |
| Emerging markets and developing countries | 2.8 | 7.4 | -1.0 |
| European Union | -4.2 | 2.1 | -7.1 |
| Latin America and the Caribbean | -2.0 | 6.2 | -5.2 |
| Major advanced economies (G7) | -3.6 | 2.8 | -6.2 |
| Sub-Saharan Africa | 3.9 | 7.1 | -1.6 |
| World | -0.1 | 5.4 | -3.0 |

Source: IMF, 2020

Indeed, since then, new data have emerged from multiple sources highlighting the extent of the economic calamity before us, whether in terms of the tens of millions of workers seeking unemployment compensation, to the 1.6 billion workers which an ILO report said had suffered “massive damage” of about 60 percent on average to their incomes, with larger drops in some regions with particularly high rates of informality, such as Latin America (80 percent). The World Bank’s database on emigrant remittances likewise show a 20 percent drop from US\$554 billion in 2019 to US\$445 billion in 2020, one more factor among many contributing to a substantial setback in global poverty alleviation efforts, and raising questions about the impact on income inequality, already a serious problem in many parts of the world before the onset of COVID-19.

Pandemics as a global catastrophic risk

And what about the origins of COVID-19? Scientists have already noted the growing frequency of viruses over the past couple of decades which made the jump from animals to humans; it was the emergence of SARS, MERS, EBOLA and others that led many to ask whether something like COVID-19 would not make an appearance at some point, reflecting the relentless, aggressive, invasion of human activity into animal habitats, facilitating the transmission of diseases from animals to humans. World population at the outset of the millennium was around 6 billion; the latest UN forecasts anticipate an expansion from around 7.8 billion today to 9 to 10 billion by 2050, the overwhelming majority of which will be concentrated in dense urban settings. This, in turn, will mean more housing, road infrastructure, farmland to grow food, further compressing the space occupied by humans and virus-carrying animals like bats. Climate change is also putting ecosystems under stress, forcing animals to migrate and come into closer contact with human

¹ On May 27, the European Central Bank stated that it expected eurozone GDP to contract by 8–12 percent in 2020, much closer to the more pessimistic IMF scenario.

populations, which are then potentially exposed to viruses against which we have no immunity. Further infections with pandemic potential can be expected.

There is also the danger of existing diseases presently controlled by antibiotics reemerging as a global threat. Scientists have alerted us about the dangers of antibiotic-resistant bacteria, already leading to tens of thousands of fatalities across the world every year. Over-prescription of antibiotics, and their extensive use in livestock, are eroding their effectiveness for disease control. If antibiotics of last resort start to fail, old pandemics could return.

One feature of the coronavirus and other such pathogens in a globalized world is that they pose risks to the entire human species. Smallpox, which as recently as 1967 infected 15 million people and killed 2 million that year, was finally declared eradicated in 1980, because it was only then that the World Health Organization could state with some confidence that all people in all countries had been vaccinated.² Closing national borders provides no reliable insurance against the spread of disease, and it is neither desirable nor practical to reverse or undo centuries of economic integration. A more realistic solution—and one certainly less destructive of human prosperity than if we were to attempt to deglobalize—might be to seek to expand basic health care and social protections to a larger fraction of the world’s population, not only for social equity, but also as a way to minimize the systemic risks for the people of the world and the economy associated with having populations that are particularly vulnerable to pandemics. Some thoughts on this follow.

Enhancing our systems of social protection

Readers will be familiar with some of the elements of the debate in recent years around the introduction of some form of basic income, a debate which has taken place against the background of: (i) the successful experience in some countries in using cash transfers to reduce poverty, and (ii) concerns about the future effects on the job market of rapid technological change. This debate has been rekindled in recent weeks as governments have moved to deal with the asymmetric effects of COVID-19 on their populations, with vulnerable groups—the elderly, minorities, the homeless, the infirm, displaced persons and refugees, particularly in countries with high levels of informality—being especially affected. Certainly, many countries are already providing temporary cash relief to the poorest, to limit the consequences of the lockdown, but the question of what happens afterwards has acquired renewed urgency because of the disproportionate effects on low-skilled workers, and the expectation that the world will remain vulnerable to other viruses in the future, while facing the additional impact of climate change. In this respect, universal basic income (UBI) is being looked at with renewed interest.

