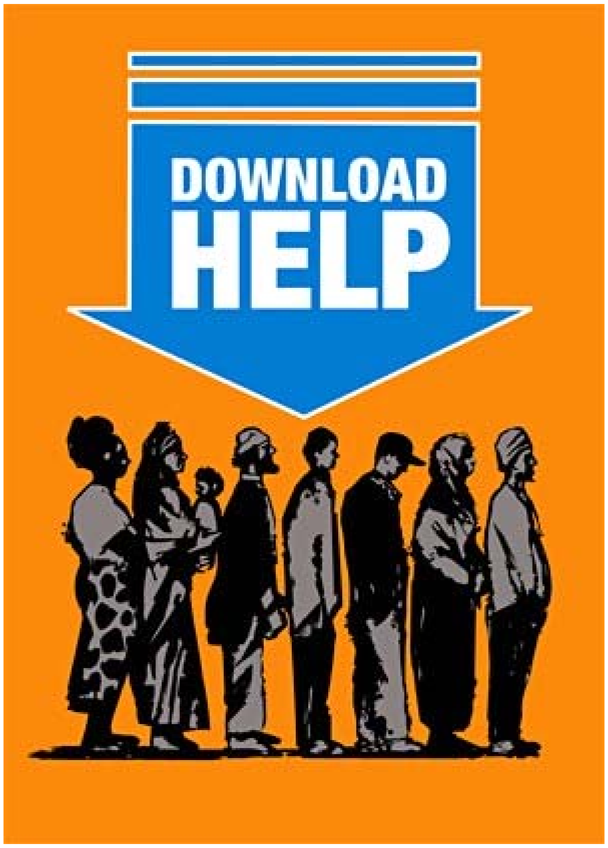
Newsweek

Welcome to Welfare 2.0 for the World's Poor

by Mac MargolisDecember 27, 2010



In the depths of the global financial crisis in 2008–09, China stunned the world with its massive $596 billion stimulus spending program, which helped Asia avoid the worst of the downturn. Another of Beijing's initiatives drew much less attention but will prove even farther-reaching: a first-ever comprehensive pension plan aimed at alleviating crushing poverty in the Chinese countryside, home to two thirds of its 1.4 billion population, who live on an average wage of about $2 a day. The program distributes government-subsidized pensions to 55 million rural Chinese, 16 million of whom are already drawing benefits of up to $45 a month. Though enrollment is voluntary and requires each participant to kick in between $15 and $75 a year, the government picks up the lion's share of the costs. By the end of 2010, nearly a quarter of China's rural areas will have been covered. Now Beijing is working to extend the program to urban centers as well.

China isn't the only country bumping up its welfare program these days. India, too, is ramping up a new pension scheme to tend to the country's 85 million elderly. All in all, a recent study by the World Health Organization and the International Labor Organization identified 72 different "social pension" plans around the world dedicated to the elderly, the ill, or the down and out.

Most countries on the list are developing nations once considered too destitute to help their poor and that, until recently, had little or no welfare coverage at all. If the safety net is under siege in the richest (and now most indebted) countries, it is just beginning to expand in the rest of the world.

Whether developing nations can care for their needy and also avoid the bomb of public debt that has staggered developed economies will be a central challenge for decades to come. Yet never has the developing world been so ready to shoulder the burden. Although the International Monetary Fund projects the world's total public debt to spike from $34 trillion in 2010 to $48 trillion in 2015, emerging markets will not be the culprits. Their total debt will rise from $5 trillion to a mere $7 trillion in the next five years, while the richest nations' tab will balloon from $29 trillion today to $42 trillion. Better still, emerging markets are now part of the solution: between now and 2015, they will account for 54 percent of global economic growth.

Now these gains have prompted demands from emerging-market citizens, especially the new middle class, for better government and better care for the poor. "Though emerging-market economies are growing very fast, growth is not evenly distributed around the econ-o-my, and now there is strong pressure to include those left out," says Eswar Prasad, a senior fellow at the Brookings Institution. For these countries to reach the next step of their transformation, he says, they require a better safety net. But the woes of developed nations have not been lost on policymakers, who are trying to learn from the welfare mistakes of the West. In many Western countries, traditional social assistance and faulty welfare bureaucracies have become sink-holes for public revenues and don't always help those in need. Policymakers in the developing world, on the other hand, are driven by the imperative for leaner programs that efficiently pinpoint their clients—usually the poorest, the elderly, the ill, and schoolchildren—and deliver cash without a political godfather butting in or government functionaries skimming off the top.