The opposition to UBI is based on several interconnecting factors. For many UBI is seen as unaffordable and thus financially irresponsible, particularly against the background of the massive worsening of public finances which will be a legacy of COVID-19. A second set of factors

² This is how Yuval Harari puts it: “If even one country failed to vaccinate its population, it could have endangered the whole of humankind, because as long as the smallpox virus existed and evolved somewhere, it could always spread again *everywhere*.” He notes that it took the arrival in Mexico of only one smallpox carrier in March of 1520 for a smallpox epidemic to “devastate the whole of Central America, killing according to some estimates up to a third of its population” by December of that year.

concerns the role of incentives: delinking income from work and paying people to stay at home is seen as potentially destructive of the social fabric. It might also worsen inequality, particularly if UBI replaces other targeted transfers, the main beneficiaries of which are currently the poor, the unemployed, and so on. A final set of arguments concerns the extent to which UBI might then provide an excuse for politicians not to deal with the inevitable challenges of population aging and the impact of technologies on the future of work, all of which will imply tough policy choices in coming years. Let me comment briefly on each of these.

Affordability

The question of affordability is certainly key. My Swiss colleagues tell me that this was one of the primary reasons why the 2016 referendum on UBI was roundly defeated, perhaps not surprising in a country which has run budget surpluses in 12 of the last 14 years and has debt levels that are very low by advanced economy standards.³ There are currently several countries running large budget deficits, with debt levels near, or in excess of, 100 percent of GDP—a complicated fiscal outlook—where UBI is very much on the table; but this seems unrealistic, without some fairly fundamental changes in the structure of the budget. The desire is perhaps understandable in the middle of an unprecedented crisis boosting unemployment to sky-high levels, but challenging in a framework of sustainable public finances.

It is quite possible that in many countries UBI will not be feasible, given the state of the public finances. Nevertheless, there is a great deal of work being done in assessing the fiscal costs of UBI, as a supplement to existing social assistance programs, or as a substitute for a plethora of programs that play an income-support role. What could be “affordable” is very much a function of the magnitude of the UBI benefit and the funding mechanisms identified to pay for it. A recent peer-reviewed study looked at four EU countries under the following assumptions: set UBI to be equal in size to all existing cash transfer programs and payable to those below retirement age. To cover these additional costs, assume that UBI is taxed alongside other incomes and—this is important—abolish *all* existing tax allowances. In three of these countries (Finland, Italy, and France) these sources of funding were broadly adequate to cover the additional costs of UBI, but not in the United Kingdom.⁴

Dismissing UBI on the grounds of unaffordability may be premature, at least until we have had an honest debate about the structure of the budget and associated spending and tax policies. To take one example: a 2017 IMF study on energy [subsidies](#) (coal, natural gas, electricity, petroleum) concluded that the annual cost of these amount to US\$5.2 trillion, equivalent to about 6½ percent of world GDP.⁵ Not only are these subsidies also regressive—with 61 percent of the benefit of the gasoline subsidy, for instance, going to the top income quintile—but they also contribute to the

³ About 39 percent of GDP in 2019, some 21 percentage points below EU Maastricht criteria. (Net debt is another 20 percentage points of GDP lower).

⁴ For the technically minded, see the paper by James Browne and Herwig Immervoll (2017) in the *Journal of Economic Inequality* 15 (4), p. 325–44.

⁵ The IMF, quite correctly, measures not only the direct budgetary cost, but also the economic cost associated with other externalities, such as air pollution (e.g., premature fatalities, higher health expenditures), global warming, and so on.

acceleration of climate change. Indeed, the elimination of energy subsidies would reduce CO₂ emissions by 20 percent globally and would also lead to a drop of close to 55 percent in air pollution deaths. The IMF's latest country-specific numbers are highly revealing. The annual cost of these subsidies for India, the country with the world's highest headcount for extreme poverty, illiteracy and malnutrition, is a very high 9.2 percent of GDP.⁶

Of course, energy subsidies are not the only large pocket of resources potentially available to finance more sensible social policies, which better protect vulnerable groups. We also spend massively on what the IMF calls "unproductive" areas, many linked to overspending in defense due to the absence of adequate institutional arrangements for collective security, as called for (and never implemented) in the UN Charter. There is an abundant empirical literature that speaks to the deleterious effects of [corruption](#) on government revenue, on economic growth and investment, on private sector development, among others, all of which have a bearing on the ability of governments to deploy resources in productivity-enhancing areas, such as social protection, education, infrastructure and strengthening health systems, which COVID-19 has shown to be in a general state of disrepair, even in some high income countries. According to the IMF the annual cost of [bribery](#) alone is in the neighborhood of US\$1.5-2.0 trillion dollars, equivalent to about 2 percent of GDP.

To this one may add whether enough is being done to improve tax administration and the equity of the tax system, with yet another vast literature on tax avoidance and evasion. A recent literature [review](#) published in *Finance & Development* indicates that "tax havens collectively cost governments between US\$500 to US\$600 billion a year in lost corporate tax revenue" and notes that US\$200 billion of this is lost to low-income countries, substantially higher than the total of official development assistance and a proportionately much higher share of GDP than in the case of the advanced economies.

It is beyond the scope of this note to discuss extensively the resource mobilization implications of progress in each of the above areas. The point, rather, is that the debate about UBI and other mechanisms to strengthen social protection and better prepare the population to withstand the shocks of something like COVID-19 cannot take place in isolation, as though the structure of public spending or the nature of the tax system are immutable, beyond the reach of policymakers and the voters who elect them. It most definitely is not.

Work incentives

The issue of whether UBI or the presence of a social safety net undermines work incentives is important. Most people want to work and contribute to society. The evidence on UBI, specifically, is fragmentary. But I find an accidental pilot [experiment](#) carried out on an American Indian Reservation in North Carolina with a population of 15,000 especially encouraging; the presence of UBI was associated with lower levels of crime, higher school graduation rates, lower levels of domestic violence and substance abuse and growing evidence of small business creation and entrepreneurship. One plausible conclusion from the studies looking at the evidence is that at least

⁶ The corresponding figure for Venezuela is 15.9 percent of GDP, the highest in the Latin America region though, at 29.4 percent of GDP, Iran is even higher.

some of the crime, substance abuse and other social dysfunctions may be linked to the psychological burdens of economic insecurity. Poverty, it seems, is not just a matter of low income; it also brings with it mental distress, hardship and anguish, which may contribute to social breakdown.⁷

Provide individuals with a reliable safety net, and we will see tangible improvements in social and economic conditions as people leverage enhanced opportunities for self-improvement, not, as some of the critics of UBI have suggested, to stay at home doing nothing. Needless to say, this conclusion finds some support in the many decades of experience in the high-income countries with the provision of social safety nets. More recently, in discussing the role of social assistance in various developing country contexts, the World Bank states that cash transfers reduce stress and depression, enhance intellectual development and foster greater involvement of parents with their children.⁸

On the issue of incentives, it is well known that, as of 2019, many of the 272 million international migrants in the world have moved in search of economic opportunities and in response to large income differences between countries. Better mechanisms of social protection at home, coupled with better governance, including in the design of public policies, might well act as a deterrent to migratory flows, which are widely expected to increase in coming years.

Policy complacency

Whether UBI worsens income inequality is surely a matter of design, not a preordained outcome. To the extent that in many countries, especially in the developing world, many existing programs do not reliably provide adequate levels of support to all those in need, some form of universal unconditional transfer might help close the gap. Would UBI lead to complacency and the refusal to confront other structural trends in the global economy, such as aging populations and the impact of artificial intelligence and robotics on the future of work? My guess is that this question will be answered for us by the bond markets and that, for now, there is no need to link it to the merits of social support schemes.