While fighting inequality and helping the neediest has long been on the docket of Third World leaders, most previous attempts have been sabotaged by inefficiency, corruption, and stagnant or dysfunctional economies. "Poverty alleviation has been a top priority for Indian leaders since the 1950s," says Columbia University economics professor Arvind Panagariya. "Yet for decades, India's antipoverty programs were grossly underfunded because the country was poor and growing very slowly." Now roaring economies in Asia, Latin America, and even Africa, coupled with better-functioning governments and sound fiscal stewardship, have stretched the policy horizons for many nations that once lived from one crisis to the next. The result: regions that were once the most neglected in the world suddenly have the means to reach out to their own impoverished populations.

Still, the scale of the challenge is vast. Emerging markets need only look to the West to find a model to avoid. There, outlays such as pensions, jobless benefits, welfare assistance, and health-care spending are entitlements that, once granted, tend to grow, and are hugely difficult to roll back or trim for efficiency. Just look at the charred hulks of cars on the streets of Paris, where even minor reform proposals quickly run into protest and violence. Welfare programs are also the powder for debt bombs. By 2030, 6.5 percent of the advanced economies' GDP will be taken up by the projected increase in public pension and health-care spending alone, according to the IMF. "There is no country that can continue to in-crease spending at this pace," says Carlo Cottarelli, the IMF's head of fiscal affairs.

That is why developing countries are seeking to use their resources in more innovative ways. Governments in Turkey, Malawi, and the Indian state of Andhra Pradesh have teamed up with private companies to offer disaster micro-insurance to protect the rural and urban poor. Some 45 countries across the globe are also sending cash to the poorest of the poor, tied to certain conditions (such as keeping their children vaccinated and in the schoolroom), in order to improve public health and give children a better chance to escape poverty. The practice, which started in the late 1990s in Chile and Mexico, has been nowhere more widespread than in Brazil, where the Bolsa Família—or Family Stipend program—gives out $7.8 billion to 12.7 million needy families. All told, Brazil's conditional cash transfers (CCTs) cover some 53 million people, a quarter of the nation's population. Marcelo Neri, an economist at the Getulio Vargas Foundation in Rio de Janeiro, says the Bolsa Família had a major role in reducing Brazilian inequality. Since 2001 the income of the poorest 10th of Brazil's population has grown 6.8 percent a year, while that of the richest 10th rose just 1.5 percent a year. Now these kinds of cash transfers have gone viral. Four dozen nations in Latin America, Asia, and Africa have CCTs, and new programs are in the works in many other countries. Indonesia is adopting a version of the Brazilian program, and in October the Philippines launched its own initiative that will reach 2.2 million families and require medical checkups and school attendance.

Developing countries are finding these kinds of programs efficient and cheap alternatives to pouring taxpayers' money into unwieldy and porous welfare bureaucracies, where waste and corruption are often rife. Thanks to improved census taking, countries are now able to pinpoint the extreme poor and zoom in on the neediest communities. Instead of lining up at a welfare office, recipients draw their benefits by swiping a cash card at any bank. Mexico, Chile, and Brazil spend about half of 1 percent of GDP to run their programs. Ethiopia's workfare, known as the Productive Safety Net, costs only 1.7 percent of the national wealth. By contrast, the U.S. spends 4.4 percent of GDP on welfare and 15 percent on health care alone, while the EU average for social outlays is about 18 percent of GDP.

Still, the new welfare is no panacea. Governments operating cash transfers can too easily turn on the money spigot to pump up the recipient rolls at election time. (In Brazil, newly elected President Dilma Rousseff got her highest margin of votes in the poor northeast region, where the Bolsa Família is widespread.) The middlemen who distribute subsidized food and cooking gas in India—often skimming rations to sell them on the open market for profit—have little interest in new schemes that put cash directly into consumers' pockets. “Delivery of social welfare is a challenge,” says Prasad. “Sometimes you have to buy out the old vested interests [to] implement innovative methods.”

And many emerging countries face another great challenge as they try to build their welfare systems. Although India is a young country, it is graying fast, with the elderly increasing at three times the rate of the general population. To create the resources to provide for them, the Asian tiger has little choice but to grow at today's blistering pace for years, perhaps decades, to come. And if Brazil's innovative Bolsa Família is a model of the new welfare, its loss-making, old-style pension system is a shambles. Brazil spends 12 percent of GDP—just as much as the U.K.—on pensioners who retire, on average, at 53. The fact that these countries' populations are aging quickly—in many cases faster than America's and Europe's—makes it all the more imperative that they get the new welfare right.

Creating welfare from nothing won't be easy. The new safety nets are still patchy and modest, and they coexist with traditional welfare programs that soak taxpayers and do little to help the needy. But they are belatedly spreading, reaching hundreds of millions of people who were always last in line. “Let us learn from the errors of others,” Brazilian Social Security Minister Carlos Gabas said after October's violent protests against pension reform in France. Nothing like riots and tear gas to focus the policymaker’s mind.