Let me elaborate. The issue of population aging and its future impact on the public finances has been the subject of much study. Reporting on a comprehensive 2018 report by the Bertelsmann Foundation in Germany, under the heading of “Demographic Armageddon”, [Handelsblatt Today](#) reports on what has been confirmed in a number of other studies for other countries with aging populations: the replacement ratio is headed for a dramatic drop in the next decades and this will have fairly onerous implications for the public finances. In Germany’s case, the ratio of active workers to retirees will drop from about 3 in 2020 to about 1 by 2035, pushing the budget deficit—in the absence of countervailing measures—to 9 percent of GDP by the end of the 2040s, with deficit and public debt levels on an explosive path thereafter. So, rather than saying that UBI would lead to policy paralysis in countries with aging populations, a more sensible proposition would be

⁷ Samuel Johnson (1709–1784) expressed this same thought in these words: “Poverty is a great enemy of human happiness; it certainly destroys liberty, and it makes some virtues impracticable, and others extremely difficult.” See also, *Deaths of Despair*, by Anne Case and Angus Deaton, Princeton University Press, 2020.

⁸ See *World Development Report 2019, The Changing Nature of Work*, World Bank, p. 108.

to say that these countries will have to rethink key features of their social contract in coming years. Since I do not expect German public debt to reach 467 percent of GDP by 2080—or, indeed, ever—what I suggest will happen is that governments in Germany and elsewhere (e.g., China, Russia, other emerging markets, since this is not exclusively a problem of advanced economies) will have to reframe the public finances on a more sustainable path, mindful of social protection and solidarity issues, as, for instance, most of the Nordic countries are already doing.⁹

The moral/ethical case for better social protection

Two more points on UBI. Countries with fairly large safety nets already in place and spending a great deal of money on the provision of social services may not be the most natural candidates for UBI. It makes far more sense in low-income countries, especially where we have the largest pockets of extreme poverty, malnutrition, and illiteracy, and where the potential benefits to enhance opportunities provided by a safety net would be proportionally higher than in countries such as Switzerland or Finland, where infant mortality is close to zero, where there is no hunger, where health insurance is universally available and where the “system” delivers ample margins of safety in a crisis, as we have seen during COVID-19. Moreover, in these countries, the fiscal leakages in the system through corruption are much smaller than they are in the developing world.

My second and last point is to present a moral case for better social protection, even if this means a fairly fundamental rethinking of the structure of the budget. There is no need to appeal here to a universal ethic, as an end in itself. Corruption is immoral, a violation of the public trust; but it is also bad economics, with toxic effects on human prosperity. We live in a world in which a completely accidental event—the nationality of our parents—plays a fundamental role in the prospects we face as human beings. If our parents are Norwegian, we will have enormous opportunities to develop our inherent capabilities. For in Norway, it is highly probable not only that we will safely reach the age of 5, be well fed and educated, and have access to modern medical and health facilities; but such a benevolent state will also provide for us in our old age, now and in the future, since in Norway, economic policies have fully incorporated the concept of sustainability in their design, including in management of the public finances and the responsibilities of the state to future generations.

If, however, we are born in any of the low-income countries, we may not survive to the age of 5; and even if we do, we are more likely to become part of the 820 million people in the world who suffer from malnutrition and the development of whose talents may be stunted not only by the lack of good nutrition during the early stages of the development of our brains, but by the absence of quality education. And, of course, on average, we may live to the age of 59, rather than the 79–80 seen in some of the more successful high-income countries. Even if one characterizes this situation as “a fact of life,” it is a sad commentary on the current state of our world, increasingly under strain by the impact of various forms of inequality. The fact is that this is profoundly unfair; there is no conceivable credible ethical framework in which this state of affairs could be characterized as being consistent with elemental notions of justice.

⁹ More generally, see “The 2015 Ageing Report: Economic and Budgetary Projections for the 28 EU Member States (2013-2060),” [European Commission](#).

Strengthening the underpinnings of our systems of social protection—whether through the gradual introduction of something like a universal basic income or by other schemes that build on existing programs that are seen to be affordable—would go a long way to helping erase the stains of extreme poverty, malnutrition, illiteracy and gender discrimination in an age of plenty and, in the age of COVID-19 and future pandemics, it could actually be the socially optimal path, affording greater protection everywhere, including for those most adversely affected in the more prosperous parts of the world.

The English mathematician and philosopher Bertrand Russell spoke of the need to “expand our mental universe,” to match the increasingly global vision provided by scientific advancement and discovery. He said that our sense of collective well-being would have to extend to the whole of humanity, as it was evident that human society was increasingly behaving as a single organic entity and that this would become an indispensable condition for survival.

This may well be one of the more enduring lessons from the calamities of COVID-19.